The Road to Financial Freedom

Your step-by-step guide to investing in the stock market

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So you're considering a leap into the world of investing.

But you still have questions. Questions that need to be answered before you take the plunge.

It can be intimidating, even embarrassing to ask basic questions like "What is a share?" or "How do you buy a share?" When it comes to financial markets, everyone seems to be an expert already. Not that they give you the same answer to even the most basic questions…

You're right to be suspicious. And cautious. As you start to invest in shares, don't lose those prudent emotions. Even after reading this report.

But you do need to realise that people who don't invest are missing out on an incredibly powerful wealth-building machine. It pays to understand the stock market – literally.

This guide will demystify the stock market, teach you how to buy and sell shares, show you how to mitigate risk, lay out how to weigh up any costs involved and show you **why investing in the right companies at the right time can completely change your life.**

After all, that's the point, isn't it? Financial freedom in and of itself might seem valuable. And financial markets can be intriguing – even good fun. But it's what financial freedom buys you which is behind this report. Peace of mind, the ability to weather shocks in your life and the power to help those you care about. Money can't buy happiness, but it helps pay for it.

So how do you get there? You may have heard this adage before: wealthy people don't work for their money, they make their money work for them.

If you want to boost your net worth, any spare capital you have should be working for you year in year out… growing itself. And it's far easier to get that started than you might think.

Of course, there's nothing wrong with having money in a savings account. But when interest rates are scraping along at 0.5 to 1.5% every year (or even less) – is it really worth it in the long run?

It's not going to achieve that financial freedom we spoke about, is it?

By investing in the stock market, you can boost your and your family's net worth…. create passive income streams… or simply build a much bigger, much more comfortable nest egg for retirement.

Whatever your financial goals, this step-by-step guide is designed to help your harness the stock market to achieve it.

So, let's start with the most basic question….

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What is a share?

It depends who you ask. And there are many correct answers. But don't let that confuse you.

A share is a unit of ownership in a company. If you own shares in a company, you own a proportion of that company's assets. That includes buildings, intellectual property, cash and so on. It will also entitle you to a share of that company's profits. And power in making the company's decisions, such as electing those who run the company.

At a glance this may sound intense. But owning part of a company is not as intimidating as it sounds. For most people the proportion of shares they own in a company is miniscule as a proportion of the total amount of shares. The largest shareholders of companies are usually the directors of the business themselves, very large pension funds or fund managers. The point is, owning shares doesn't necessarily mean a big burden on you or your time.

You may see different words used for shares such as "equities" and "stocks", but rest assured they are all the same thing.

There are three basic functions/entitlements that owning shares brings:

1. You can sell shares to others on the stock market. The obvious aim is to sell the shares at a higher price than you purchased at. Although shares exist outside the stock market, it's the ease of selling them that makes the stock market so useful to small-scale investors like us.
2. You will receive your share of the company's profits, which are distributed to shareholders. This is referred to as the dividend. Dividends are not always issued by companies. Those that do can sometimes alter the dividend or cancel it altogether. Many companies won't issue dividends in order to reinvest profits into new projects, growing the company instead. So some companies pay all of their profits out, some a proportion of their profits and some don't pay any. The size of your total dividend income will also reflect the amount of shares you own. More on this later.
3. You will be able to vote at shareholder meetings (which are usually held annually), if you want to. It's similar to having a vote in a democracy. You appoint the people who actually run and oversee the company, as well as their pay packet. It is usually large pension funds or fund managers who hold the most sway at these meetings because they own so much of the company.

Shares have plenty more features. But those are the basics you need to get started. So, on to a more pressing question.

Why should you invest in shares?

Owning shares should allow you to grow your wealth over time with minimal effort. With both its value and the income it pays you.

In the short term, shares are more risky than many other investments. They can go up or down in price. But over long periods of time, shares have proven themselves to be one of the best ways to turn small investments into substantial amounts of money.

We'll go into a few examples in a moment. First, what's the overall picture?

Credit Suisse's annual investment returns report shows how well different investments perform over time. As you can see, shares (in blue) outperform other investments dramatically over long periods of time.

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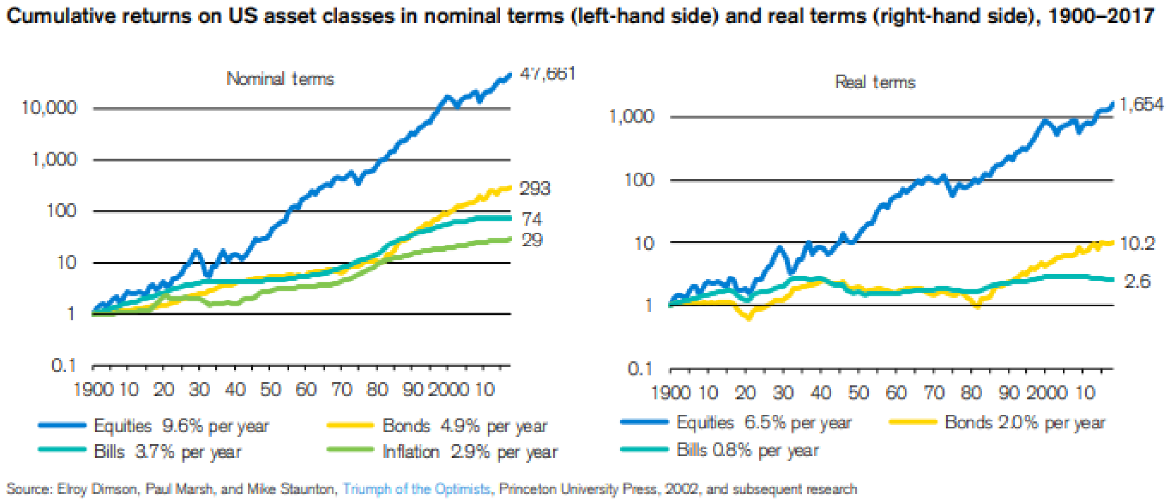
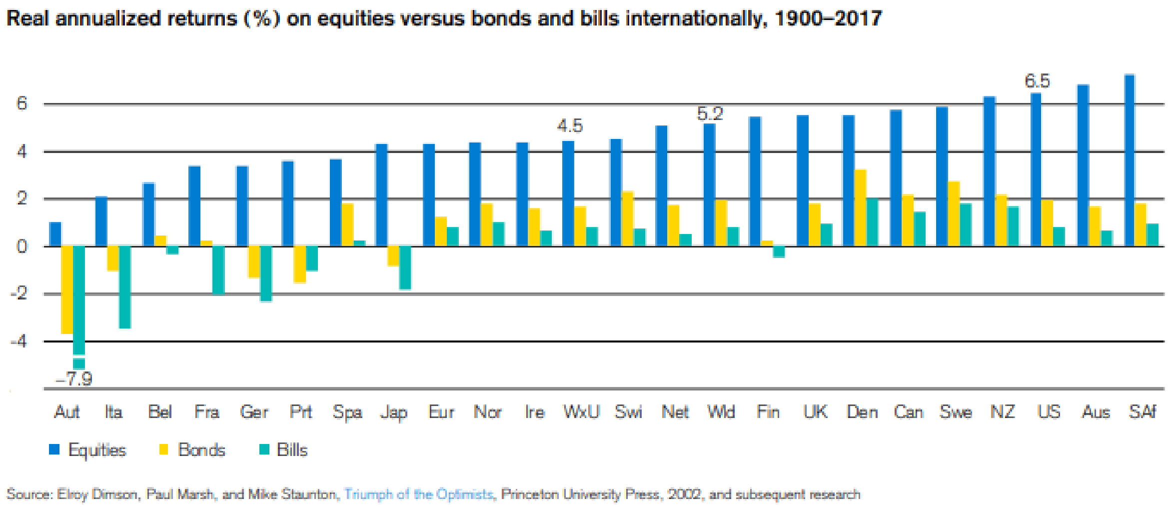


Source: Credit Suisse

This particular example looks at the US stock market going back to 1900. We've used it because the US has had the biggest equity market in the world for a long time.

Of course the US isn't the only market out there. It's just a good example because of its long history. The story is much of the same across the world. Especially in the UK:



Source: Credit Suisse

These charts are simplified, but their message is clear. Owning shares over the long term tends to bring in larger returns than other assets like bonds or cash.

This is especially important when we factor in inflation. If you were to leave your money in savings accounts or bonds, the price of goods and services will likely rise quicker than your savings can.

Isn't investing like gambling?

Companies use the money they raise on the stock market. They invest it in buildings, machines, people and technology. And because you own a share of these productive efforts when you buy shares in a company, it isn't like gambling. It's like owning a business.

That said, investing can be speculation. It is risky in the sense that you could win or lose money. The price of your shares could go up or down.

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Could you lose more than you invested when you buy shares? No, unlike some other forms of investing.

Say you put £100 into a share dealing account and use the £100 to buy shares of Tesco. If you check your shares at a later date and see that they are now worth 10% less, the value of your holding has decreased by £10. But you would not have lost the original £100 you invested. For that to happen, the value of the shares would have to fall to zero. But they can't fall further than zero, so you can't lose more than you invested.

Another important factor to note is that buying shares is not lending money to the company. You can provide loans to companies in the form of bonds. But shares are a unit of ownership, just as your local newsagent might be owned by your neighbour.

