For more information please call 0117 900 9000 or visit www.hl.co.uk

Investors' guide to Regular Savings

Hargreaves Lansdown

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Important Investment Notes
This guide is written for clients who like to make their own investment decisions, it is not personal advice. If you have any doubts about the suitability of an investment for your own circumstances please seek expert advice.

All stock market investments can fall in value as well as rise, so you could get back less than you invest and you should regard them as long-term investments. Whilst the tax benefits we refer to are those that currently apply, they can change over time and their value will depend on your circumstances. Tax rules can change and the value of any benefits will depend on individual circumstances. Past performance is not a guide to future returns.

August 2017

Time is on your side

As the famous investor John Templeton once said, "the best time to invest is when you have money". The sooner you start saving, the more time your money will have to grow.

Time has the greatest effect on savings and investments. No investment approach epitomises this better than regular savings. Here is an example: If an investor had invested just £150 per month (the equivalent of just £5 per day) in a fund tracking the UK stock market 20 years ago, their investment would now be worth nearly £76,000. Their total outlay would have been just £36,000.

Better still, had an investor chosen one of the better-performing actively managed funds their money would have grown to over £115,000. Please note, past performance is not a guide to future returns.

Remember this is a period which has included the technology crash in 2000, and more recently the global financial crisis in 2008, but that's the beauty of saving regularly, it means stock market volatility can work to your advantage – more on this later.

The other benefit of saving regularly is the discipline it instils. Providing the amount invested is affordable, after a few months the investor will adjust to those payments leaving their bank account. By keeping the money at arm's length an investor could build up a significant fund for their future.

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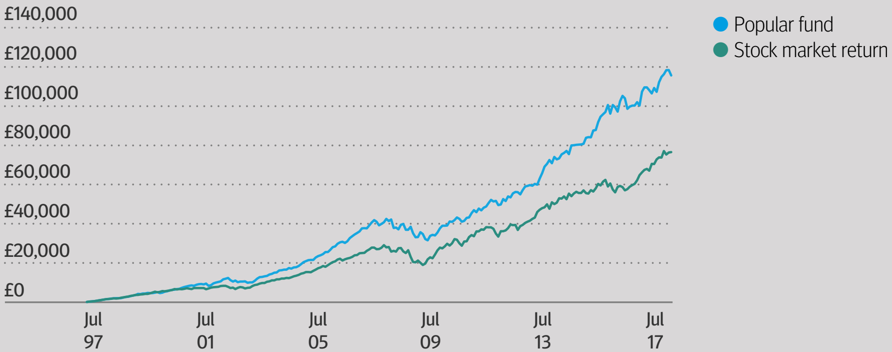
£150 per month saved for 20 years



Past performance is not a guide to future returns.
Source for investment performance Lipper IM, income reinvested, to July 2017.

Cash or the stock market?

Once an investor has decided to save regularly, the next thing to consider is where. Many will prefer the security of cash, but will have to accept that returns will be limited, especially with interest rates currently at historic lows. In our view once investors have built up sufficient cash to cover any short-term needs (usually 3-6 months' income) they could consider regularly investing in the stock market, which has the potential to provide significantly better returns, although with more risk.

Cash

- Capital value should never fall (barring negative interest rates or bank failure), but in times of low interest rates will not rise much either.
- Savers receive interest payments.
- Many accounts allow instant access to the money.
- Little potential to provide real growth once inflation is taken into account.

Stock market

- Shares have the potential to significantly outperform cash, but their value does fall as well as rise.
- As well as capital growth many shares also pay dividends.
- It takes a few days to release capital after selling a stock market investment. In addition, investors might need the money during a stock market downturn so could be forced to sell at a loss.

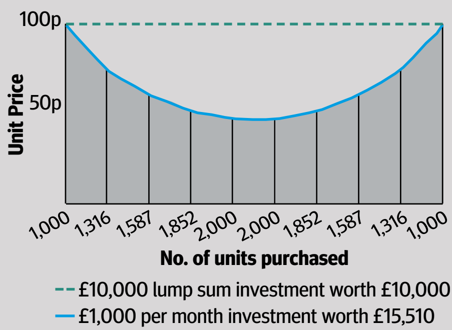
The attraction of monthly savings: Regular Savings v Lump Sum Investments

If stock market volatility is putting you off making a lump sum investment, then why not consider regular savings? Falls in share prices could even be advantageous over the longer term, as demonstrated on the right.

£10,000 invested as a lump sum would purchase 10,000 units, which would be worth £10,000 at the end of this period. However, £1,000 invested monthly buys more units as the share price falls, accumulating a total of 15,510 units - worth £15,510 at the end of the period.

The graph is simplified to demonstrate the point that it is possible to make money from a market which goes nowhere, but conversely it should be remembered that if the market rises above the starting price and never looks back, fewer units are purchased via regular savings and investors could have been better served by investing a lump sum.

