



THORNTONS WEALTH

INVESTING ISN'T A ONE-SIZE-FITS-ALL APPROACH

Why timing the market could be holding you back



PLANNING FOR YOUR DREAM RETIREMENT

*Whether that's adventure, relaxation
or simply a slower pace of life*

PENSIONERS SET FOR INCOME BOOST, BUT WATCH OUT FOR THE TAX TRAP

*Could you lose out on tax-free allowances
for other income?*

FROM CRISIS TO RESILIENCE

*Building a solid
financial plan*

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Thorntons Wealth is a trading name of Thorntons Investment Management Ltd (SC438886) and Thorntons Wealth Management Ltd (SC241755). Both companies are registered in Scotland and the registered address is Whitehall House, 35 Yeaman Shore, Dundee DD1 4BU. The companies are authorised and regulated by the Financial Conduct Authority.



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WELCOME TO THE LATEST ISSUE OF THORNTONS WEALTH MAGAZINE.

Welcome to the February 2025 issue of Thorntons Wealth's monthly e-zine newsletter. Are you considering delaying your next investment until the market drops?

It's a common notion, particularly among new or even experienced investors. The strategy of 'timing the market' – buying stocks when their value is low and selling them when high – may sound like the perfect plan. But even the most successful fund managers in history have struggled to do this consistently. Predicting the market is notoriously difficult; even experts can't always call it right.

Many of us eagerly await the day we can step away from work for good, envisioning a time filled with freedom and the opportunity to focus on what truly brings us joy. The dream of retirement offers a deeply personal vision – whether that's adventure, relaxation or simply a slower pace of life. However, while it's natural to focus on the excitement of retirement, the reality is that your ability to achieve these aspirations relies heavily on financial preparation.

Many pensioners will enjoy another uplift in their State Pension income next financial year. From 6 April 2025, the State Pension is due to rise by 4.1%, on the back of an 8.5% increase in April 2023. This growth adheres to the government's 'triple lock' policy, which ensures that the State Pension increases annually by the highest of wage growth, inflation or 2.5%. However, this rise also brings potential complications for some retirees. The increase will elevate the full new State Pension from £11,502 in the 2024/25 tax year to £11,976 in 2025/26.

The financial crisis of over a decade ago shaped global markets. They faltered and stumbled but then bounced back with surprising speed. This resilience was bolstered by factors such as artificially low interest rates and buoyant market sentiment. However, the world today faces an altogether different type of economic

challenge. A well-structured plan, combined with robust risk management, enables you to regain control of your finances and mitigate the impact of market volatility.

Building a secure financial future requires more than simply saving money; it demands a strategic approach to managing and growing wealth. A well-diversified investment portfolio safeguards against the inevitable fluctuations of financial markets. This approach doesn't eliminate risk entirely, but it cushions your portfolio, allowing stronger-performing areas to offset potential losses in weaker ones. Your investment strategy must be tailored to your unique circumstances, personal goals and financial timeline.

We hope you enjoy this issue and find the articles featured interesting.

You can also forward this e-zine newsletter to someone else you know who would like to receive a complimentary copy.

Best Wishes,

Thorntons Wealth

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INVESTING ISN'T A ONE-SIZE-FITS-ALL APPROACH

Why timing the market could be holding you back

ARE YOU CONSIDERING DELAYING YOUR NEXT INVESTMENT UNTIL THE MARKET DROPS? IT'S A COMMON NOTION, PARTICULARLY AMONG NEW OR EVEN EXPERIENCED INVESTORS. THE STRATEGY OF 'TIMING THE MARKET' – BUYING STOCKS WHEN THEIR VALUE IS LOW AND SELLING THEM WHEN HIGH – MAY SOUND LIKE THE PERFECT PLAN. BUT EVEN THE MOST SUCCESSFUL FUND MANAGERS IN HISTORY HAVE STRUGGLED TO DO THIS CONSISTENTLY. PREDICTING THE MARKET IS NOTORIOUSLY DIFFICULT; EVEN EXPERTS CAN'T ALWAYS CALL IT RIGHT.

Rather than trying to find the 'perfect' moment to invest, it's vital to understand that the right time depends on you and your financial circumstances. Additionally, holding cash plays an important role in financial planning, but it's worth exploring where it fits into your broader strategy.

