This is how.

From Saver to Investor: This is How

A Beginner's Guide to Investing

Investing is rarely about money alone – it is about the freedom that financial security brings.

The information in this guide is not personal advice but is to help you make decisions about whether investing might have a part to play in your plans.

It sets out an overview of investing basics, ideas on how to get started and insights into how to align your investments with your goals.

If you don't think that taking a hands-on approach to your finances is right for you, do consider speaking with an independent financial advisor, as they can provide recommendations as well as manage your investments on your behalf.

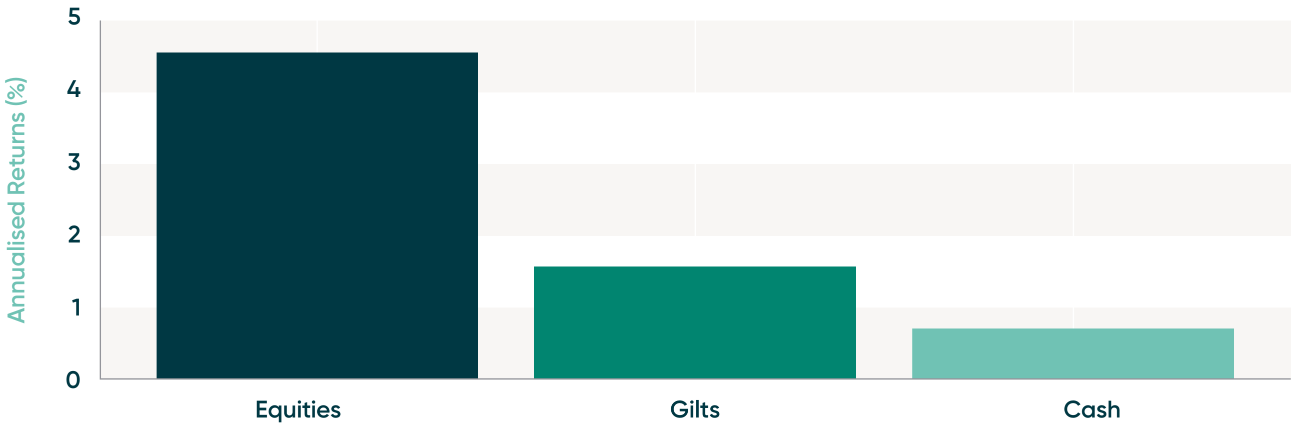
But if you want to know more about how your money could work harder and be tax smarter – this is how.

Why do people invest?

Some 39% of UK adults[1] now invest and it's the potential for growth that motivates them to get started and keep going.

If we take a 30-year view, UK equities significantly outperformed gilts (UK government bonds) and cash. Stocks and shares delivered an average real return of **4.55%** a year, compared with **1.56%** for gilts and just **0.69%** for cash.

Growth Potential by Asset Class: A Long-Term View (1994–2024)

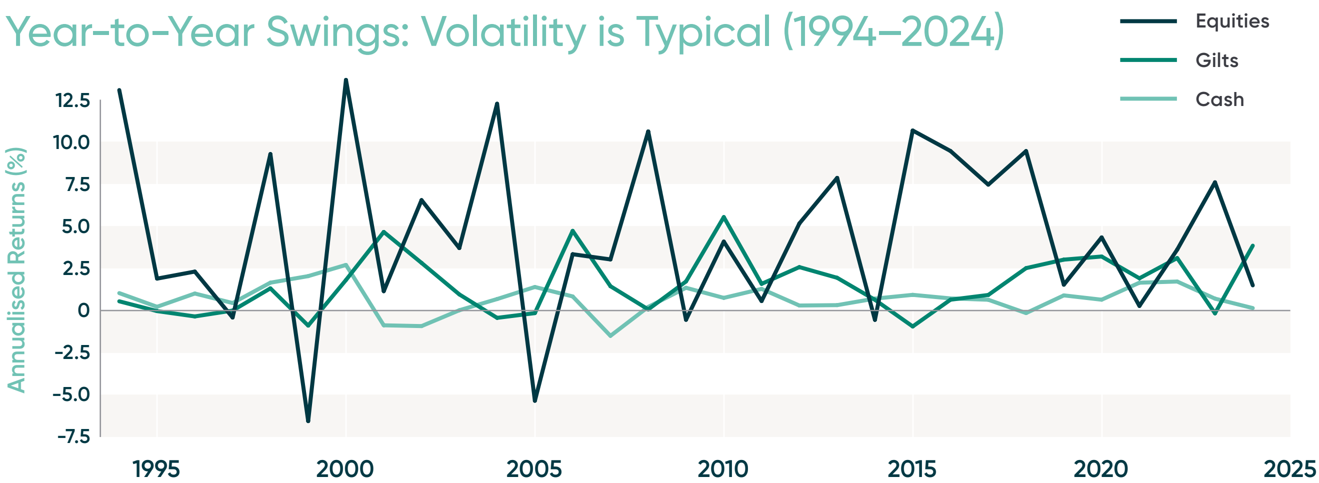


Real (inflation-adjusted) annual returns for UK equities, gilts, and cash, 1994–2024. Source: Barclays Equity Gilt Study, Bank of England. Simulated annual returns for illustrative purposes.