Every financial asset has some degree of risk to it. But there is a proven method of investing in shares which reduces the risks involved.

Shares can have both severe downturns as well as brilliant triumphs. You'll want to spread your investments across a number of shares to mitigate the risk. Throwing all your money into a single share that collapses is painful. But if you own a number of healthy shares whose gains outweigh a single company's bad turn it won't be so bad. We call this diversification.

Many shares have had dramatic losses. In the face of accounting scandals, Enron Corp's share price fell from a peak of $90.75 per share to virtually $0. Carillion's share price fell from 230p to less than 20p in the space of a year.

We want to help you avoid disasters like those. And find you life-changing gains. There are plenty of examples out there that prove it's possible.

The people behind companies like Google, Amazon, and Netflix weren't the only ones to make it big when their companies revolutionised industries. Their shareholders also ended up winning.

If you got your timings right with both getting in and out of the shares, an investment with Google would have risen by over 2,000%.

Amazon? Over 22,000% over the past 20 years.

And an investment in Netflix 15 years ago would have rewarded you with a gain over 12,000%.

A return like that is enough to turn a small £100 investment into as much as £12,500.

Please remember however that these returns are before any costs (which will be covered later) and these are examples of past performance which is not a reliable indicator of future results.

I realise that I have made this sound very simple. If investing in shares is a sure winner than how come everyone who does it isn't a millionaire?

Well it's true that getting these kind of results isn't easy. Huge returns like those mentioned above are the exception rather than the rule. Doing well with investing in shares takes a substantial amount of time, research and willpower.

But that's what we're here for. Southbank Investment Research was founded to help you with your investment decisions. Including which shares to invest in. More on that later.

Hopefully by now you're aware of the potential behind investing in shares. You're comfortable with the risks involved and understand the basic features of shares.

But before we get into how to buy and sell shares, you need to understand the two ways

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to profit from owning shares.

The size of your nest egg: capital gains

A capital gain is the increase in the price of an asset. That includes real estate and other investments. In this report, we are focusing specifically on shares. So the capital gain is the difference between the price you bought the share at and the price you sold it for.

Let's use an example…

Say you bought shares in Next PLC at a price of £50 per share. (UK share prices are quoted in pence, so this would be 5,000p. But we're using pounds to keep it simple.)

A few months down the line you decide to sell your shares. They have risen in price to £150 per share.

Your capital gain on this transaction will be £100 per share. Or 200%.

This is what most people are referring to and thinking of when they discuss making money from shares. It's the central principle of investing 101: "buy low, sell high".

There are a number of reasons why the value of a share would go up (and of course, down too). But some are especially worth mentioning:

- The general prospects for the company improve. Perhaps its's announced a healthy rise in profits or a new project is looking promising.
- There could be a general improvement in the overall business climate, such as more economic growth. This boosts profits across the board. Think: "a rising tide lifts all boats".
- Another company may decide to buy yours, launching a takeover bid for all the shares. It has to pay a high price to get everyone to agree to sell, which bids up the price of your shares.
- Sentiment, rumours and research reports may also affect the share price. This will be the trickiest element to evaluate. Perhaps the company's CEO was recently spotted having lunch with another exec in the industry. This news (or gossip depending on how you look at it) could allow the share to rise higher as shareholders feel there may be some exciting developments on the way

Capital gains are the focus of most investors, although they're not always the largest source of potential or actual profit from an individual share investment. There's another important way to profit from shares…

The often underestimated income provider: dividends

Capital gains are a common reason people choose to invest in shares. However, on top of this, investors may also receive an income from dividends.

A dividend is a payment made by a company to its shareholders. If you're a shareholder in a company you can think of this dividend payment as your share of the company's profits.

There's an important distinction to make about dividends. Dividends can be reinvested into buying more shares. Sometimes you can choose to do so on an automatic basis. Instead of receiving cash into your brokerage account, that money is used to buy more shares.

However, what I'll be focusing on going forward is receiving cash dividends. Money.

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Dividend income isn't as exciting as capital gains. But it is just as important.

Owning shares for capital gains is a solid long-term play. But you will have to decide if you can handle the risk. The income you receive from a dividend could be steadier. You might ask yourself, would you rather a 100% capital gain after 20 years, or the same amount of accumulated profit from dividend income over 20 years? Based on the answer, you'd choose very different companies to invest in.

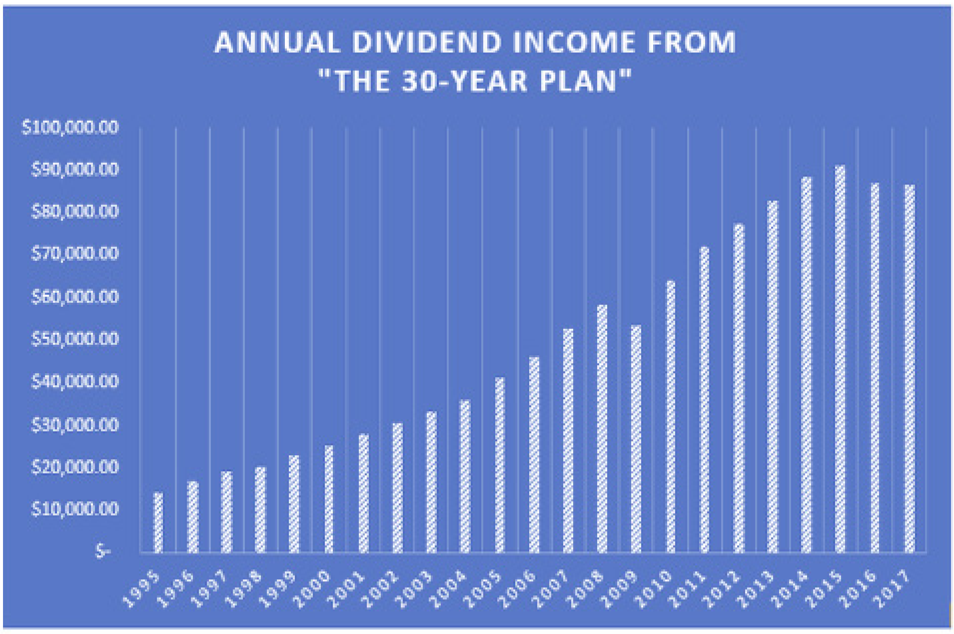
This is especially important when factoring the type of market you're in. You're likely to experience a "bear market" during your investment career. This is a period of time where the prices across most shares fall sharply (over 20%) from their recent highs. This fall usually happens in a short timeframe. There is usually widespread pessimism and negative sentiment from the financial community.

This can be a disheartening time for all investors. But having dividends coming in during this period can provide reassuring protection.

There have been incredible success stories from investors who favoured dividends. An example being Hayford Peirce and his story of becoming a "dividend millionaire".

Around 1995, Hayford set out a plan to maximise his dividend income over 30 years. To do this he invested in well-known dividend payers such as Coca-Cola, General Electric, Johnson & Johnson, Kellogg, Merck, Pfizer and Philip Morris.

By examining his annual dividend income from 1995 to 2017 we can see how lucrative his strategy was:



SOURCE: HAYFORD PEIRCE 30-YEAR PLAN SPREADSHEETS; CHART AND CALCULATIONS BY AUTHOR.

Source: The Motley Fool

From 1995 to 2017, Hayford's dividend income paid him over a million dollars. And that was on top of any capital gains he made from the shares themselves.

Granted, the value of his portfolio when he started was already large (about $2 million). But the principle of receiving income is relevant for all types of investors.

A profitable company in the UK will usually pay part of its profits out to shareholders by declaring a dividend twice a year. At the time of the interim and final results announcements. You can usually find the dates and details for this on the company's website. (That said, some dividend-paying companies pay four quarterly amounts and others pay just once a year. But twice a year is traditionally most common in the UK.)

What's important to note here is that there is no guarantee that you will be paid a dividend at all. A company can say it intends to pay out a dividend of a certain value, but it can just as easily change its mind.

Different companies follow different dividend strategies. Some like to pay out the same dividend each year, even if profits fluctuate. Some pay out a fixed percentage of the profit, so that the company's good and bad performance is passed on to shareholders. Good years feature high dividends. Bad years feature low dividends. Companies that grow their dividends over time are especially prized.

You can measure a company's dividend by working out the dividend yield. The dividend yield is the dividend-only return of a share investment. It's like the interest rate on your savings account.

To work out what the dividend yield is, you take the annual dividend and divide it by the current share price. Imagine you own a company that pays £0.50 per share in annual dividends. Its current share price is £10. The dividend yield will be:

£0.50 / £10 = 0.05 = 5%.

A 5% dividend yield would be a good result! The key with choosing an investment for its dividend potential is to look around for the highest yields. But the dividend has to be sustainable too. This means that company profits must stay high enough to keep paying future dividends at the recent level, and preferably growing future payouts.

The most important factor to remember when you're investing in shares is that nothing is guaranteed. Whether you're investing for capital growth or income, there is **always** a risk.

How do I open a brokerage account?

It has never been easier to invest in shares. A huge number of mainstream banks and financial companies provide easy access to the stock market. Many of them are online only, and they work just like your online banking does. The days of having to call a stockbroker are gone.

