Santander

Think Investments

Autumn 2023

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments.

While you might connect taking an income from investments with retirement, income-generating options can be a useful part of your investment portfolio whatever your age or life stage. We'll highlight some of the ways income can help cover your costs today, or boost your fund growth for the future.

Our second article considers another ongoing issue, unpredictable investment markets. This has left some investors wondering whether they would be better off having their money in cash. The right decision for you will depend on your own circumstances, but we suggest some things to think about to help you decide. Our team of advisers are always happy to talk through your options and answer any questions you may have about your investments.

Finally, with the continuing cost-of-living challenge, many people are understandably feeling concerned about their financial situation. Unfortunately, scammers are taking advantage of this, persuading victims to part with their money or personal information with the promise of exciting investment opportunities. Banks and the whole of the finance industry work very hard to stop these scams and protect their customers. Our last article looks at how you can spot scams and frauds, helping to protect your money and your personal information.

As always, we hope you find Think Investments an interesting and helpful read.

Cassie Waller
Head of Commercial
Santander Asset Management

Whatever your life stage, income investing can have a role

Including income options in your investment portfolio is worth considering at every life stage, whether you're starting out, or making the most of your investments in retirement.

Income investing is what it says it is. A style of investing that's focused on earning you a regular income. You can either reinvest that income to help your money grow over the long-term or use it to help cover your costs today.

Income from investments takes two main forms

There are thousands of investment options out there that can help you become an income investor, from individual investment funds to managed portfolio services. They'll usually tap into one or both of the two main forms of income you can earn from investments.

Dividends are a portion of company profits paid out to shareholders at the discretion of the board of directors. They vary with the success of a company and its stage of development, but many businesses have a long history of reliable payouts to their investors.

Alternatively, government or corporate bonds promise to make **interest payments** throughout the life of the investment and then repay the invested capital at the end. While this type of income is generally more secure than dividends, it can be at risk if a company or government gets into difficulty and can't meet its payment commitment.

As a general rule of thumb, dividends are more likely to grow in line with inflation, while the income from bonds is usually fixed.

It's never too soon to think about income investing

If you're in your twenties or thirties making your first forays into the stock market, income funds focused on dividend-paying companies could be useful for many reasons.

The power of dividends

Recent data showed that the capital return of the FTSE 100 index over the 10 years and one month to the end of February 2023 was 24%, rising to 81% with dividends reinvested.

Company dividends were described as 'a cornerstone of growth investing – powering future returns due to the wonders of compound interest'.[1] In other words, your money could grow much more if you reinvest the dividends you get.

They can help you build confidence in stock market investing. Dividend-paying companies tend to be more established and financially stable compared to early-stage businesses, so they can offer a good, steady entry point for stock markets.

You may find some extra income useful at this point in your life if, for example, you have a university loan to clear. Regular income could help you achieve this goal more quickly.

If there are times you don't need the income from your investments, you can choose to reinvest it instead of spending it. By doing this, more income is earned on that reinvested income as the years go by, amplifying growth.

Last, but not least, adding income options to your investment portfolio can also help increase your diversification. This diversification is all about having a mix of different investments which respond differently to various market conditions and so help to smooth out the ups and downs over the long-term.

Taking income in your middle years

Your forties and fifties can be the most expensive time of your life. You may find yourself squeezed between family or educational costs, keeping up with high mortgage payments and potentially caring costs.

Income investing can potentially offer a way to help with the daily squeeze while still working towards your own later life plans. You can consider withdrawing some of the income generated by your investments, rather than reinvesting it, while leaving your capital untouched. Your money may not grow as quickly, but it will still be invested and provide some financial breathing room.

Investing for income in later life

Income investing has an obvious role if you're at the slowing down or retiring life stage. It can help provide you with the income you'll need to live the life you want and do all those things you've looked forward to during your working years.

With many people now spending 20-30 years in retirement, if you're at this stage and without the prospect of future pay rises, it's important to think about how your income can have a chance of keeping pace with price rises in the real economy. There are a lot of different funds to choose from, with different objectives for income or growth, which can help you meet your own needs and goals.

Making the most of your income

Tax can take a chunk of your investment income, with the annual dividend tax allowance now reduced to just £1,000 in the 2023/24 tax year and set to fall further to £500 from 6 April in 2024. The personal savings allowance, which includes an income from interest, is currently £1,000 per year for basic rate tax payers and £500 for higher earners rate taxpayers. Holding income-generating investments in the right 'wrappers' makes a difference. In particular, income generated in an ISA wrapper is tax free, so it's worth maximising your annual ISA allowance which is £20,000 for the 2023/24 tax year.