However, the discipline inherent in regular savings, plus the fact that if investors have a lump sum they are not parting with it in one big decision, makes regular savings the favoured route for many.



How regular savings can help you reach your goal earlier (£150 per month)

Source: Lipper IM, income reinvested, to 31/07/17.
Past performance is not a guide to future returns.

While on the one hand the security cash offers is appealing, over the long term complete stability of capital can be disastrous. Over 20 years, inflation of 2% a year will reduce the real value of £10,000 to £6,730. In essence, unless interest rates exceed the rate of inflation, savers will be losing money in real terms. This is especially pertinent while interest rates seem set to remain low for the foreseeable future.

Turn volatility to your advantage

No one likes to discover that an investment has declined in value. However for regular savers their purchase price is averaged out over a period, reducing the risk of investing at the peak of the market. This phenomenon is known as 'pound cost averaging'.

Saving into a volatile fund could mean you reach your objectives sooner. The example above shows the returns an investor would have received if they had started saving £150 per month in July 1992, with the goal of accumulating £80,000 over 25 years to pay off a mortgage.

We show what might happen to these funds if invested in a volatile fund which aims to track the UK stock market. We also indicate how long it might take to achieve the desired capital goal based on a fund producing a steady return of 5% per annum.

Note, as shown, there probably will be times where the stock market fund is actually worth less than an investment producing a steady return. However, where the volatility becomes interesting and hopefully advantageous is in the two or three years before the intended goal. If the market does peak at any time in the years during this period you may even find you have reached your goal early. In our example the £80,000 goal would have been reached in July 2013. Someone saving into an investment producing a steady 5% return would not have accumulated the £80,000 until March 2016.

The investor can then pay off their mortgage early, saving additional payments equivalent to £3,000, and the mortgage interest during that period. This extra capital could even be used to start another regular savings plan. Please note past performance is not a guide to the future and the amount received will depend on investment returns actually achieved.

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Those saving for retirement who are approaching the date where they wish to start taking pension benefits (i.e. this is less than five years away) may need to take greater care and look to less volatile investments, in case the market experiences a fall at the wrong time for them.

The importance of performance

Investment performance can have an enormous impact on the final value of a savings plan. It may seem obvious that the better the returns from your investment, the more you will accumulate and the less you need to save. However, what is not immediately apparent is that how, over the long term, even a small difference can have a marked effect, as illustrated in the table above.

Of course in the real world things don't always work out so neatly; shares fluctuate in value, even cash will produce uneven returns as interest rates move up and down over the years. The graph on the previous page provides a good real life example.

Investment choice made easy

Many people find the idea of investing in shares attractive but don't know where to start. How do you build a properly diversified portfolio - which may need to contain at least 30 different shares - when only a small monthly investment is being made? A fund can be an excellent solution.

Investing in a fund buys you the expertise of the fund manager, who spends their days researching shares and selecting what they believe are the most promising for the portfolio. It also offers you access to anything from around 25 to well over 100 different shares - meaning you will instantly have a diversified spread of investments, although the fund's performance will depend on the skills of the manager so your investment can still fall in value as well as rise.

£150 per month

	Total invested	5% return	8% return
5 years	£9,000	£10,172	£10,941
10 years	£18,000	£23,154	£27,018
15 years	£27,000	£39,724	£50,640
20 years	£36,000	£60,871	£85,349
25 years	£45,000	£87,860	£136,348