Your regular bank's online brokerage service may be a good place for you to start. It's with an organisation that you already know and often the most convenient way to open your first brokerage account. But these days, there are other options with lower fees, so it pays to shop around. The companies listed directly below are not being recommended, but are just some examples of mainstream options.

Santander provides investment advice as well as execution only services.

Barclays offers share purchasing services along with a number of helpful tutorials and commentary.

HSBC puts in efforts to reduce both the hassle and cost for the average person wanting to get involved with investing.

Stockbrokers offer different types of brokerage accounts which tend to fall into three categories:

- Execution only: these brokers will solely buy and sell shares based on your

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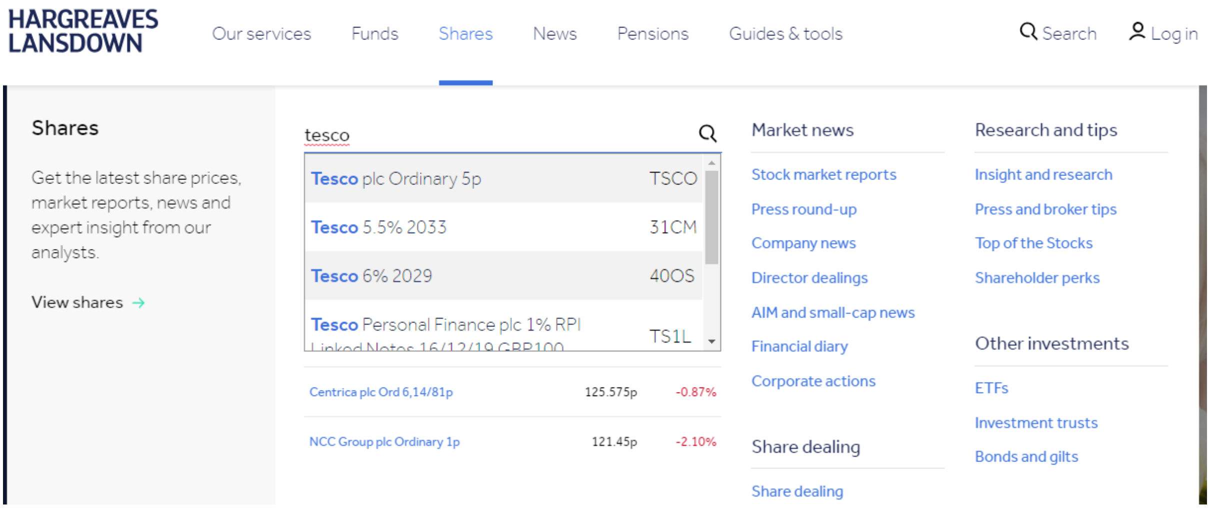
- instructions. Because this is the most minimal service, the fees and commissions tend to be lowest with this type of brokerage account.
- Advisory: these brokers are in the middle ground. They will provide advice on investments but the final investment decision will be left to you.
- Discretionary: these brokers will buy and sell shares on your behalf completely independently. These are the type of brokers/investment managers to seek out if you wish to completely hand over portfolio management responsibilities. Because they provide the highest level of service, the fees and commissions will be higher than other types of brokerage account. How to choose the broker most suitable for you, and what's involved, will be covered later on.

There are hundreds if not thousands of brokers out there who are all competing for your business. And they all offer slightly different services. Each one of them will handle your business slightly differently. But for now, let's detail how a transaction to buy shares would occur.

How do I buy and sell shares?

The majority of brokers offer an online dealing service which is fairly easy to follow.

Take for example one of the UKs most popular stockbrokers: Hargreaves Lansdowne. From its homepage there is a clear tab marked "shares" which will allow you to search for a share you want to invest in. This is not a recommendation for the share but I am using Tesco for illustrative purposes:



Once you've found the share you want, clicking on it will bring you to a page which will have information on the share/company's details. Once you feel happy with everything, you can proceed to buy the share utilising a very obvious "Deal" button:

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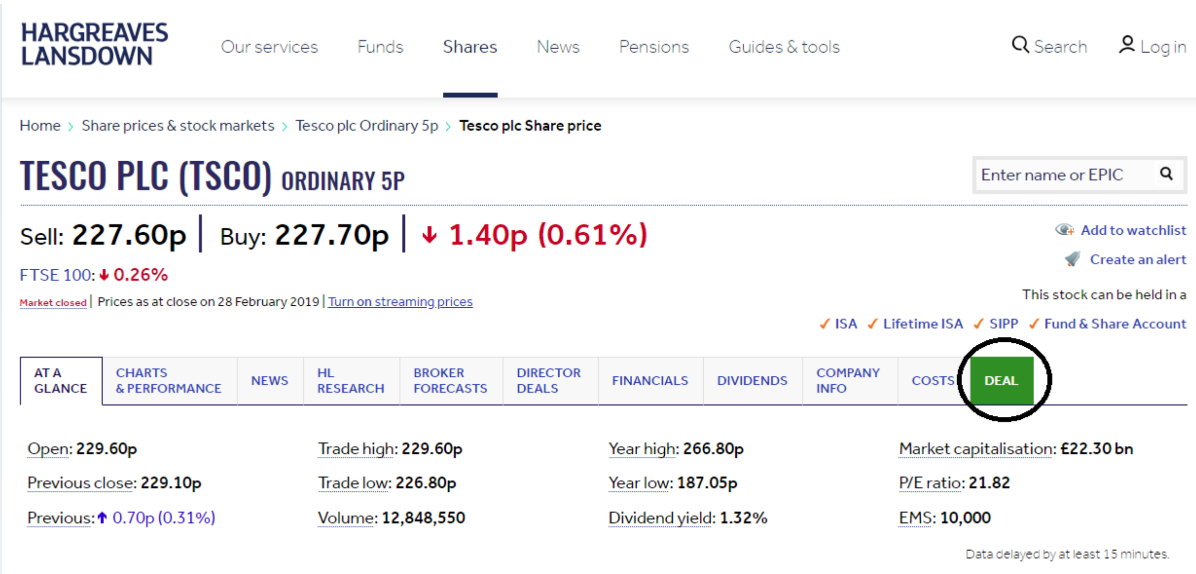

Once clicked you simply follow the instructions given to make your purchase.

For the most part, dealing like this over the internet is very easy and is usually the cheapest option. Most online brokers have easy-to-follow systems that guide you through the process from start to finish.

But it's entirely up to you how you deal. Some people like to speak directly to another person; other people prefer the internet.

When can I buy and sell shares?

For UK investors, the majority of your share dealings will be done via the London Stock Exchange. This exchange is open for trading from 8am to 4.30pm, Monday to Friday, UK time.

What's important to note here is that your ability to purchase or sell a share is strictly within that window. If you put in a request to buy a share after 4.30 pm it will not be executed until the market reopens at 8am the next working day. In such a situation, to avoid being caught out by unexpected price movements overnight, always specify an upper price above which you will not buy. This is known as a limit buy price. We will cover this more later on.

How do I set up an account?

After you choose a broker and open your account, you will be sent a letter which is basically the terms and conditions of the broker you will be working with. After all this it's go time! You will have to deposit money into your account and from there your broker is ready to start buying and selling shares for you. Your share investment journey will have started.

Some accounts/companies require a minimum initial deposit. In addition, you should ask about any hidden costs that may not be prominently displayed on the website. This can include the annual fees, monthly subscription charges and account activity fees.

We cannot recommend specific brokers to our clients. Different brokers are suited to

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different people. But there are a number of well-known firms who many UK investors use and have strong reputations. Some of the names that our readers often use and will provide most investors with what they need include Hargreaves Lansdowne, Interactive Investor and AJ Bell Youinvest. Again though, it is your choice alone which broker you should use.

Your preference of broker should depend on a number of factors. Costs, level of service, and ease of use should all be considered carefully. If you're going to be using a service which allows you to trade online (which these days is extremely likely) you will want to see if it has back-up options for when your internet is down or its website goes through difficulties.

When searching for "the best" broker to use, a number of options appear online. But you see the same names pop up frequently. We have detailed a number of brokers below who show up in various "top 10" lists. If you'd like to do your own research on all of the options out there, the London Stock Exchange provides a full list of all the available brokers you can contact.

We cannot specifically recommend any of the companies listed below, but this list could help you in narrowing down your search. Clicking the names will take you to information about each platform's charges.

- IG
- Saxo Capital Markets
- Interactive Investor
- Hargreaves Lansdowne
- Degiro
- AJ Bell YouInvest
- Barclays Smart Investor
- Halifax Share Dealing

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Understanding the prices offered by your broker

If there's one thing that the financial and broker industries like, it's jargon. You'll likely see more and more as you get involved with investing. Don't allow yourself to be intimidated though. There are only a few terms you'll need to know at the start of your journey:

The bid-offer spread

A broker who is dealing in shares doesn't just quote one price for each share – they quote two. One price (the higher one) is the price at which you can buy the share, known as the "offer" price. And the other price (the lower one) is the price at which you can sell the share, known as the "bid" price. The difference between these two prices is known as the "bid-offer spread".

For example, if the price of a share is quoted as 30p-32p, it means that it is "30p bid" (ie, you can sell at 30p) and "32p offered" (ie, you can buy at 32p).

