Think Investments

Winter 2019

Together with Santander Asset Management

Welcome

Think Investments helps you keep in touch with and navigate your way around the world of investments. And when it comes to investment markets and insights, we partner with Santander Asset Management UK to help us bring the latest updates to our clients.

Technology is the broad inspiration behind this edition of Think Investments. It's changing our world. That includes giving you more control and options for accessing products and services that can help you make the most of your money.

In this edition we begin with a look at digital financial advice and guidance services, a growing area of technology use. What can these potentially offer to you as an investor? What's the difference between advice and guidance and when might you consider each?

We also explain investing to follow an index, like the FTSE 100 for example. Technology helps make index funds a cost-effective investment option. But how do they work? And can you use them to help build a portfolio of investments that's right for you?

Finally, technology now feeds us with a near constant stream of information on events happening globally and how they affect the world of investment. So, we end with a quick review of some of the challenges and opportunities for investors today.

Charlotte Platts
Director,
Head of Wealth Interactions

WINNER
TWO TIMES
Investment Life & Pensions
Moneyfacts
Awards 2018-2019
Best Stocks & Shares ISA Provider

The favourable tax treatment of ISAs may change in the future.

Advice and guidance in a digital world

There can be a lot to think about when making decisions about your money. The good news is that technology is making expert support accessible to more of us than ever.

Many of us make decisions about our money today without any expert help. Even though those decisions could have a big impact on our financial futures.

This is known as the 'advice gap'. We might fall into it if we feel we may benefit from support but for some reason are unable or unwilling to access it. That might be because we think it's going to be too expensive, don't know where to find it or aren't aware of free services and resources that could help.

It's a gap the financial industry regulator, the Financial Conduct Authority (FCA), would like to see narrowed. The FCA published consumer research in this area and has been stepping up efforts to help regulated businesses use technology in innovative ways. Ways that can make it easier for us to get free or at least much more affordable expert support.

Advice and guidance are different

Advice and guidance can both be an invaluable source of support on financial matters but when it comes to what each type of service offers, there are some important differences.

Guidance covers anything from learning resources about products and services to more structured tools and questionnaires that you might use to help when

Government resources

Over the years, the government has been developing free online financial guidance and support services. Its new Money and Pension Service, for example, is bringing together three previous services under one roof. **Pension Wise** and **The Pension Advisory Service** are for people using pensions to invest for their retirement. **The Money Advice Service** is a more general service covering all sorts of subjects, from dealing with debt to investing for your future. Visit **moneyadviceservice.org.uk** if you'd like to find out more about what it can offer.

making your own decisions. But this isn't the same as being given personalised advice.

Investment advice is a particular type of service based on your own personal circumstances, objectives, the amount of risk you're willing and able to take with your money and other relevant personal and financial information. A qualified investment adviser uses all the information they collect from you to work out a specific recommendation for you personally.

Personal doesn't have to mean a person

You may think of advice as something a person would give you, face-to-face or perhaps over the phone. There are circumstances though in which digital advice can work just as well – taking you through a set of questions designed by experts and then using your answers to make a personal recommendation.

Digital advice is a growing area and at present can be helpful when your financial needs are relatively simple. For example, maybe you're thinking of taking some next steps on the investing journey. You want to be confident you're building a portfolio that's right for you and be given suitable investment recommendations to help you on the way.

Suitability matters

Suitable is an important word when it comes to the difference between advice and guidance. An adviser giving personal investment advice must make sure any recommendations they make for you are suitable, not just generally, but for your individual circumstances.

Guidance is factual information around features, potential benefits and downsides. So it's always important to check which you're getting when you use any digital support service.

Which service is for you?

Guidance might be appropriate for you if you require just general information and have sufficient understanding on financial markets to make your own financial investment decisions. Guidance is usually free, but not always so it's best to check first.

But if you would prefer a definite recommendation based on your personal circumstances, it's advice you're looking for. Personal investment advice is a service you will have to pay for. The cost can vary, with face-to-face advice generally costing more than digital advice.

Santander, like other UK banks, offers face-to-face and digital advice which is our Digital Investment Adviser. You can check the options, eligibility and costs in the **Savings and Investments** section at **santander.co.uk** or by talking to us on the phone or in your local branch.

Understanding more about investments from Santander

You can also access general information about investing through Santander. You'll find this in our **Learn more about investing** section at **santander.co.uk**. It can help you decide if you're ready to invest now and, if you decide you are, give you pointers on how to go about choosing your investments.

A quick guide to index investing

Spreading your money across different investments, keeping your costs down and getting support from an expert are three ways to help make the most of your money.

Index investing is one approach that can potentially be used to help combine all three of these elements in an investment portfolio.

What's an index?

An index isn't an investment itself. It's a measure that represents the combined value of a basket of investments. Indices are put together by commercial providers and each has its own set of rules for what's included. For example, in the case of the FTSE 100, the basket contains the top 100 companies by market value listed on the London Stock Exchange.

Tracking an index

Tracking the ups and downs of an index is a way of sharing in the overall fortunes of its basket of investments. The easiest way to do it is through an index fund.

In an index fund, the fund manager either invests in all the individual investments in the index basket, in the right proportions, or (because some indices cover thousands of different investments) a representative sample of them.

How index funds are managed

Index funds are described as passively managed because, apart from checking they are running as they should, their manager doesn't make ongoing investment decisions. The value of your investment simply goes up and down in line with its index.