Different investments, whether individual stocks or funds, may pay income at different times: monthly, quarterly, twice yearly or annually, although this income is never guaranteed. Having a clear idea of your own income needs lets you focus on options which are best suited to meet them.

Income investments can have an important role whatever your age and life stage – to provide an income, as a defense against inflation, or to boost diversification. A financial adviser can help you work out the best options for your own situation and long-term plan.

Accumulate or distribute?

It's also helpful to make sure you hold the right type of share class for you. Most investment funds have income and accumulation options. The income option passes on any income received from assets to the investor. The accumulation option, on the other hand, reinvests it for further future growth.

1 Proactive Investors – For ISA investors dividends never go out of fashion, 09/03/23

Article provided by Santander Asset Management UK for Santander investment customers.

Making the right decision for you

Challenging investment conditions might leave you wondering whether you'd be better off either cashing in your investments or avoiding the stock market altogether, but think carefully before you act.

In the past few years we've seen how the COVID-19 pandemic, Russia's invasion of Ukraine, higher interest rates and the cost-of-living challenge have all impacted investments. Understandably this can have an emotional impact, leaving investors feeling anxious about what might happen next.

Moving out of investments and into cash might seem like a good way of protecting your money from market fluctuations. But you could end up doing yourself more harm than good.

Before you make any decisions

If you have investments you may have questions about the fluctuations in the value of them. You might want to find out more about the types of asset classes, such as bonds, property and shares, that make up those funds and the risks associated with them. A better understanding of where and how your money is invested will help you make more informed decisions.

Each fund has a Key Investor Information Document (KIID) which is a short, clearly worded explanation of the fund, how it works, its level of risk and what it costs to hold the fund.

You can find out more about the funds you're invested in, including KIIDs, in your Santander Investment Hub.

Make sure you have all the facts before reacting

Before you make any decisions about moving your investments into cash, it's important to consider a few key points. These will help you make an informed decision, keeping your overall financial plan and goals in mind.

Volatility is normal and part of investing

Markets will move up and down over time and may experience sudden, short-term movements caused by political, economic or other events.

It's worth keeping in mind that investing is a long-term project, at least five years and ideally longer. This means there's time for the ups and downs to balance out and, while past performance is not a guide to the future, history shows us that the financial markets tend to grow over time. Leaving your money invested means you can benefit from that potential growth.

In the last 18 months we have seen interest rates normalise, after 15 years of poor rates. This is why it is important that you take advantage of this for your short to medium term monies. However, investing helps to protect your longer term monies and protect your future spending power.

1 Are you withdrawing funds from a stocks and shares ISA?

An ISA is a good place to hold your investments as they can grow without being subject to income tax or capital gains tax. Unless you have a flexible ISA, any money you withdraw from your stocks and shares ISA will lose its tax-free status. If you decide to pay it back in at a later date, it'll count towards your current year's allowance, which is £20,000 for the 2023/24 tax year.

2 Have you held the investment for less than 5 years?

If your money has been invested for less than five years then there may not have been time to smooth out the effect of any short-term market volatility, and you could end up getting back less than you paid in. If you later decide to put money back in, you might find you get less for your money as the price of the fund has increased. That can make it difficult to 'catch up' to where you would have been had you remained invested.

3 Do you have multiple investments?

Some investments or accounts might have conditions attached to early encashment. If you hold different funds it's important to decide which one to cash out.

4 Whilst there are some attractive headline rates out there at the moment, there a number of things you may want to consider:

- Do you understand the taxation of the account and how it will impact you individually?
- What will happen when the headline rate ends? How will this achieve your longer-term goals?
- How will this help to stop the value of your money falling in real terms, as inflation remains the biggest threat?

We're here to help

If you'd like to speak with someone about moving or withdrawing any of your investments, please call one of our team on **0800 328 1328**. The telephone handler can't give advice but can direct you to the right place. You're under no obligation to talk to an adviser, but we are happy to refer you to one if you think it would be helpful.

CASE STUDY

Helping our customers make the right decision for them

Mrs A was feeling anxious after receiving her quarterly statement and seeing that her fund had dropped in value over the last 18 months. She called us because she wanted to check that this was normal and that others were in the same situation as her. The call handler she spoke to asked if she would like to discuss her investments in more detail with a Financial Planning Manager (FPM).

The FPM explained that the fund Mrs A was invested in is actively managed by a Fund Manager. Their role is to maximise returns for investors, achieving greater growth when markets are strong and minimising losses when markets are falling. Remaining invested, the FPM explained, allows the fund the opportunity to grow over time.