The easiest way to remember the difference between the bid and offer prices is:

Bid is what someone else is **bidding** for my shares. Offer is what I have to **offer** to buy shares.

The mid-price

The mid (middle) price is the price half-way between the bid and offer prices. In the example just used, the mid-price is 31p. The mid-price is the most frequently quoted price in the newspapers, but you cannot actually deal at the mid-price.

Setting a limit buy price

When you contact your broker to buy a share, you can accept the offer price. But there's an alternative. You can also set a limit on the amount you are prepared to pay. You do this by telling your broker you want to set a "limit buy price". If someone is willing to sell to you at this price, the transaction will take place. If not, you won't buy the shares.

There are two reasons for doing this. The first is if the share is currently trading at a higher price than you are happy to pay. Your broker may tell you that the "offer price" of your chosen share is 22p. You are quite entitled to dig in your heels, refuse to pay 22p, but instead leave a "limit order" at 20p. If the price dips to this level, your order will be transacted. But if the price does not dip, you will fail to buy the shares.

The second reason is to protect yourself against a sudden move, especially if you place your trade outside market hours. A share price might close one day at 25p, but could open the following day at 30p – and you might not want to pay that level. The best advice is always to place a limit, even if this limit is in fact at or even slightly above the offer price.

This is simply a cost-free method of protecting yourself from big market moves. You can set a limit that is "good for the day" or even "good until cancelled" – ie, valid until you tell your broker to cancel it.

An important thing to note is that many of our writers will advise you on a specific buy-

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up-to limit. This will be based on their analysis on the share they're recommending so it's important to stick to what they're suggesting. However, this is the maximum price that they recommend, and not the same as the limit price you should set for any order to buy. That should be made with reference to the market offer price for the shares on the day you place the order, which may be below the buy-up-to limit of the recommendation.

What are the costs involved in buying and selling shares?

Nothing in life is free. Unfortunately there are charges involved in buying and selling shares, just as with any other investment. You have to pay your broker's commissions and account fees.

Investment banks and other big professional traders, which keep the market functioning, also make profits from the bid-offer spreads. They sell large volumes each day at the higher offer price and buy at the lower bid prices, pocketing the small price differences, in percentage terms, but in huge volumes.

The UK government also imposes a tax called stamp duty on most share purchases, but not on share sales. Stamp duty amounts to 0.5% of the total value of the purchase order.

One piece of good news is that since April 2014, stamp duty is no longer applicable to shares traded on the Alternative Investment Market (AIM), a smaller version of the London Stock Exchange. However, most AIM shares have a higher risk due to the smaller size of the underlying companies and their illiquidity, meaning relatively fewer shares tend to change hands on any given day. So you'll need to weigh the pros and cons.

Execution-only brokers, especially those that offer an online trading platform, often work on a fixed-commission basis. In other words, they charge the same basic fee however large or small the transaction. Some may even offer zero-commission trading, which sounds like a great deal. But the reality is that they probably make up for this with other account fees, so it's important to look at all the charges.

Here is a typical example of the costs you would have to pay to buy a share:

Purchase of a UK share

5,000 shares at 10p each	£500.00
Commission – flat fee	£12.50
Stamp duty at 0.5% (on £500)	£2.50
Final total to pay	£515

Before you sign up to a broker account, shop around for the best offers on transaction and other costs. Do not be afraid to change accounts if you have to.

Most investors who struggle to make profits do so by underestimating the effect fees will have on their investments. Every time you place a trade, whether is it buy or sell, you pay a fee. This is why many advisory brokers push you to place a trade. The outcome of the trade isn't important to them as they get a fee/commission regardless.

It's also why knee-jerk reactions are detrimental. A short-term share price drop can be made worse by a panicked sell trade. Excessive trading will diminish your potential gains by adding to your costs. As such finding a broker with low fees is crucial.

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Costs are of course just one part of your budgeting plan. An equally important aspect is your actual budget. One of the most common questions we see from first-time investors is how much to invest.

This is one of the most complex questions to answer. And because we don't know you, we can't answer it for you. You'll have to decide for yourself. But we can tell you what to consider.

It will depend on your risk tolerance, stage of life, existing financial assets, investment goals and a whole host of other factors. The only real advice that could be applicable to everyone is this:

Only invest what you can afford to lose

You'll get sick of hearing this, but with investing, there is always a risk of losing money. How much you invest should depend on what your goals are. Are you investing for the short term? Or are you investing for the long term and looking for your investments to fund you through retirement?

The answer to these questions should affect the type of companies you invest in. if you invest in small cap companies (between $300 million and $2 billion market cap) their shares may be less liquid, meaning relatively few change hands on a typical day. This would mean they may be harder to sell quickly and therefore inappropriate for the short term. On the other side of that coin is large cap/blue chip companies (a market cap greater than £10 billion) where you can sell shares relatively easily.

Regardless of what you're investing for, the principle remains the same. You should be able to weather the loss of your investment if the worst were to happen.

Another important factor that should affect how much you invest is the dealing costs. Dealing costs will have an effect on your gains which must be factored in.

Let's look at how this works, using the example above. Imagine you wanted to cash in all your shares immediately, because you changed your mind about owning them for some reason. What would it cost?

In order to buy shares worth £500, you've had to pay out £15 in costs.

Let's say the bid-offer spread on this share was 9p-10p. So if you were to sell the shares for which you have just paid 10p, you will only get 9p. You would lose 1p per share, in total: 1p x 5,000 = £50.

Plus, when you sell your shares you have to pay your broker the commission for selling them again, another £12.50. (Fortunately there's no stamp duty to be paid on selling.)

Thus your total costs for buying and selling the shares are:

Broker commission and stamp duty on purchase	£15.00
Cost of bid-offer spread on selling immediately	£50.00
Broker commission on selling (no stamp duty)	£12.50

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TOTAL	**£77.50**

A lot of money, isn't it! In fact, as a percentage of your original investment, it comes to 15.5%. In other words, in this example, your shares would need to go up by nearly 16% just for you to break even. And that's before any tax you may have to pay on profits, which we'll move on to shortly.

The point is, larger transactions and longer holding periods tend to be more cost efficient than trading small amounts constantly. Also, for shares that pay dividends, longer holding periods allow time for you to collect that income, not just for the share price to rise.

Am I going to be taxed?

The short answer is "yes", but it depends on how much money you make. And careful planning means you can minimise how much of your profits go to the taxman.

There are three types of tax you need to consider: capital gains tax, stamp duty and income tax. Let's run through them.

Capital gains tax

As its name suggests, capital gains tax (CGT) is a tax on any profits you make on the difference between the price you pay for something and the price you sell it for.

Unfortunately this includes gains you make when you buy and sell shares. But you can offset your losses against your profits. You are taxed not on individual gains, but on your total net gain in any one tax year. So at the end of each tax year you need to total up all your gains and subtract your losses.

You only make a gain and loss when you actually sell out for a profit, which is known as a realised gain or loss. Paper profits (ie, when your shares have gone up in value, but you haven't sold them yet) don't count.

For the 2020-21 tax year you are allowed to make up to £12,300 in capital gains before you have to start paying CGT. This annual threshold is announced in each budget and has tended to rise every year in the past.

For any gains over and above £12,300, you will have to pay CGT at a rate of 10% if you're a basic rate taxpayer or 20% if you're a higher or additional rate taxpayer.

Say you're a basic rate taxpayer and you bought some shares for £10,000 and sell them for £25,000. You have made a profit of £15,000. You are allowed to make £12,300 tax-free in this tax year, so £2,700 profit will be taxed at 10%. Thus you will pay £2,700 x 10% = £270.

However, if you own another share which is worth £5,000 less than you paid for it, you could decide to sell it and realise the loss. This would reduce your total gain in the year to £10,000 and you would avoid paying any CGT (provided you don't have other investment gains that take you above the £12,300 annual allowance).

Your true profits are those after costs and after tax. If you have got hefty gains on the books, always consult with a tax professional before acting.

Stamp duty

This is levied at 0.5% on all UK share purchases. However, since April 2014 stamp duty

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will no longer be charged for shares traded on the AIM (the market run by the London Stock Exchange for smaller growth companies.)

Income tax on dividends

You're granted a dividend allowance before you start paying tax on dividend income. In the tax year to 5 April 2021 your allowance is £2,000. Beyond that the tax you pay on dividends is based on your income tax band. Once you go past your personal allowance, you will be taxed at:

Basic rate	7.5%
Higher rate	32.5%
Additional rate	38.1%

How to minimise tax

1. Use an ISA

ISA stands for Individual Savings Account. ISAs, and their forerunner Personal Equity Plans (PEPs), have been around since the 1980s. They were brought in by the government to encourage saving by providing tax-free ways to invest. The ISA allowance for the 2020-21 tax year is £20,000. You need to open a new ISA each year to take advantage of that allowance. Once done, you can invest up to the limit before the end of the tax year.

Each year the annual allowance tends to be increased by the rate of inflation. There is no CGT within ISAs and no extra tax to pay on dividends, provided the investments stay within your ISAs. You can also withdraw funds from an ISA whenever you like, unlike pension funds which have more restrictions placed on them. This is a key benefit of ISAs.