The value of investments and any income from them can go down as well as up and you may get back less than the full amount you invested.

A world of choice

It's possible to gain exposure to most asset classes, sectors and global regions through index funds. From familiar share indices like the FTSE 100 (UK), Dow Jones (US), S&P 500 (US) and Nikkei (Japan) to those tracking bonds, property, commodities and currencies.

Globally, there are millions of investment indices – around 3.7 million at June 2018 according to the most recent research by the Index Industry Association from November 2018. Not all of these are tracked by funds, of course, but it gives you an idea of the level of choice potentially available to those interested in index investing.

They contrast with actively managed funds where the fund manager makes ongoing investment decisions with the goal of outperforming a benchmark. This benchmark can be anything from inflation to an index, or the performance of competitor funds. Your investment may outperform or underperform its benchmark depending on the fund manager's decisions.

Lower cost

It's important to understand the charges for any fund you invest in, as they can affect the amount of money you get back. You can check the Ongoing Charge Figure and other information through a fund's Key Investor Information Document (KIID) or Key Information Document (KID).

Because of the way they work, passively managed index funds are generally less expensive to run than actively managed ones, so you'll usually pay lower annual costs to invest in them.

Diversified

Diversification, which involves spreading your money across different investments to help manage your risk, is a well known investment principle. Some investors diversify through a range of single asset class funds. Others might consider multi-asset funds, which aim to maximise the benefits of diversification under a single roof.

Index funds usually offer diversification across a single asset class, with the detail of that diversification depending on the index they follow.

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

Bringing it together

If you're interested in index investing you could choose to build your own portfolio of index funds covering different asset classes, sectors and global regions. But you could also consider investing in one or more multi-index funds.

A multi-index fund is a type of multi-asset fund, where the fund manager builds a diversified portfolio of index funds under a single roof to meet its objectives.

A suitable choice for you?

Whatever you feel about the idea of index investing, it's important to do your research before making any investment decisions. What's suitable for you will always depend on your own personal circumstances and the amount of risk you're willing and able to take. If you aren't sure what to do, it may be a good idea to take professional advice.

Learn more

Learn more about multi-asset funds and other routes to building a diversified portfolio in *Navigating your investing routes*. It's available in the Autumn edition of Think Investments, which you can find in your Santander Investment Hub online document library now.

Don’t fear challenge. It may come with opportunities too

With talk of a global downturn and markets seeming to move up and down frequently and unpredictably, keeping up with investment news feeds can feel overwhelming at times.

Investing always carries some degree of risk as you can receive less back than you initially put in, but where there are challenges for investors there are often opportunities too. Here we take a quick look at both sides of the coin, looking to the UK as an example.

Evidence of challenge

Economic indicators down. There can be many signs an economy is slowing down. In the UK one of the key measures is Gross Domestic Product (GDP). If our GDP is negative more than two quarters in a row that’s officially classed as a recession.

A shift to bonds. In more challenging times, investors tend to move money to bonds, especially gilts (government bonds) in the UK, as they’re seen as less risky than shares.

A bit about bonds

Bonds are a type of loan to a government or company over a fixed period which usually pays out a fixed amount of interest. Most bonds can be bought and sold during the loan period. And if you hold them when the loan is due to be repaid, you'll get back the bonds' original face value (which could be more or less than you paid for them).

The main risks with bonds are that whoever issued them is either not able to keep up the interest payments or is unable to repay the loan when the time comes.

A bearish bank. Bulls and bears are part of the language of investments. A bullish outlook is a positive one that anticipates growth. A bearish one is the opposite. If the Bank of England starts talking about a possible economic downturn that's a bear to pay attention to. It might take measures, like cutting interest rates, to manage the slow down or kick start growth.

A challenging global backdrop. In our interconnected 21st century world, UK domestic concerns can be compounded by international developments, like the ongoing trade war between the US and China and an overall slowdown in global growth.

Evidence of opportunity

Attractive valuations. General caution from investors can often result in attractive share valuations as the mood of the market tends to underprice companies that are still, fundamentally, well positioned to grow.

Well placed businesses. Companies in the growing UK life science sector are one potential example of these. The rise of wearable consumer technology like activity trackers and smart watches represents a significant opportunity for them.

Domestic internationalists. Economic challenges are often associated with a weakening of the value of a country's currency. In the UK's case, many companies in the FTSE 100 earn most of their income outside of the UK and so benefit from a weaker pound. They might start to look especially good value if general investor caution pulls their share prices down.

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Confidence remains. Business confidence, including a willingness to keep investing in their own development, is important to the future growth of any economy. The Santander Corporate & Commercial research into business in Spring 2019 found that many UK companies still feel upbeat. And those with the greatest optimism are those with the greatest international ambitions over the coming year.

Look to the longer term

Ups and downs and challenge and opportunity are all to be expected as part of the investment experience. In uncertain times it's good to remind ourselves that investing is a long game (for five years or more) and that growth tends to follow crisis. Since the 2008 financial crisis, for example, we've seen one of the longest global share market bull runs in recent history.

There are never any guarantees that past performance will be repeated in the future, but opportunity is always out there. Having a diversified portfolio and staying patient in difficult periods should place you as well as anyone to achieve your goals over the longer term.

Learn more

To learn more about current business sentiment you can read the findings of Santander Commercial Bank's regular Trade Barometer research at **santandercb.co.uk.**

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