While past performance is not a guarantee of future performance, long-term trends help explain why so many people choose to invest.

But growth doesn't come without risk - and equity values don't move in a straight line. They can rise and fall sharply, especially during periods of global uncertainty.

Year-to-Year Swings: Volatility is Typical (1994–2024)



Real (inflation-adjusted) annual returns for UK equities, gilts, and cash, 1994–2024. Source: Barclays Equity Gilt Study, Bank of England. Simulated annual returns for illustrative purposes.

[1]The Investment Association Annual Survey – October 2024

Cash vs Investing

Although historically stocks and shares have outperformed returns from cash, it is important to say that investing offers no guarantee of returns.

Balancing the potential for reward with an understanding that the value of stocks and shares fall as well as rise, is essential.

Markets are volatile as there are many factors that impact the share price of companies. It is why it is wise to have access to savings. Relying entirely on the value of a portfolio in the short-term is high risk.

Cash savings ensure you can cover any unexpected expenses. It is also wise to clear any debts, such as credit card bills, as they can be costly to service. With money for a rainy day set aside, here are 10 steps that can help you make confident choices about your money.

1 Understand Why You Want to Invest

The principle

Your financial goals will help shape your investment strategy. For example, you might want to:

- **Build wealth for long-term goals like retirement**
- **Save for major life events, like buying a home**
- **Generate a tax-free income**

Each goal will mean different timeframes, investing strategies and you may even benefit from different investment accounts.

How to find out more

Work out your target

It can be difficult to work out what your target figure is but there are a lot of free resources available to help. For example, independent research from The Retirement Living Standards[2] details the amount of expenditure required to achieve a Minimum, Moderate and Comfortable living standard.

For first-time buyers, Money Helper[3] offers impartial advice, including recommendations on what deposit to aim for.

Think tax-smart

There are tax-efficient 'wrappers' that you can open to make sure any gains stay free from tax.

A Stocks and Shares Individual Savings Account allows you to invest and keep any gains and dividend payments free from tax. This could be a good way to maximise tax-free income in retirement.

And if you are under 40 and aiming to become a first-time buyer, you may want to consider a Lifetime ISA. As well as acting as a tax-free wrapper, it offers a 25% bonus on what you pay in, worth up to £1,000 a year.

The extent and value of ISAs and Lifetime ISAs tax advantages and the government bonus may change. ISA accounts do have restrictions, money in a LISA for example is only accessible, in general, when you buy your first home or at age 60. It is worth weighing up what different ISAs offer.

No matter your goal however, all investing should be thought of as a long-term prospect, (typically at least five years), to help ride out market fluctuations.

Whatever your target, do consider how to make the most of your individual tax-free allowance, which currently enables you to invest up to £20,000 each year.

[2] www.retirementlivingstandards.org.uk
[3] www.moneyhelper.org.uk/en/homes/buying-a-home/first-time-buyer-money-tips

2 Start with an Investment Plan

The principle

Create a basic investment plan to keep yourself on track. Consider these elements:

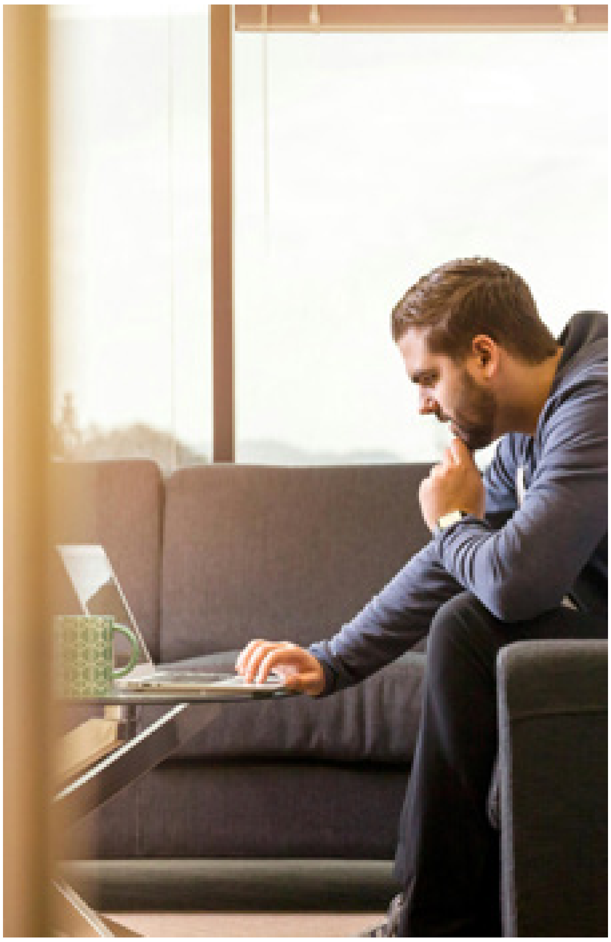
- **Risk Tolerance:** How much risk are you comfortable with?
- **Time Horizon:** The longer you plan to invest, the more volatility you can tolerate. For short-term goals (within 3–5 years), you'll want safer, less volatile investments.
- **Investment Amount:** Decide how much money you can start with. You don't need a large sum to begin and investing regularly helps you build your portfolio over time.