Mrs A was investing to make sure she had money to leave to her grandchildren. They discussed her options of remaining invested or moving her money into cash and what each might mean for her goal. Mrs A agreed that she would remain invested for the longer term as planned, as she has time on her side for her money to grow.

Mrs A said: "I felt comfortable that someone was looking after the fund, reassured about longer-term plans for the fund and confident that my money could and should remain invested. I'm extremely happy that I took the time to talk to the Financial Planning Manager before deciding to cash in my investments".

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Awareness is your best defence against scams

Scammers continue to take advantage of the cost-of-living challenge. The best way to avoid falling victim to increasingly sophisticated scams is to be aware of them.

Criminals will make the most of any situation, especially when we have financial concerns like those caused by the cost-of-living at the moment.

According to UK Finance, the trade body for Britain's banking and finance industry, investment scam losses fell by more than a third during 2022, but still totalled £114.1 million. While no-one ever thinks it will happen to them, these figures show that sadly, it's still very common.

The reduction in scam losses are mainly due to advances in detection and prevention which helps reduce scams. In fact the UK is the world leader in scam detection. Collectively the UK banking and finance industry prevented a massive £1.2bn of unauthorised fraud in 2022.[2] However, knowing how to spot scams or potential fraud and how to protect yourself is still the best defence.

Spotting investment scams and fraud

Scams and fraud are constantly evolving as criminals find new, creative and increasingly advanced ways of targeting potential victims.

Investment scams can be very difficult to spot because they're designed to look genuine. The scammers may have professional looking websites and literature. They may even steal the identities of genuine regulated firms or financial advisers.

Criminals use social media and online forums to create enticing adverts, fake news and exciting cryptocurrency or investment opportunities deliberately designed to interest you so you want to find out more. Unsolicited or 'cold' calls about

2 UK Finance – Annual Fraud Report 2023, 11/05/23

Your investing checklist

Before you invest money or share your personal information, work through these points to see if the investment opportunity you've received might be a scam or fraud.

- **Check it out** – the financial services regulator, the Financial Conduct Authority (FCA), has a very useful register and ScamSmart tool where you check whether investments and companies are genuine and regulated. Find out more at **www.fca.org.uk/scamsmart**.
- **Avoid clones and fakes** – confirm you're dealing with a legitimate registered firm. Only use the contact details for a firm that appear on the FCA register. Verify account details in person if you can or use the phone number shown on the FCA register, not the one the firm gives you!
- **Stay in control** – research the company first and consider getting independent financial advice. You should also always check the firm and individuals you're dealing with are legitimate. Urgency is a common ploy designed to force you into a decision, so don't be rushed into doing something you might regret. If you're in any doubt, walk away.
- **Don't be fooled by a professional looking website or glossy brochure** – they don't always mean an investment opportunity is genuine. Scammers can clone websites, emails and brochures so you may not be dealing with who you think you are.
- **Take extra care with crypto** – never allow anyone to set up a cryptocurrency wallet, upload ID documents or manage investments remotely on your behalf. Cryptocurrency is a very high-risk investment option which is unsuitable for many and is frequently linked to scams or fraud.
- **Trust your instincts** – if it sounds too good to be true, it usually is.

These checks can make all the difference. Please keep in mind that if you invest in a fund or with a firm that isn't regulated in the UK and the payment is part of a scam, you may not be able to get your money back.

investments are illegal, so they'll encourage you to add your details on a 'contact us' page to arrange a call back. This makes it appear less pushy or intrusive but your personal information can then be used to steal your money or set up fake accounts or loans.

Take Five to keep your money and personal data safe

Santander supports Take Five, a national campaign that offers straightforward and impartial advice to help everyone protect themselves from financial fraud. This includes email deception and phone-based scams as well as online fraud – particularly where criminals pretend to be trusted organisations.

Take Five encourages you to:

- **Stop** for a moment, to think before sending money or personal information.
- **Challenge** what you're being asked to do. Only a scammer will try to rush you. If you're not sure, refuse or ignore it.
- **Protect** your money or personal data by taking action to check or report anything suspicious.

You can find out more at **www.takefive-stopfraud.org.uk**

Stay informed and keep ahead of the scammers

While there will always be a threat of scams and fraud, the good news is that it doesn't take long to build up your defences against them. The more you know about the different types of fraud and scams, the better you'll be able to spot them, protect yourself and potentially warn friends and family.

For more tips on beating scams, read our guides at: **Santander.co.uk/personal/support/fraud-and-security/spotting-fraud-or-scams**

If you think you've been scammed, immediately contact your bank or **actionfraud.police.uk**. You should also let your bank know if something has happened that you think puts you at greater risk of being scammed. If you bank with Santander you can call us anytime on **0330 9 123 123**.

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