(Note you can change the investments held within each ISA after you've set it up.)

The case for utilising ISAs in investing is very strong as ISAs are flexible and easy to manage. If you're brand new to investing your choice will likely be between a General Investment Account (GIA) – which will sometimes be referred to as something else like a "share dealing account" – or a stocks and shares ISA. Your best bet is to open up an ISA where you can and utilise its perks as much as possible.

2. AIM-listed shares

Inheritance tax (IHT) is another long-term tax which you will need to take into consideration when evaluating the size of your investment pot. IHT can take a big bite out of your assets when the time comes to pass them on to children.

Fortunately, there are methods you can take with investing that will lower your bill. Qualifying AIM shares can be exempt from IHT if held for at least two years prior to death. Another perk to this type of shares is that they can be held within an ISA, giving them further tax benefits.

3. Remember to use up your annual CGT allowance

You are allowed to take profits in any one tax year up to a given threshold (£12,300 for 2020-21) without paying CGT. If you have a big holding that is showing a healthy profit, it may be worth selling in chunks over different tax years, in order to make use of this

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allowance. Just remember to take account of the costs of purchasing and selling shares.

Remember also that you can gift your shares to your spouse. Such a gift does not incur CGT and so gives you the chance to use two sets of CGT allowances as you both sell the shares instead of just one of you doing the selling.

Good to know

Tax laws are complex and constantly changing, and everyone's situation is different. So it's always best to check your options with a tax accountant or reputable financial adviser.

They won't do it for free though. And they generally charge a percentage of your portfolio for their fee, usually around the 1% mark. This will be another area where you will need to see what's right for you.

But keep this in mind. With investing, it is important not to do something just to be tax efficient. No one likes paying tax, but don't let the burden lead you to make poor investment decisions. For example, you shouldn't sell a great share just to take advantage of your annual CGT allowance.

How do I keep up to date with my shares?

Fortunately these days, you're spoilt for choice. Your broker will have its own platform that tracks your specific shares. This will continuously monitor your investments and display their price movements.

You can also utilise a number of financial news websites, or if you'd like to go old-school – newspapers. The Financial Times and Bloomberg are good for this, as they will not only display the price movements, but also other important factors like market capitalisation (the value of the whole company at the current share price) and the 52-week range (highest and lowest market price points of the share over the preceding year).

Financial websites are easy to use, usually free and provide you with many tools to help you categorise what you're looking at. It can be fun to compare your shares to others and play around with the timings.

If you're missing the human touch, you can always call your broker and find out over the phone.

Please try and remember to not let your emotions cause any knee-jerk reactions. You may check on your share and see that it is lower than it was the day before. Out of panic, you may be tempted to sell it in the fear that it may go lower. It can be frightening but do not forget, shares go up and down all the time.

Shares move daily, and even by the minute. It's extremely rare for a share to remain at one price for very long. Investing, done correctly, is usually all about the long game. While it is worth keeping up to date with your holdings to keep on top of your portfolio, you probably shouldn't be too concerned with the daily movements of what you hold.

What to do now?

We hope that we've detailed everything you need to get started.

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Hopefully, your only remaining question is, “What should I do now?”

Well, now you’re armed with everything you need to actually get started, the first step is simple. Go find a stockbroker that’s right for you. Deposit some cash into a share account, and confidently purchase your first set of shares.

Once you have a feel for how the service worked and whether it was comfortable for you, it’ll be time to learn more about which shares to buy. And we hope you’ll let us help you with that in the future.

Best wishes,

Connor Coombe-Whitlock & Nick Hubble
(Edited by Rob Marstrand)

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Learn from the masters

Valuable lessons from three of our experts

To get started in this world you'll need to know the basics, which is what this report is all about. But once you've started, the hard work really begins.

Anyone can buy and sell a share. But only a few can successfully manage a portfolio over decades. One that can be passed on to descendants and carried on from there.

You may know why you're getting into stock investing. You're likely to know that shares in the long term perform well. Inflation absolutely obliterates unattended wealth over time and you'll need to take action to combat that.

But the part you're likely to struggle with is the "what". What should you do when an unexpected announcement causes one of your holdings to drop 50%?

What should you do when you're convinced a stock you hold is an absolute diamond, but everyone else is telling you its trash?

What nuggets of information should you really keep an eye on in a world of endless noise and speculation?

Like it or not, you're going to be faced with these issues when you start your investment journey. How you deal with them is crucial. Your reaction could be the difference between achieving financial freedom and suffering unnecessary and painful losses.

This is a lot to process for new investors. It's heavy stuff and understandably, it can put off many people from getting involved at all.

But we're lucky to have a bank of seasoned investment professionals. Our investment experts have experienced everything that the stock markets can throw at you. They've faced disasters, scandals and mishaps a-plenty – but they've always come out the other end.

Three of our financial experts have shared with us their top five lessons for investing that they have learned over the years. You'll want to take their lessons seriously. Their incredible success shows that they know what they're doing.

Eoin Treacy is a career analyst, writer, strategist, commentator, lecturer and fund manager. For decades, Eoin has been busy giving lectures to investors across the world. He has perfected his own unique approach to research, combining technical, fundamental and behavioural factors.

He has published *Crowd Money – a Practical Guide to Macro Behavioural Technical Analysis*s, and due to his expertise he has been interviewed and quoted extensively by the likes of The Wall Street Journal, CNBC, Bloomberg TV, CNN, NDTV Profit, Reuters India and the BBC.

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Sam Volkering has also built a robust career advising private clients and businesses on how to manage their money and build their wealth. He has over a decade of financial advice under his belt and has combined that with his passion for technology. His talent for finding the "next big thing" in technology has allowed him to reap the rewards of tech investing well before they hit the mainstream.

He predicted the rise of 3D printing, the arrival of augmented reality and most notably the incredible shift to self-driving cars and artificial intelligence. The demand for his expertise allows him to travel the world, meeting and advising investors, inventors, founders, innovators and the most influential people in tech.

Rob Marstrand worked for a huge investment bank and wealth manager for 15 years, including a three-year posting to Asia. In that career he worked on multi-million-pound acquisitions and joint ventures and got wide international experience. He also worked very closely with the banks board level management, which gave him a deep understanding of what makes the financial industry tick, After that he was chief investment strategist for a service providing investment ideas to very wealthy families, mainly from the US and Europe. He's been providing investment insights to private investors for ten years, as well as constantly refining the approach to managing his own wealth.

Before investing in shares, Rob always takes a deep dive into company fundamentals. That means things like the financial condition of a company, its strategy and the track record of senior management. At heart he's a value investor, meaning he focuses on making sure shares aren't overpriced before buying them. Even better if they trade at a big discount. He applies that same value philosophy to all shares, whether they're of mature and low-growth companies or much newer and higher-growth companies.

Here's the most important lessons they've learned in their incredible careers...

You pay for your lessons in trading – the five biggest lessons a trader must learn

Eoin Treacy

Contrary to popular opinion, trading and market analysis is not an intellectually complicated discipline, but it is emotionally subtle. Whenever someone is promoting, or using, a complicated system, it is often to paper over the insecurity they feel because we are dealing with an inherently uncertain endeavour.

It doesn't matter what you think you know, no one can predict the future and that is a debilitating feeling when you have your own hard-earned money on the line.

Rather than clinging to the assumption that you can ever truly know anything, I have learned that the secret is to accept the uncertainty and concentrate instead on the emotional subtlety of trading. If we can understand the internal struggle of holding a position, we will be in a much better position to not only make money but to also hold on to it.

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I know that I know nothing.

– Socrates

No one opens a trade unless they believe they are correct in their assumptions. Every trade is opened on enthusiasm that this is going to be the big one. However, anyone who has any experience of trading knows that there are inevitably going to be occasions when we are wrong and sometimes even badly so.

That's a reality we can't simply gloss over. It goes to the essence of how money is made from trading but also where some of the biggest losses come from.

Personally, I know from long experience I trend towards self-confidence. Some might call it arrogance. That's something my parents told me as a child, but I could never understand what they were talking about. Surely everyone felt the way about the world that I did?

It was not until I started trading that it ever occurred to me that I might be wrong. That was a rude awakening, I don't mind admitting that because it was the catalyst for a deeper personal epiphany which has helped me throughout life. I think it was the drive to get better at trading that helped me to grow up.

You pay for your lessons in trading because traders tend to be stubborn. You believe you know better than everyone else. You believe the group selling to you are wrong and you are right.

You believe you are participating because there is clear profit potential. You also believe that you have more or better information than anyone else. However, it's not until your money is on the line that you find out if you are correct.

The lesson here is no matter how much you think you know and how strong your convictions are, there is always potential for loss. That has to form the basis for every decision about how much to commit to an investment.

There is always a temptation to buy the whole position in one go. However, if you are correct in identifying a trend with years to run, there will be plenty of time to build a position, on an incremental risk-adjusted basis, so that you can acquire a successively larger position over time which is protected by stops at well-defined points along the way.

That is how investors turn small positions into large positions while also keeping their risk under control. Anything else is gambling.

Never bet it all on black

I know a lot of successful traders and the one thing they share is that after decades of trading, they are still doing it. That says a lot.