IMPORTANCE OF HOLDING CASH

Your hard-earned money deserves to be preserved, and you might think the safest move is to keep it in cash. This way, there's no ambiguity – you know exactly what you stand to receive back. With recent rises in interest rates, cash may seem even more appealing. But is cash entirely without risk? Not quite.

From a wealth planning perspective, it's always advisable to maintain an emergency or 'rainy day' fund. This ensures you're covered for unexpected expenses or specific financial goals and allows you to keep the funds easily accessible. However, while cash makes sense for short-term needs, there are pitfalls when too much of your money is left as cash for extended periods.

WHY HIGH CASH RATES AREN'T ALWAYS A SAFE BET

In 2020, the Bank of England (BoE) base rate plummeted to a historic low of 0.10%, a move

aimed at supporting the economy during the unprecedented challenges of the Covid-19 pandemic. This created a bleak scenario for savers, as interest rates on savings accounts became almost negligible, with some offering as little as 0.01% annually. For many, this situation meant their cash savings earned virtually nothing, even as living costs increased.

Fast-forward to 2024, and the landscape looks very different. Rising inflation pressures prompted the BoE to raise the base rate steadily over time, eventually peaking at a 15-year high of 5.25% by mid-year. This sharp climb was an effort to counter inflation, which had surged to double digits in late 2022, reaching a 41-year high of 11.1%. By August 2024, however, the BoE opted for a slight rate cut to 5.0%, signalling a potential shift in the interest rate cycle as inflation began to ease.

STARK CONTRAST TO THE NEAR-ZERO RETURNS

For savers, the elevated rates offered a silver lining. Many high street banks and financial institutions adjusted their savings account offerings, with some providing interest rates of up to 5% or more. This marked a stark contrast to the near-zero returns of just a few years prior,

creating what appeared to be a favourable environment for holding cash.

However, it's essential to approach this with caution. Cash rates tend to be short-term tools that respond to BoE rate changes, often requiring savers to shop around regularly to secure competitive returns. For example, introductory savings account rates may drop after a fixed period, leaving your cash earning less if left unmanaged.

TIME-CONSUMING AND ADMINISTRATIVELY DEMANDING

Savers have had to remain vigilant, comparing accounts and transferring funds to keep pace with the changing rates. This ongoing effort can be time-consuming and administratively demanding, undermining the simplicity often associated with holding cash.

Yet, even with higher interest rates, the effective value of cash savings is still vulnerable. Inflation, although moderating in 2024, remains a significant factor. If inflation continues to outstrip savings rates, the purchasing power of your cash may erode over time, highlighting the importance of balancing emergency funds with long-term growth-focused investments.

THE HIDDEN COSTS OF TOO MUCH CASH

Despite the apparent safety net cash provides, leaving funds idle can come with significant hidden costs. While cash may feel like a secure option, the opportunity cost of not investing could be substantial. When your savings sit in cash, you risk missing out on the long-term growth potential of the stock market, which historically outpaces cash returns. Over the past four decades, the FTSE All-Share Index has delivered an average annual return of around

7.8%, including dividends – returns that cash holdings cannot match.

Investments benefit from multiple mechanisms like capital growth, dividend reinvestment and compounding interest over time. Compounding, in particular, plays a decisive role in generating wealth, as reinvested dividend income fuels exponential growth. By contrast, cash savings remain static, missing out on this growth dynamic.

FALLING SHORT OF PERSONAL SAVINGS ALLOWANCES

Furthermore, keeping money in cash accounts outside tax-efficient vehicles, such as ISAs or Premium Bonds, can expose you to tax liabilities. This erodes the already modest returns offered by cash deposits. Many savings accounts also fall short of personal savings allowances, meaning interest earned above yearly limits (£1,000 for basic rate taxpayers or £500 for higher rate taxpayers) could be subject to tax. This diminishes the actual value of cash savings further.

Inflation poses the most significant challenge to holding excessive cash. Over time, inflation diminishes the real buying power of money, a phenomenon that can cripple long-term financial planning. For example, in October 2022, UK inflation escalated to 11.1%, a 41-year high.