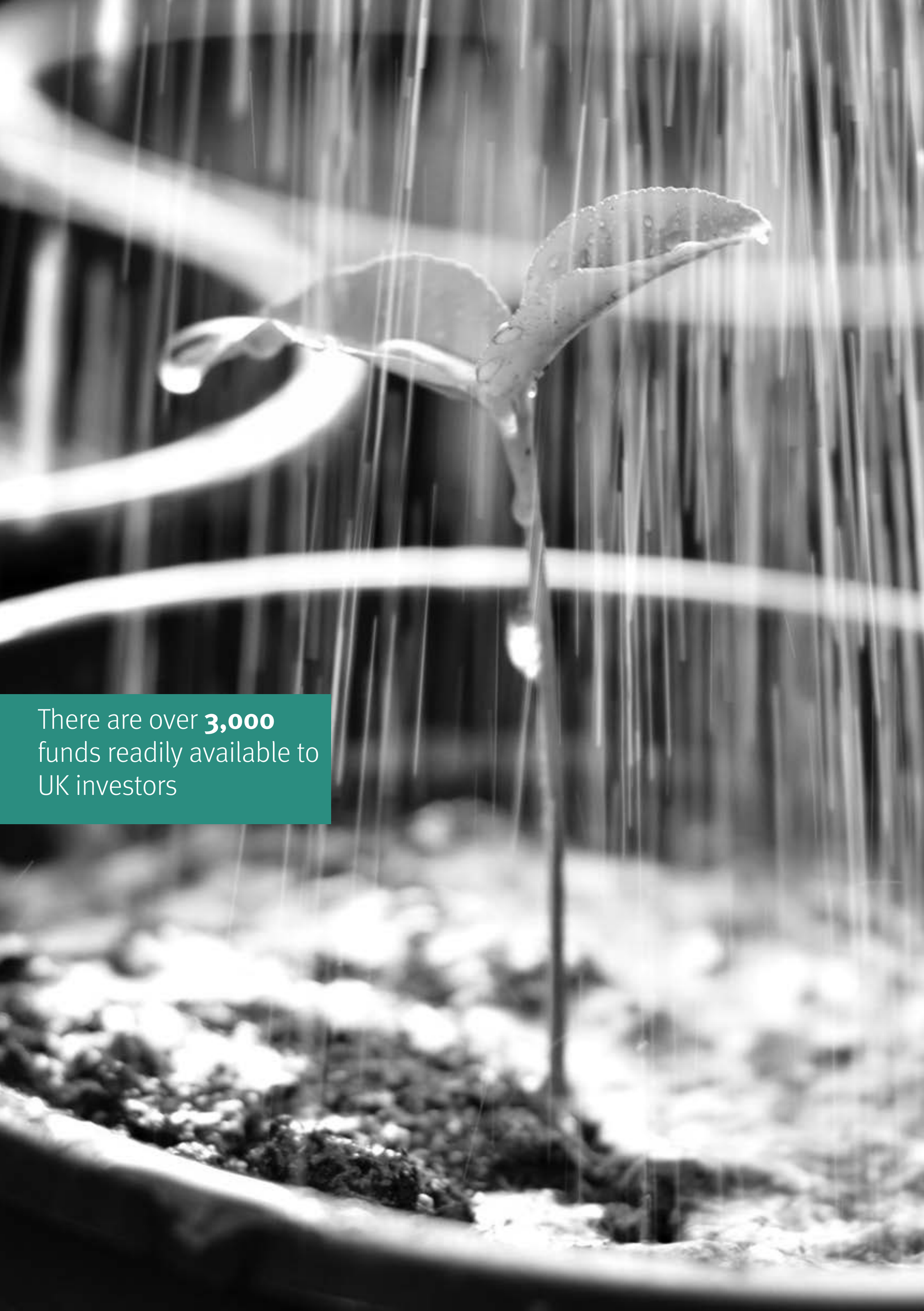
Please note this is an illustration, not a projection and what you might receive is not guaranteed. The figures provided are after all charges.

Also, inflation will reduce the spending power of cash over time.

How do I choose a fund?

There are over 3,000 funds readily available to UK investors and, as we have already seen, you will want to choose one of the best. Which do you buy? That decision can seem intimidating, but fortunately for investors there is free research on offer. In particular, many independent firms provide their clients with suggestions to help them make their own investment decisions. A suggested list covering a wide array of different sectors and risks can distil the number of funds to a manageable level.

Hargreaves Lansdown produces its own list, called the Wealth 150+, which represents our favourite funds across the major sectors. To view the Wealth 150+ visit **www.hl.co.uk/wealth150**.



There are over **3,000** funds readily available to UK investors

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How to invest

The most popular stock market regular savings plans are through ISAs, pensions or directly into funds. Below we describe the benefits of each.

ISAs

- All gains are free from UK capital gains tax.
- There is no UK tax to pay on income (even for higher-rate taxpayers).
- Money can be withdrawn at any time, usually without penalty.
- Low minimum investment (e.g. Hargreaves Lansdown's ISA allows you to invest from £25 per fund, or stock, per month)
- Minimum age of 18.
- Invest up to £20,000 this tax year (2017/18).

ISAs are a first port of call for many investors. You don't even need to mention ISAs on your tax return, and less tax means higher returns for you (all else being equal).

Each tax year you have an ISA allowance. A tax year runs from 6 April to 5 April the following year. If you use your allowance every year ISAs offer you the chance to build your own personal tax haven. However, miss the deadline for a tax year and you lose that part of your ISA allowance forever.

This tax year (2017/18) you can invest up to £20,000 in ISAs. This can be split as desired between a Cash ISA, a Stocks & Shares ISA an Innovative Finance ISA and a Lifetime ISA (if opened before age 40).

Pensions

1. Investment gains are free from UK capital gains tax.
2. There is no UK tax to pay on income within the pension (even for higher-rate taxpayers).
3. Receive tax relief of up to 45% on contributions - £1,000 could cost as little as £550.
4. UK residents under age 75 - even children - can invest at least £3,600 per year and receive tax relief.
5. If you have UK earnings from work you can invest up to 100% of this amount each tax year. A £40,000 annual allowance also applies to most people. These limits can be affected by other factors

SIPPs, or Self Invested Personal Pensions, have revolutionised the way people save for retirement. Unlike some traditional pensions, which can restrict your investment choice to a limited range of (sometimes mediocre) funds, SIPPs allow you to invest pretty much wherever you like.