I was chatting with a client and friend recently. She was one of the first women to be a trader on Wall Street. She had the unique benefit of having just graduated from MIT

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in the late 1970s and being a natural Spanish speaker at just the same time that Latin American countries were starting to issue billions in US dollar-denominated debt.

She's been in this business for over 60 years and still consults for a small number of high-net-worth individuals. At 87 years old she was talking enthusiastically to me the other day about her latest investment idea.

What that tells us is that there are two kinds of traders and investors. The successful ones stick around and the failures disappear. The rewards from trading can be prolific but if risk is not managed, they can be catastrophic.

At its very essence, all investment is about reducing the risk of catastrophic loss. In other words, it is about reducing the risk of the loss that will take years to recover from. That means the most important thing to master is not what to invest in but how much to invest in any given position so wipeouts can be avoided.

I strongly recommend never investing more than about 5% of your portfolio in any one position. There will be times when a position has been doing so particularly well that its weighting will have outgrown the initial position size relative to everything else. In fact, that is what we hope for.

However, what we then need to do is think about what will be required to sell the position.

Don't fall in love with your positions

There is nothing quite like the feeling of having a winning position but that comes with its own stresses. You never really know when the right time to sell is because without clear evidence, which will inevitably involve profit erosion, there is no way of knowing when the exact peak has been reached.

With a winning position, we know our decision to buy was right. Whatever rationale or gumption we had has proven correct. When it becomes time to sell, we need to admit to ourselves that what caused our initial decision to buy is now irrelevant. That's not an easy conclusion to draw.

It's even more difficult when we have been enjoying gains for a while and have even sat through some consolidations. Every time we tolerate a pullback, only for that decision to be vindicated by fresh highs, our confidence in the position and the satisfaction we receive from the performance of the trade grows.

That compounding of our confidence in the trend and the fidelity the share is sharing with us makes it progressively more difficult to sell. That is why it is essential to always have a clear idea of when to sell and what conditions, if they are fulfilled, would lead to a sale regardless of how rewarding the position has been and how much of the portfolio it represents.

Increasing positions sizing is fraught with risk

One of the easiest mistakes to make as a trader is to leverage up too quickly. I find it hard

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to wipe the smile off my face when I am making money but it is a mistake to get cocky and give in to the temptation to increase one's position size by multiples for the next trade. That will magnify the potential for loss in the event the position does not work out as planned and could very well erase the profits you have built up.

Personally, I think it is a very good discipline to take some money off the table after a particularly good period of trading. I like to treat myself and my family. I'll buy my kids a new console or sabre, my wife something nice or top up the pension.

I really believe it's important to have some tangible benefit from trading. Trading paid for my wedding and honeymoon. It has allowed me to pay cash for every car I've ever bought. When things are not going my way, reflecting on the benefits trading delivered for me has helped refocus my mind to become better at it.

By taking some money off the table you are banking your profits in a real way. As your assets grow, then increasing your bet size will be a logical step but my advice is not to rush that decision. The most important thing to always bear in mind is to think about the impact consecutive losers would have on your finances.

Don't discount luck

Having given you the cautionary note, anyone with even a modicum of humility will testify that all things being equal, sometimes you just need to be lucky enough to hit the market environment at just the right time that your method of trading is suited to.

There will undoubtedly be times when everything you touch turns to gold. That is the time when you can take more risk and have bigger positions. However, there are two things that you need to remember when that happens. It will end and you need to be very diligent with stops when you are increasing your position size.

Stanley Druckenmiller, one of the world's most famous traders, put it very succinctly (emphasis added):

> ***One of my most important jobs as a money manager was to understand whether I was hot or cold.*** *Life goes in streaks. And like a hitter in baseball, sometimes a money manager is seeing the ball, and sometimes they're not. And if you're managing money, you must know whether you're cold or hot.* ***And in my opinion, when you're cold, you should be trying for bunts.*** *You shouldn't be swinging for the fences. You've got to get back into a rhythm.*

You will know when you are hot and when you aren't. It only makes sense that if you are going to invest when the market environment is not conducive to your way of trading, that you keep positions small and be less aggressive.

On the other hand, when things don't go well, there is absolutely no point getting combative with the market. Many people try and tell the market what to do. There is always someone who says this event, or that, has to happen.

If you spend any time around prospective traders you might hear someone say, "That

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market owes me some money". Unfortunately, the market does not listen when we tell it what to do and it couldn't care less if we have lost money.

The harsh reality is the market is a mob. Sometimes, it moves in our favour and we can make a lot of money, but it is important to realise when the mob is no longer with us.

Personally, I believe the number one discipline we need to learn to be successful traders is to foster the humility to allow the market to unfold as it will. We know we can never know with confidence what will happen next. We know the mob does not listen. By embracing those conclusions, we are free to concentrate on what is important.

What makes us money in the market is blindingly simple. We wait for markets that have not been doing much to become active again. We participate for as long as the trend provides us with risk-adjusted profits. When it ends, we walk away with our winnings but in the full knowledge that nothing we could have done would have made the market rise even one more penny.

When our strategy is working and the market is moving in our favour we can have many trades open or larger positions but when it is not working, we cut back. Framed in those terms it all seems simple, but that gets back to the essence of trading. It is not intellectually difficult but it is certainly emotionally subtle.

All the best,

Eoin Treacy
Investment Director, Southbank Investment Research

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Lessons learnt as an investor

Sam Volkering

I remember my very first investment in a publicly listed company. It was the spawn a life long career of involvement in financial markets.

I was only about 11 years old when I placed my first trade. Now before you go and conclude I'm the Doogie Howser of stocks, that's not exactly the case. I placed my first trade with the help of my grandfather, or as my brother and I called him, pop.

My grandfather appreciated the nuances of long-term investing. He was a big advocate for owning a portfolio of stocks to hold long term that pay out dividends that you could reinvest and compound to grow over time. The end game, to have a nice little nest egg to use in life to achieve a level of financial freedom that the average person never really gets near.

Pop introduced me to buying stocks, and it seems like his passion for it may have just had a bit of an effect on my career path.

You see through school I seemed to have a natural affinity towards finance, economics and the markets. Maybe it was because of my pop's early introduction, maybe it was just one of those things that seems to connect with the arrangement of neurons, dendrites and axons in my brain better than everything else.

What it led to was university education again specialising in finance and economics, with a dabble in law on the side. And from there I found myself providing personal financial advice to low, medium and high-net-worth clients, kicking off my professional career.

The desire to focus on markets and ways to help everyday investors build financial freedom has never left me. As I progressed in financial services, I ended up incorporating and chairing the inaugural investment committee for one of Melbourne's fastest growing financial advice firms.

I completed the extensive and intensive Certified Financial Planner course, furthering my experience and understanding of finance, independent financial advice and the markets. And then ultimately decided to leave the financial planning world.

Why? Well, financial planning is a zero sum game. Even as an independent adviser, you always still feel constrained, conflicted and never really get to explore your ideas with the client base. You're always fighting with one hand tied behind your back.

And that's how I ended up at Southbank Investment Research – a place that is all about big ideas. We publish ideas, financial ideas, ways for investors to build generational wealth, strategies and techniques to help you be smarter and savvier when it comes to managing your investments.

We're about empowerment, giving you the tools and resources to be a better investors and to (hopefully) make a pile of money along the journey. We have the freedom to publish our ideas, no matter how crack-pot they might seem.

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The only caveat is that it must be actionable, there must be some rationale and reason behind it, and it must provide our subscriber base with the insight and guru-like vision that they simply don't get in the mainstream media.

Sign me up you say! Too right. And that's why we've been at the forefront of providing investors with opportunities in the biggest mega-trends of the last decade such as augmented reality, self-driving cars, cryptocurrency and the legalisation of cannabis well before the mainstream media even got a whiff of these mega-opportunities.

You might now be wondering why I'm giving you this spiel right now.

The reason is to demonstrate that I've been around a bit. I've seen markets develop and change over the last 25 years of my life and last 13 years of my professional life.

I've invested in booms and been crippled by busts. I've made and lost money in junior miners during the Australian resources boom. I've seen stocks double and triple in price and the literally end up in administration during the global financial crisis. I tapped out of stocks in 2008 that are still not worth as much as they were over a decade ago – and then blew the proceeds travelling the world for a year. I've witnessed and called the bottom of the market in March 2009 and seen the decade-long bull run that continues to play out today.

I've recommended several stocks to subscribers that have delivered 1,000%-plus gains and been one of the pioneers of professional cryptocurrency advice in both Australia and the UK. I even wrote a book in 2016 about my crypto experience dating back to 2010/11 and how everyday investors can benefit from this "crypto revolution".

I'm still young but I've just about seen all you'd want to see in markets. I know what success looks like; I know how to pick winners. But I've also seen the worst of markets, missed opportunities and sometimes pick stocks that lose value.

The key however is to always learn, adapt and become a better investor. That's what I do and that's why I want to share with you five of the most important lessons I've learnt over my personal and professional life that have made me a better investor.

Take these lessons on board and learn from my successes and failures to jump start your own investment journey. These are what I think makes a good investor great and opens you up to capitalise on the opportunities that exist out there for the smart, savvy investor.

Lesson #1: Knowledge is everything

I'd like to think this is something instilled in me from my pop all those years back. When looking at different stocks, it was always about understanding what they do, who's in charge, what is the potential for them long term.