OVER-RELIANCE ON CASH AS A LONG-TERM FINANCIAL STRATEGY

Despite rising savings rates, which peaked at around 5% in some cases during 2024, these returns were considerably outpaced by inflation at its peak. Even when inflation started moderating later in 2024, cash savers

had already seen their purchasing power erode during the high inflation period.

This disparity highlights a key issue – headline interest rates can appear attractive but often fail to protect against the corrosive impact of inflation. Over-reliance on cash as a long-term financial strategy risks leaving savers worse off. Striking a balance between maintaining easily accessible emergency funds in cash and pursuing long-term growth through diversified investments is essential for achieving financial stability and building future wealth.

LONG-TERM GROWTH MAKES THE CASE FOR INVESTING

Investing is fundamentally about generating long-term benefits, with the added advantage of tax efficiencies. Regularly attempting to buy and sell based on market fluctuations, particularly given the reduction of Capital Gains Tax (CGT) annual allowances from £12,300 to just £3,000, has brought complexities. Frequent trades may expose you to unexpected tax consequences and result in missed opportunities.

What markets do today, tomorrow or over the next year should matter less if your focus is on long-term investment goals. Successful investing is not about riding every peak and valley in the market but ensuring your financial plan aligns with your life circumstances and aspirations.

BUILDING A STRATEGY TAILORED TO YOU

Investing isn't a one-size-fits-all approach. It requires careful planning, starting with a deep understanding of your short, medium and long-term financial goals. We work to create bespoke strategies based on your unique circumstances and aspirations.

One of the most essential principles of investing is staying the course. Remaining invested over the long haul and diversifying your holdings across sectors and geographical areas can help cushion the impact of market volatility and better position your portfolio for growth. ■

IS IT TIME TO CRAFT A TAILORED STRATEGY THAT SUITS YOUR INDIVIDUAL GOALS?

If you're interested in learning more about long-term investing and how it can benefit your financial future, we're here to help. Get in touch today to explore how our expertise can help you craft a tailored strategy that suits your individual goals. Your financial future starts with making informed, confident decisions. Let's make those decisions together.

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PLANNING FOR YOUR DREAM RETIREMENT

Whether that's adventure, relaxation or simply a slower pace of life

MANY OF US EAGERLY AWAIT THE DAY WE CAN STEP AWAY FROM WORK FOR GOOD, ENVISIONING A TIME FILLED WITH FREEDOM AND THE OPPORTUNITY TO FOCUS ON WHAT TRULY BRINGS US JOY. THE DREAM OF RETIREMENT OFFERS A DEEPLY PERSONAL VISION – WHETHER THAT'S ADVENTURE, RELAXATION OR SIMPLY A SLOWER PACE OF LIFE. HOWEVER, WHILE IT'S NATURAL TO FOCUS ON THE EXCITEMENT OF RETIREMENT, THE REALITY IS THAT YOUR ABILITY TO ACHIEVE THESE ASPIRATIONS RELIES HEAVILY ON FINANCIAL PREPARATION.

Retirement isn't just about reaching a certain age; it's about ensuring you have the means to enjoy the lifestyle you've worked so hard to reach. There's often a significant gap between wanting to retire and being ready to do so. Careful planning and consideration are essential to closing this gap, allowing you to transition into retirement with both confidence and security.

To guide you on this important path, here are four key questions to help assess your retirement readiness.

WHAT DOES YOUR IDEAL RETIREMENT LOOK LIKE?

The foundation of any retirement plan is understanding what you want it to look like. Retirement is far from one-size-fits-all; it's as unique as you are. For some, this might mean the adventure of moving abroad or travelling extensively. For others, it could centre around pursuing a cherished hobby, volunteering or savouring quiet moments with loved ones.

An increasingly popular approach is phasing into retirement gradually by reducing working hours or transitioning into consultancy roles. This method allows you to enjoy the benefits of extra time while maintaining an income stream. Whatever your vision for retirement, it must align with your long-term financial plans.

HOW MUCH WILL YOUR RETIREMENT COST?

Once you've pictured your ideal retirement, the next question is affordability. Start by categorising your expected expenses into essentials and non-essentials. Essentials include your mortgage or rent payments, council tax, utility bills and groceries – these are the fundamentals you'll need to cover. Non-essentials, on the other hand, involve holidays, leisure activities, dining out and other luxuries that enhance your quality of life.