You also receive tax relief on what you invest. For instance, for every £80 you invest, the government will add a further £20. It is even better for higher and top-rate taxpayers, who can claim back up to

Please remember tax rules can change, and the benefits of tax shelters will depend on your circumstances.

an additional 25% via their tax return. How much depends on individual circumstances. Tax rules can change.

SIPPs are designed for funding your retirement so you can normally only access your money from the age of 55 (57 from 2028). You can usually take up to 25% of your pension tax free with the remainder subject to income tax.

Funds

Some investors forget that funds themselves also offer tax advantages. In a portfolio of shares if you wish to make a change this could mean paying capital gains tax. This can lead to investors making tax decisions rather than investment decisions.

However a fund manager does not have that problem. Within a fund capital gains are tax free meaning the manager can buy and sell shares without being constrained by tax considerations. Investors in a fund only create a capital gain when they sell some or all of the fund. If they only sell enough units to create gains within their annual capital gains tax allowance (£11,300 for 2017/18), they can escape capital gains tax altogether. If they hold funds in an ISA or pension, they do not pay capital gains tax anyway, however tax rules can and do change and benefits depend on personal circumstances.

Equity regular savings
Equity regular savings are available through Hargreaves Lansdown for FTSE 350 shares, selected investment trusts and exchange traded funds (ETFs) with dealing commission of just £1.50 per stock. This is a low cost way to gain direct exposure to several companies, allowing you to create a diversified equity portfolio.

Find out more at
www.hl.co.uk/regularsavings

How much should you save?
You might already have a savings goal in mind, such as school fees, a wedding or a once in a lifetime holiday. Using our simple online calculator you can see how much you might need to save to hit your target.

Alternatively, if you are just looking to build a lump sum our calculator can give you an idea of how a regular contribution every month can quickly grow into a sizeable amount.

Use our regular savings calculator>>

What next?
We hope that you have found this guide useful and informative. If you would like further details about how to make regular savings in unit trusts, ISAs or SIPPs, please do not hesitate to contact us on **0117 900 9000** or visit **www.hl.co.uk/monthlysavings**.

Over 954,000 invest through Hargreaves Lansdown, many of whom have recommended us to their family and friends. We firmly believe the information and service we provide to private investors is the best available. However you don't need to take just our word for it - on the back page are just a few of the recent awards we have won.

Why invest with Hargreaves Lansdown?

Before you invest with any company you should check their credentials. Hargreaves Lansdown have been helping investors save time, tax and money on their investments for more than 30 years. Today we are trusted with more than £79 billion by over 954,000 clients.

Security and service
Our clients' confidence and loyalty has created an enormously successful, and financially secure, blue chip company. We are one of the UK's most respected investment specialists and our reputation for service is exemplary. 95%* of our clients voted the Vantage Service as 'good', 'very good' or 'excellent' and some of our recent awards are shown on the back page.

Driving down costs
Over the last 30 years we have continually driven down the cost of investing. New regulations have presented an opportunity to reduce the cost of investing further for our clients. We have used their collective bargaining power to negotiate super-low prices on a range of top funds from leading fund managers. This process is on-going, we anticipate we will be able to reduce costs even further for our clients.

The best place to hold your investments
Once you open an account we shall provide you with regular investment information, ideas and easy to understand economic updates.

In addition, your investments will be held in our market-leading administration system called Vantage where you will be amazed at how easy it is to manage your investments. We look forward to being of service.

*Hargreaves Lansdown Survey, May 2017, completed by 14,674 clients

Useful telephone numbers

For queries about:
ISAs, Unit Trusts, OEICs, Index Trackers, Investment Bonds, Investment Trusts, VCTs & EISs
Please call our Helpdesk on 0117 900 9000

For queries about:
Shares, Share Dealing, Stockbroking & CFDs
Please call our Stockbrokers on 0117 980 9800

For queries about:
Self-Invested Personal Pensions (SIPPs), Stakeholder Pensions, Personal Pensions, Company Pensions, Annuities, Drawdown
Please call our Pensions Helpdesk on 0117 980 9926

For queries about:
Personal Financial Advice or Discretionary Portfolio Management
Please call our Advisory Helpdesk on 0117 317 1690

Feefo Trusted Merchant
Winner 2016

Best Fund Supermarket 2016
What Investment readers award

Best SIPP provider 2007 - 2016
What Investment readers award

Best Low-cost SIPP Provider 2016
Investors Chronicle

Best Investment Adviser 2017
Money Marketing Awards

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