We'd look at everything from the financials and company reports to media coverage and performance charts. Occasionally we'd even call up stocks experts on the radio and ask their view of particular stocks (remember I was 11).

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The point was to immerse the mind in as much information about the investment as you could. Even when it came to property later in life, I'd research the area, the market, lending rates, rental yields, occupancy rates, anything you could think of.

The more knowledge you have, the more calculated decision you can make about whether to pull the trigger and make a move, or an even more refined skill: know when to pass on something.

Buying an investment is one thing, knowing when to avoid one is something of a far greater skill to master. But you can't even hope to get close to that level unless you're armed with as much knowledge as you can get.

Lesson #2: Have a plan(s)

There's an old adage, "fail to plan, plan to fail." It rings very true in the world of investing. Great investment ideas can often fall to the wayside if you don't have a plan of attack and the right set of goals for what you set out to achieve.

And investment plan should be more than just "make money". How, where, why, and what if you don't are all questions to ask yourself. Maybe you're just starting out and you're trying to save for a house deposit, then you need a plan to get to that end goal. That might be a mix of investing in stocks, saving cash, even picking up extra work. All these things form an investment plan.

Or maybe you're a bit older and you want to build a trust for your young kids, so your time horizon changes and what you're prepared to invest in changes, what you invest in changes and the end goal for that is going to be different to your end goal of "building wealth for retirement".

The point is that you should have an overarching plan for wealth creation. You should know what strategies to employ to reach your goal. You should also have a number of sub-plans that tick off milestones and achieve success along the way for other goals.

You should also set out achievable wins, as simple as saving £x per week, getting easy wins gives you the confidence to reach for bigger goals like build a war chest of £100,000 within five years. And then stretch goals like have liquid, accessible funds of £1,000,000 at retirement age.

Chalk up the wins along the way, break down the big goal into little goals, and plan for it all. You'd be surprised what you can achieve when you've got the right plan, with the right strategy and importantly the right advice on how to help you get there.

Lesson #3: Understand risk/reward

The balance between risk and reward is crucial to whether you will achieve financial greatness or just financial ok-ness.

Understanding the trade-off here can mean potential gain beyond your wildest dreams and potential mediocracy like everyone else that just trundles along.

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But it also means potential catastrophic loss where others may never lose a penny.

Often in investing, the higher the risk, the greater the potential reward. Risk is a premium you pay for potential gain. And if that gain is potentially huge, that means more often than not the associated risk is astronomical as well.

But as you'd know, risk also means that there's a chance you could lose a portion of or even all of your investment.

This ability to understand, recognise and then accept varying levels of risk if crucial to build wealth dependent on your time frame and goals. It's a fine line and understanding what you're able to stomach with risk, and importantly what you're able to stomach, is going to make this journey much easier.

Risk, I believe, is also able to be managed when you're investing the appropriate amount of funds. You see if you're weighing up a high-risk, potentially high-reward investment, then you do not want to be "betting the house" so to speak. With high risk and ultra-high risk investments, I'm of the view that you should be investing money that you can afford to just see disappear – that means lose it all.

Of course you never enter an investment to lose all your money, but with ultra-high risk opportunities, it's a real possibility – like investing in bitcoin in the early days, or a microcap biotech that's only at clinical trial phase for an untested drug.

If you invest money you can afford to lose, then if you do lose it all, you're not going to fall into despair and poverty. Conversely, if these ultra-high risk opportunities do pay off, you've not had to forgo huge amounts of capital to seize the opportunity.

Managing your capital in this sense helps to mitigate risk. The fact is however, most people don't know how to manage risk and think they're comfortable with risk much more than they really are. It's only when you've actually lost everything in an investment do you truly understand how much of an appetite for risk you have.

Hopefully this lesson isn't one you need to experience first-hand, but you can learn from me. The sooner you can figure out your appetite for risk and how you manage your capital with this risk, the sooner you'll be able to seize – or stay away – from varying investments and their varying levels of risk.

Lesson #4: Back yourself... to a point

If you've done your research, you understand your plan and where opportunities fit into it, you've got a good grasp of your risk appetite and you're ready to make a move, then back yourself.

It's one thing to get all the ducks in a row, it's another to actually make the move and buy that stock or invest in that crypto or plunge into that property deal.

Right at the point of action, doubt always creeps in. After all, you're parting with your hard-earned money for something that may or may not deliver future wealth to you.

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Doubt and second-guessing are the enemy of the successful investor. When you start to doubt yourself, fear and uncertainty creeps in. And then your confidence falls.

Back yourself. Have conviction in your process, your plan, yourself. Sometimes you should also listen to your gut feeling both good and bad. Something might on the face of it, on the fact involved look a little extra risky than normal, but your gut tells you to go for it, there's something there, an "x-factor" that isn't quantitative, but could be the golden ticket you're after.

So back yourself and run with it... to a point.

Backing yourself and your strategy and decisions are important, until you're wrong. And trust me, we're all wrong from time to time. And when you are wrong, or when you're in a losing position, you've got to know how to tap out with a loss to avoid catastrophic failure.

Selling out of a position, I believe, is harder than buying into one. And selling out of a gain is often harder than selling out of a loss.

Let's say you backed yourself and you're sitting on a big winner, maybe 1,000% or more. The feeling is to let it ride; it might go to 2,000%. But here's where your plan is important and also not getting too caught up in your success. Be smart, know when you're on a winner, learn how to take profits and when to take profits.

Backing yourself out of a position is just as important as backing yourself into a position. Sure, you might get it wrong and miss out on another bit of gain, you might also save yourself from an erosion of wealth should that position then fall.

We've seen plenty of big gains and then investors get caught up in not exiting when they should. Then eventually they tap out for far less than they had the potential to.

The lesson here is be confident and back yourself but know how to do it in and out of investments, each is equally as important as the other.

Lesson #5: Don't be a sheep

This lesson is something that's hard to learn because it's a part of the human condition to want to be part of a group, to belong to a tribe, to share with others similar experiences.

But investing that can lead you right smack bang into the middle of the bell curve, right into the guts of mediocrity. You don't want to always necessarily be doing what everyone else is. The average investor gets their information from the mainstream media and large investment research houses. They typically cover a very narrow array of investment opportunities. They look mainly at large cap stocks, indexes, exchange-traded funds (ETFs) and the kinds of things that appeal to the mass market.

But that's not where the real wealth, the life-changing opportunities, lie. If the best investment opportunities were all mainstream, then everyone would be bloody rich already. But they're not.

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In my experience the best ideas, the biggest wealth creation opportunities comes from the fringes of the bell curve. They're the ideas and opportunities that most people don't know about, aren't prepared to think about and will almost never invest in.

The smart money however, always looks for these fringe ideas. Sure they can often be high risk, but that's because they also carry high potential. And that's where your understanding of risk becomes so important.

Its early investors into mega-trends like cryptocurrency, artificial intelligence, automation, legalisation of cannabis, neo-banking, the sharing economy that create mega-wealth while the mainstream investor plods along. They only get into these opportunities that aren't mainstream because they know where to look for them and they have conviction to go against the tide, to take a contrarian approach to investing.

Applied in the right way investing against the tide like this can prove to be highly lucrative. But again it all comes together with the previous lessons of knowledge, a plan, understanding risk and backing yourself.

Apply these lessons take them on board, put them into practice and my view is that you'll be as prepared as you can be to make a success of your investment journey.

Regards,

Sam Volkering
Editor, Southbank Investment Research

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Lessons learnt as an investor

Rob Marstrand

The year 1993 was when I first got into the world of finance and investment, fresh out of university. Loads of my friends went off travelling after their studies, but not me. I wanted to work.

After plenty of interviews, topped off with the Finance Director, I joined Britain's leading investment bank at the time, S.G. Warburg Group, as a graduate trainee. Over time, through a series of acquisitions and mergers, I found myself working at a vast global outfit called UBS Group. It was, and still is, the largest bank in Switzerland, the world's largest manager of private wealth and a huge investment bank.

To be honest, I'd never particularly set out to work in finance. I grew up in the Sussex countryside surrounded by my dad's small business. He rented out machinery to farmers and did contract work on farms. The field in front of the house was always full of various vehicles and machines. Mum fielded phone calls and took messages from farmers.

The agricultural sector is hard work, but it gets you out in the open. That seemed more appealing than dwelling in some cavernous corporate office block. I enjoyed helping to service and fix machines during school holidays, even though my dad paid me a scrupulously fair but paltry amount (agricultural minimum wage). I'd have been happy doing that kind of work and maybe taking on the business one day.

But the farming became pretty depressed, and more and more farmers were giving up, or sold off land for housing developments. This thinned out the customer base that could be reached from home base, and in the end the business became a slog. I needed to think of something else to do.

Despite that, I'm still grateful for the experience it gave me. It taught me the value of hard work, not least due to my dad's example. He was always working and insisted on scrupulous attention to detail from anyone that worked for him. I got no special treatment in that regard.

That attention to detail has stayed with me and is really important when it comes to investing. Any investment story can be hyped up to sound great at first. It's very easy for investors to get carried away. In fact, even seasoned professionals can still fall prey to that urge. But it's only if you dig into the detail that you'll unearth the potential flaws and risks.