It's also vital to factor in how your spending may change with time. You might begin with a higher level of spending as you tick items off your bucket list but find that

expenses dip as you settle into routines. Later in life, healthcare and potential care costs may become a significant consideration. Having a balanced outlook is a key part of financial preparation.

WHAT SIZE PENSION POT DO YOU REQUIRE?

With an understanding of your desired retirement lifestyle and costs, the next step involves determining the size of your pension pot. This complex calculation involves estimates for life expectancy, inflation, investment growth and tax implications. We can provide clarity and precise insights tailored to your situation to simplify the process.

For instance, decisions like taking a tax-free lump sum early or leaving it in your pension for growth can have far-reaching impacts. Similarly, adjusting your expected retirement age could contribute to a healthier future income. Seeing these scenarios played out can help you make well-informed choices.



ARE YOUR EXISTING SAVINGS ADEQUATE?

Finally, compare your current savings against your target retirement income. If you're on track, excellent – you can begin to focus on how best to withdraw your funds tax-efficiently. But if there's a gap, there are proactive steps to bridge it. Consider increasing your pension contributions during the remaining years of your career. Contributions benefit from tax relief at your Income Tax rate, immediately boosting your retirement savings.

Alternatively, you might explore delaying retirement by a few years, which could allow your savings to grow through compound interest and continued contributions. Remember to account for other savings and assets, such as Individual Savings Accounts (ISAs), which offer tax-efficient withdrawals, and property investments, which might supplement your income. Don't forget about the State Pension as well. For those who qualify for the full rate, this currently provides £221.20 per week – though the rules surrounding eligibility and amounts may evolve over time.

LOOKING AHEAD WITH CONFIDENCE

Preparing for retirement can be daunting, but you don't need to face it alone. We will analyse your current and future financial health to help you chart a course towards your dream retirement. We can identify gaps, recommend ways to close them and provide clarity on potential solutions unique to you.

Don't underestimate the value of seeking professional help. By planning in advance, you can achieve peace of mind, knowing your retirement dreams are financially within reach. ■

READY TO START PLANNING THE RETIREMENT YOU'VE ALWAYS DREAMED OF?

If you'd like tailored advice or have questions about your retirement planning, now is the time to act. We'll guide you through every stage of this life-changing process. Together, we'll create a roadmap that ensures your goals and ambitions become reality. Don't wait – secure your future today.

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PENSIONERS SET FOR INCOME BOOST, BUT WATCH OUT FOR THE TAX TRAP

Could you lose out on tax-free allowances for other income?

MANY PENSIONERS WILL ENJOY ANOTHER UPLIFT IN THEIR STATE PENSION INCOME NEXT FINANCIAL

YEAR. FROM 6 APRIL 2025, THE STATE PENSION IS DUE TO RISE BY 4.1%, ON THE BACK OF AN 8.5% INCREASE IN APRIL 2023. THIS GROWTH ADHERES TO THE GOVERNMENT'S 'TRIPLE LOCK' POLICY, WHICH ENSURES THAT THE STATE PENSION INCREASES ANNUALLY BY THE HIGHEST OF WAGE GROWTH, INFLATION OR 2.5%. HOWEVER, THIS RISE ALSO BRINGS POTENTIAL COMPLICATIONS FOR SOME RETIREES.

The increase will elevate the full new State Pension from £11,502 in the 2024/25 tax year to £11,976 in 2025/26. While this rise will be welcome for many, the frozen Income Tax personal allowance, held steady at £12,570 until April 2028, could be a pitfall for pensioners with additional income sources. It could result in losing out on tax-free allowances for other income, like savings or rental profits, and create unexpected tax liabilities.

HOW RISING PENSIONS AFFECT TAXABLE INCOME

For those who rely solely on their State Pension, no tax is payable if their income stays within the personal allowance. However, pensioners with extra income, such as private pensions, annuities or rental income, will need to monitor their earnings closely. Once the total exceeds the £12,570 threshold, any income above this limit becomes taxable.

The scenario could worsen in years to come. If the State Pension increases by two annual 2.5% hikes after 2025, it could surpass the Income Tax personal allowance within the 2027/28 tax year. As a result, many retirees may find themselves paying Income Tax on their entire State Pension sooner than expected.