As the end of university approached, I had to start thinking seriously about what to do next. There was a brief flirtation with going into law, given that it's basically a meal ticket for life. But my strongest academic suits had always been in maths and science. I hadn't done an engineering degree, so had to rule that out. Finance is heavy on maths, so I thought I'd give that a go.

It turned out to be one of the best decisions I've ever made. My early years were spent in the bank's in-house accounting department. It was a bit dull but provided a fantastic grounding in understanding how businesses are put together. Investment banks are phenomenally complex and looking at the books gave me a lot of insight into how they're

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structured and run.

Before I knew it I was sitting in an office next to the investment bank division's CFO and directly opposite the CEO. The job had transformed into business planning and analysing the competition. This is when I first started poring over thick company reports, trying to find clues about what the other investment banks were doing better or worse than my employer.

Shortly after that, I moved into the strategy team for the whole bank, which expanded my horizons into other divisions such as private wealth management, institutional asset management and lending banks. Strategy teams do a lot of secret stuff, since they're working on big picture strategic plans, advising on which businesses to invest in (and sometimes close down), and analysing potential companies to buy.

That work puts you in regular contact with senior company insiders, including at the executive board level. They want something done, they call you in, send you away to work it out, and you update them along the way, with recommendations at the end. The best part is that nothing is out of bounds. Each new project could be on any part of the vast business empire, so I was constantly learning about new aspects of the business or the world.

This background is unusual compared to a lot of people that work in the investment world. But it gave me some distinct advantages.

Firstly, I got to know a huge amount about how businesses function. No large company can exist without lots of different departments fulfilling their roles. Often, it's the stuff that's behind the scenes, that you don't see, that's what holds it all together.

Secondly, I worked closely with finance professionals across very different disciplines. From aggressive currency traders in London to egotistical corporate financiers in New York to slick Swiss private bankers that advise billionaires.

Thirdly, I had a tough audience. All our strategies, financial analyses and valuations were scrutinised by the people right at the top of one of the world's biggest and most successful investment services behemoths. Trust me, that's not an easy crowd. They will spot woolly thinking or poor analysis.

It's more than a decade since I decided to leave that world. The hours were long and future career progression seemed to involve getting paid well but for boring work. Plus the tedious office politics got worse and worse as you climbed the greasy pole of promotion.

But all the financial and business knowledge I gained has been invaluable. That's both when it comes to managing my own investments and also providing ideas and recommendations to other people like you.

Over the years, I've spoken with hundreds, perhaps even thousands of financial professionals. I've also studied many investment theories and market history, read dry academic papers on finance, and buried my nose in financial textbooks.

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This has led me to an important basic conclusion. Private investors can be highly successful by sticking to relatively simple investment plans.

Put another way, ploughing through all those past conversations, meetings, books, papers, classes and so on has helped me to cut through to what I believe really matters. At the end of the day, a lot of investment theory and practice is simply not relevant for private investors, like you and me.

If you want to get ahead as an investor, there are only a handful of things you need to focus on. What follows are the most important lessons I've learnt along the way.

Lesson #1: Be patient and calm

This sounds simple, but it's probably one of the hardest things for most investors. The truth is that investing isn't a get-rich-quick scheme. But, done correctly, it can be a get-rich-slow scheme. That requires patience.

Of course, individual investments can shoot to the moon. But the reality is that these are the exception rather than the rule. Instead, investors with a well thought out plan should expect to steadily accumulate profits over many years or decades.

It's also true that market prices can swing around a lot. From time to time, markets crash. When stock markets drop suddenly, pretty much all shares get dragged down at once. That's even if the medium- to long-term prospects of the underlying businesses haven't really changed.

At times that like, investors need to remain calm. There's no point panicking and selling at the bottom of the market, unless something really fundamental has changed. In time, prices will recover. In fact, sharp market drops are usually the best time to increase investments, buying them while they're "on sale".

Remember: you're in it for the long term. You should be patient and calm.

Lesson #2: Be diversified

This one may sound blindingly obvious to you. The old adage that says "don't put all your eggs into one basket". That's lest the handle breaks and the eggs get smashed. But it never ceases to amaze me how many people don't diversify their investments sufficiently or, just as bad, do diversify but in a haphazard way.

Spreading your investment risk is essential. No one has a crystal ball, and literally any single investment can go bad. Even the most successful professional investors in the world don't get it right every time.

The name of the game should be to spread your investments across a selection of very different things. Using the egg basket analogy, a better way to phrase it would be "put your eggs into many baskets, but make sure each basket is a good one".

When it comes to shares, this means spreading investments between different types of

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companies of different sizes (small, medium and large caps), with businesses that operate in a range of different countries, some with higher growth (for future capital gains) and some with higher dividend income.

There's a side issue here that's worth mentioning. If an individual investment does rocket in price, while the rest of your portfolio just does okay, you can end up with a very large individual investment in terms of its portfolio percentage.

Such a situation increases your risk of taking a substantial loss if that same investment plummets for some reason in future. It's okay to let strong performers get to a larger size than you'd usually be comfortable with. Just don't let them go too far.

A simple solution, if you still think the star performer has further to run but the position is now too big, is to sell part of it. Bring it down to a level which restores your diversification and keeps risk under control. Don't ever be tempted to have too much riding on one thing, however much you may fancy its prospects.

Lesson #3: Be selective

Diversification may be essential if you want to avoid catastrophic loss in future. But be careful not to fall into the trap of diversifying just for the sake of it, or over-egging the pudding.

For example, traditionally it was considered prudent to have a large part of any diversified portfolio invested in high quality bonds, such as UK government gilts. This was, and often still is, standard advice for people approaching or in retirement. The theory being that bonds are lower risk and will cushion the blow to equity investments if the stock market crashes.

But bond yields are ultra-low these days, which means the best possible outcome for long-term bond investors is almost certain to be poor. In fact, when yields are ultra low, bond investors become more exposed to sharp future price falls, for example if inflation rates tick up. In this environment, I believe investing in bonds is an example of bad diversification.

Another common error is to invest across many actively managed equity funds. Active fund managers are supposed to use their skill to pick the most attractive shares. In return, investors pay higher fees than for funds that just track a stock market index, such as the FTSE 250.

The problem is that most active managers don't really fit that description anymore. They'll often shove hundreds of different shares into their funds and end up with something that's actually quite close to the index. So the investors get to pay higher fees for not much in the way of added value.

What's more, if an investor owns several of such funds, they can end up with many hundreds, perhaps thousands of underlying shares. This is unnecessary over-diversification.

It's far better in my view to have 20 to 25 carefully selected individual shares, and pay

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no fees to any fund manager. By carefully selected I mean each with a strong investment case, and heavily diversified overall (by business type, size of company, geography of operations, growth vs income etc.).

Lesson #4: Be sceptical and questioning

Obviously enough, be sceptical of big claims. But also be sceptical of your own convictions.

I constantly question myself about my investments. I want to test each investment case and try to prove myself wrong.

Most of the time, if the original analysis and thought process was sound, nothing much will change. Sometimes, I may even convince myself to invest more. But occasionally I'll realise something important has changed, or new information has come to light. That's time to move on to new ideas.

Put another way, no one should ever be complacent about their investments.

Lesson #5: Be cost conscious

People get very excited about the prospects for profit from investments. By comparison, the cost side is seen as dowdy and dull. But it's still really important.

Investing can never be cost free. Even buying a house involves paying stamp duty land tax and legal fees. Plus there are ongoing costs such as property maintenance and council tax.

Financial investments are the same. There are costs to buy or sell, taxes to pay and ongoing account fees. An earlier section of this report looked at the dealing costs, and also some of the ways to shield investment profits from taxation.

When it comes to investment costs, there are two main ways to reduce them. First, you can shop around for lowest charges for the level of service you want. Second, you can behave in a way that reduces your costs over time. The simplest way to do that is to trade relatively little.

Buying and selling with high frequency will really eat into your results. Even if a broker offers ultra-low trading commissions, remember that you have to pay 0.5% in stamp duty every time you buy UK shares.

Consider this example. Let's say John has an investment strategy that makes 10% a year, net of taxes and after paying total investment costs of 1.5% a year. After 30 years, with profit compounding (profits on reinvested profits), each £1,000 invested would grow into £17,449.

Jane follows a similar strategy but has found a way to reduce investment costs to 1% a year. This saves 0.5% and increases her average net profit to 10.5% a year. After 30 years, again with profit compounding, each £1,000 invested would grow to £19,993.

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Put another way, Jane ends up with 14.5% more than John. It's only a small enhancement in a single year, and it's slow to build up at first, but there's a meaningful difference at the end.

For someone investing for their retirement, this sort of thing makes a big difference. In the example, it's a bit like being offered the same job by two companies, but one of them offering 14.5% more salary. Which would you prefer?

I know which I would pick. So, as well as all the other lessons I've learnt, paying attention to costs is also worth your time.

Those are the main lessons I've learnt:

- Be patient and calm
- Be diversified
- Be selective
- Be sceptical and questioning
- Be cost conscious

If you stick to those guidelines, I'm confident you've got a far better chance to be profitable. After all, that's the whole point of investing in the first place.

Rob Marstrand
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