TAX BANDS AND THE IMPACT ON RETIREMENT INCOME

The basic tax rate for 2024/25 is set at 20% for income above the personal allowance, up to £50,270. Any income beyond that is taxed at the higher rate of 40%, while earnings above £125,140 incur an additional rate of 45%. These thresholds apply to most parts of the UK, though Scottish taxpayers face different tax rates and bands.

Fortunately, there are strategies to help retirees manage their tax liabilities. For instance, basic rate taxpayers benefit from a personal savings allowance of up to £1,000 in 2024/25, while higher rate taxpayers have a reduced allowance of £500. The 'starting rate' band for savings income also allows those with low overall taxable income to earn up to £5,000 in savings Income Tax-free.

MAXIMISING TAX-FREE ALLOWANCES

Even modest tax savings can make a significant difference over the long term. Dividend income, for example, enjoys its own allowance, which lets investors receive £500 tax-free in 2024/25. Although this figure has been reduced from £1,000 in the previous tax year, it still provides an



opportunity to shelter some earnings.

Tax-efficient vehicles, such as Individual Savings Accounts (ISAs), can also play a critical role in retirement planning. By investing in a Cash ISA or a Stocks & Shares ISA, pensioners can enjoy income and capital gains free from taxation, allowing their savings to grow unrestricted. National Savings and Investments (NS&I) also offers tax-free products like Premium Bonds, which combine strong security with the potential for large, tax-free cash prizes.

MANAGING PENSION INCOME AND WITHDRAWAL STRATEGY

Accessing private pensions requires careful planning to avoid unnecessary tax burdens. Retirees can withdraw 25% of their pension pot tax-free, but it's wise to spread taxable income over multiple years to remain in a lower tax band. For example, withdrawing smaller amounts across several tax years can prevent triggering higher tax rates.

Stocks & Shares ISAs remain a valuable tool for income supplementation. Unlike pensions, withdrawing money from an ISA doesn't incur additional tax, making it a highly flexible option for retirees looking to bridge income gaps or support long-term needs.

DEFERRING THE STATE PENSION FOR LONG-TERM GAIN

Deciding when to claim the State Pension is another critical choice. Deferring receipt can increase the eventual payout, which may be especially beneficial for those still working or expecting reduced income later in life. However, the decision depends on factors like life expectancy and projected financial needs.

For those in a marital or registered civil partnership, income-splitting can be a smart move. Allocating assets or investments to the lower-earning partner can reduce overall tax liability. Additionally, matching asset types to accounts – such as using ISAs for dividend-yielding investments – can maximise tax efficiency in retirement.

PLANNING FOR A TAX-EFFICIENT RETIREMENT

Effective financial planning can help pensioners fully to utilise their allowances and options. Proactive steps, such as reducing taxable income with ISAs or leveraging allowances for savings and dividends, can make a substantial difference. Understanding your situation and adjusting your strategy regularly is essential for avoiding potential tax pitfalls. ■

IS IT TIME TO DISCUSS TAKING A TAILORED ADVICE APPROACH TO YOUR RETIREMENT?

Navigating the complexities of retirement income and tax planning isn't always straightforward. If you require further information on managing your finances or assistance with specific queries, don't hesitate to contact us. We'll provide tailored financial advice to ensure you get the most from your retirement and minimise your tax liabilities.

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FROM CRISIS TO RESILIENCE

Building a solid financial plan

THE FINANCIAL CRISIS OF OVER A DECADE AGO SHAPED GLOBAL MARKETS. THEY FALTERED AND STUMBLERD BUT THEN BOUNCED BACK WITH SURPRISING SPEED. THIS RESILIENCE WAS BOLSTERED BY FACTORS SUCH AS ARTIFICIALLY LOW INTEREST RATES AND BUOYANT MARKET SENTIMENT. HOWEVER, THE WORLD TODAY FACES AN ALTOGETHER DIFFERENT TYPE OF ECONOMIC CHALLENGE.

The global downturn of the last few years, driven by immense geopolitical, environmental and health crises, has left investors feeling far less certain about recovery timelines. While market headlines may spark concern, a sound financial strategy can help weather uncertainty. A well-structured plan, combined with robust risk management, enables you to regain control of your finances and mitigate the impact of market volatility.

WHY A FINANCIAL PLAN MATTERS

A robust financial plan offers more than just factual clarity. It provides the emotional comfort of knowing your wealth is aligned to withstand unexpected economic storms. However, achieving this peace of mind requires preparation.

Taking steps early in your financial life to implement a balanced plan can help mitigate short-term risks while setting the stage for long-term stability. But what does a strong financial strategy look like in practice? The process typically revolves around understanding the key elements

of risk and their potential impact on your financial goals.

UNDERSTANDING RISK FACTORS

To incorporate risk into financial planning, it is essential to divide it into three main areas. The first is attitude to risk, otherwise known as 'risk appetite'. This reflects one's willingness to take on risk and is usually assessed through a combination of questionnaires and in-depth conversations.

Next comes your capacity for loss, which measures your ability to withstand a loss in capital. Finally, there's the time horizon – the period you expect to remain invested before needing access to your savings. Longer time horizons often allow for greater tolerance of market fluctuations.

WHY TAILORED RISK ASSESSMENT IS KEY

When these three risk factors are comprehensively assessed at the outset, the likelihood of emotional or financial distress from market movements can be significantly reduced. With clarity on

the level of risk you can sustain, you'll be better equipped to weather the inevitable bumps of economic cycles.

On the other hand, neglecting this analysis can have grave consequences. Unanticipated losses without proper safeguards could derail investments and broader life goals.

SMART USE OF INVESTMENT 'TAX WRAPPERS'

A good financial plan doesn't stop at risk evaluation; it also ensures that your portfolio makes the most of the available tax-efficient accounts, or 'tax wrappers'. These include pensions like Self-Invested Personal Pensions (SIPPs), Individual Savings Accounts (ISAs), General Investment Accounts (GIAs) and offshore bonds.

Each offers distinct tax advantages, access terms and risk profiles. For example, pensions are long-term investments suitable for higher-risk assets early in your career. ISAs provide flexibility, allowing you to save for both short-term and long-term goals, while GIAs are



valuable for returns that outpace inflation despite fewer tax allowances.

THE COST OF GETTING RISK PROFILES WRONG

Analysis has shown that mistimed market declines can have a profound impact depending on where you are in your financial life. Losses just before retirement – or when savings are needed in the shorter term – can be particularly damaging. This is why precisely considering risk tolerance and investment timeframes is critical.

If your time horizon is short, even a modest loss could take years to recover, posing real challenges for accessing your wealth when you need it most. Conversely, a low-risk strategy over a long time horizon can result in missed opportunities for higher returns.

A PERSONALISED FINANCIAL STRATEGY

Every person's financial circumstances differ. The ultimate aim should be to maximise potential long-term returns within the level of risk that aligns with your goals. While it may be tempting to compare your financial outcome to that of others, such comparisons can lead to

unnecessary anxiety. Remember, those who boast during good times rarely discuss their losses during downturns.

Enlisting the help of an experienced investment manager can make all the difference. They help ensure your portfolio aligns with your attitude to risk, timeframe and long-term aspirations. Adjusting your asset mix when necessary limits your exposure to short-term market volatility while keeping your broader goals in focus.

MAPPING OUT YOUR FINANCIAL FUTURE

Financial planning is about more than just numbers. It's about crafting the life you envision. Do you dream of early retirement, a family holiday home or funding your child's wedding or education? Each of these aspirations has a price tag, and cash flow modelling is an excellent way to visualise these goals.

Cash flow modelling allows you to experiment with life scenarios like retiring earlier, taking a sabbatical or overcoming unexpected health challenges. With targeted questions about your savings structure, pension contributions and investment mix, we can simplify this complex task, leaving you better prepared for the future you want. ■

LOOKING FOR EXPERT GUIDANCE FOR PEACE OF MIND?

At its core, financial planning is about relieving stress, not creating it. We will not only provide you with a solid plan but also reassure you when markets are stormy. Confidence in your investment choices and proactive risk management will enable you to focus on life's more fulfilling moments. If you'd like guidance on creating a bespoke financial plan or have questions about managing your finances, don't hesitate to contact us.

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BUILDING A RESILIENT INVESTMENT PORTFOLIO

Smoothing returns and providing greater stability

BUILDING A SECURE FINANCIAL FUTURE REQUIRES MORE THAN SIMPLY SAVING MONEY; IT DEMANDS A STRATEGIC APPROACH TO MANAGING AND GROWING WEALTH. A WELL-DIVERSIFIED INVESTMENT PORTFOLIO SAFEGUARDS AGAINST THE INEVITABLE FLUCTUATIONS OF FINANCIAL MARKETS. THIS APPROACH DOESN'T ELIMINATE RISK ENTIRELY, BUT IT CUSHIONS YOUR PORTFOLIO, ALLOWING STRONGER-PERFORMING AREAS TO OFFSET POTENTIAL LOSSES IN WEAKER ONES.

Over time, this balance helps smooth returns and provides greater stability, whether markets are thriving or facing challenges. However, diversification alone isn't enough to create a truly effective portfolio. Your investment strategy must be tailored to your unique circumstances, personal goals and financial timeline.

SETTING CLEAR GOALS AND EVALUATING RISK

Before constructing any investment portfolio, you need to consider your financial goals and your attitude toward risk. Are you saving for a long-term objective, such as retirement, or do you need to access your funds within the next few years? Generally, the longer your time horizon, the more risk you can afford to take. This is because long-term investments have the potential to recover from short-term market dips.

Given their lower risk, safer investments like cash or fixed-interest assets often take

precedence for those near or in retirement. On the other hand, younger investors with decades ahead might gravitate toward equities, which, while riskier, often yield higher returns over time. Always ensure your risk comfort level reflects your investment choices to avoid undue stress and potential financial hardship.

ACHIEVING BALANCE THROUGH ASSET ALLOCATION

A balanced investment portfolio spreads money across multiple asset classes, such as cash, fixed interest (corporate bonds or gilts) and equities. This strategy not only diversifies your portfolio but provides a safeguard against economic fluctuations. Some asset classes are 'negatively correlated', meaning they react differently during economic or market shocks. For instance, if equities underperform, fixed-interest investments or cash holdings may compensate, smoothing your overall return.

Taking diversification to the next level involves including international exposure

and investing in various industries. This way, if one sector or region experiences difficulties, others might help offset potential losses. Remember, diversification doesn't eliminate risk entirely, but it significantly increases your portfolio's resilience.

EXPLORING BROADER INCOME OPPORTUNITIES

Diversification remains vital for those reliant on their portfolios to generate income. While fixed-interest investments have historically been the go-to for income investors, other options are worth exploring. Property, infrastructure and certain private equity firms are examples of alternative income sources. These options may not promise guaranteed returns but can complement traditional strategies to deliver stable income streams over time.

Investors seeking returns should also consider market trends. For example, equities have significantly outperformed cash over longer periods. Balancing historical trends with financial objectives ensures your money works as effectively as possible.

PROACTIVE MANAGEMENT AND REGULAR REBALANCING

Creating a robust portfolio is not a one-and-done task – it requires ongoing management. Market conditions shift, altering the value of assets within your portfolio. Over time, this can cause your investment allocations to drift from your



intended strategy, exposing you to risks outside your comfort zone.

A key part of long-term investment success is rebalancing – the act of realigning your portfolio to restore its original diversification and risk level. For example, if equities grow significantly, your portfolio might become too equity-heavy, necessitating a move back into fixed-income or other safer assets. Rebalancing ensures your financial plan continues to reflect your long-term goals and risk tolerance.

OBTAINING PROFESSIONAL FINANCIAL ADVICE

Despite the benefits, constructing and maintaining a diversified investment portfolio can feel overwhelming due to the complexity of financial markets and the wide range of investment options. This is where professional financial advice proves indispensable. We can help tailor a portfolio that suits your unique needs,

whether your priority is growing wealth for the future or generating reliable income today.

We'll also ease the burden of rebalancing, ensuring your portfolio adapts to changing financial landscapes so you gain confidence that your money works as effectively as possible without exposing you to unnecessary risks. ■

READY TO TAKE THE NEXT STEP TOWARDS YOUR INVESTMENT OBJECTIVES?

Please contact us if you'd like help developing or managing your portfolio. Together, we can create a tailored investment strategy designed to help you achieve your ambitions and build lasting financial resilience. Don't wait – secure your financial future today.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH. AND SHOULD NOT BE RELIED UPON AS SUCH. TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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