How to find out more

Crunch the numbers

Free to use Investment Calculators[4] let you enter the sum you can invest, over what time frame, and at what rate of return, which can be a good guide for what is achievable.

When it comes to projecting future value, an annual return of 5% is considered a 'medium' rate of return but again there are no guarantees, and actual returns could be higher or lower.



Appetite for Risk

Risk is part of investing but you can align your risk tolerance with investment products. For example, Mutual Funds have investment strategies, and you can choose one based on your risk tolerance, such as Adventurous, Balanced and Cautious[5].

These Funds detail their approach and you can view how they performed over the last 10 years.

[4]eqi.co.uk/info/get-started/investment-calculator
[5]eqi.co.uk/info/funds/get-started

3 Learn the Basic Types of Investments

The principle

Different types of investments - or asset classes - carry different levels of risk return potential. Understanding the basics helps you match your investments to your goals and risk tolerance and gives you the confidence to ask the right questions when evaluating strategies or funds.

How to find out more

Here's a quick overview of some of the most common types of investments:

- **Stocks & Shares (Equities):** Stocks and Shares are often used interchangeably, with 'stock' often describing ownership in multiple companies (think the stock market) with 'shares' meaning owning units in a specific company (think 'I hold shares in Lloyds Bank'). Shares offer good growth potential but they are volatile as they rely on the fortunes of one company.

  Equities is a more formal professional term which is useful to know as investment managers will use it to explain their strategies, for example, a Cautious Fund may hold 20%- 40% equities compared to an Adventurous Fund which may hold 60% - 80% equities.
- **Bonds:** Bonds are loans given to a company or government. They offer more stability than stocks but generally have lower returns.
- **Mutual Funds:** These pool money from many investors to buy a diversified portfolio of stocks, bonds, or other securities. Investors favour them as they offer an instant basket of investments, rather than relying on shares from one company.
- **Exchange-Traded Funds (ETFs):** ETFs are similar to Mutual Funds but trade like stocks on exchanges. They are typically lower cost and like Funds, they provide investors with instant diversification.
- **Investment Trusts:** Public limited companies (PLCs) which aim to produce returns by investing in other income-producing companies. Managed by a board and fund managers, they often specialise in a particular sector, country or asset class.
- **Commodities:** These include physical goods like gold, oil or agricultural products such as wheat. Commodities can protect against inflation but are highly volatile..
- **Cryptocurrency:** A new digital asset class like Bitcoin or Ethereum. Cryptos are highly speculative and unstable, making them a high-risk investment.

You'll find more in-depth[6] guides to Funds, ETFs and Investment Trusts on EQi's website.

[6] eqi.co.uk/info/funds/explained

4 Diversify Your Investments

The principle

Diversification means spreading your money across different types of investments – not just putting it all in one company.

A mix of stocks, bonds, funds and other assets helps balance your portfolio, so if some dip, others can help smooth out performance.

How to find out more

Rather than selecting individual companies to back, many investors choose to buy into Funds, ETFs or Trusts as this gives them an instantly diversified portfolio.

- **Diversified Portfolio Example:**
- **60% Equities**
- **30% Bonds**
- **10% Alternative Investments (e.g. commodities)**

This type of portfolio aims to weather market downturns since different assets perform differently at various times.

When it comes to deciding which Fund or Trust to buy into for example, it is good to know that there is free expert insight you can access.

Kepler Partners is one example. It creates a list of rated trusts, based on up-to-date research and analysis. Its ratings[7] focus on consistent and long-term performance, and it highlights the trusts it considers to be 'best in class'.

[7]eqi.co.uk/info/investment-trusts/picks

5 Avoid Emotional Investing

The principle

Reacting to short-term market swings with panic selling or buying can damage your returns.

It is tempting to buy brands that are familiar but that does not mean they will provide solid gains for investors. Similarly, as markets or the price of a particular company falls, the impulse to act can be difficult to resist.

How to find out more

Behavioural psychologist Paul Davies has written on how we act as individuals, how groups trade and how we can implement strategies for better trading.

His series on 'Trading fast and thinking slow'[8] sets out how to identify and avoid falling back on emotional decision making.

[8] eqi.co.uk/info/articles/investing-strategies/trading-fast-and-thinking-slow-thinking-outside-the-herd-to-give-you-the-edge

6 Pound-Cost Averaging

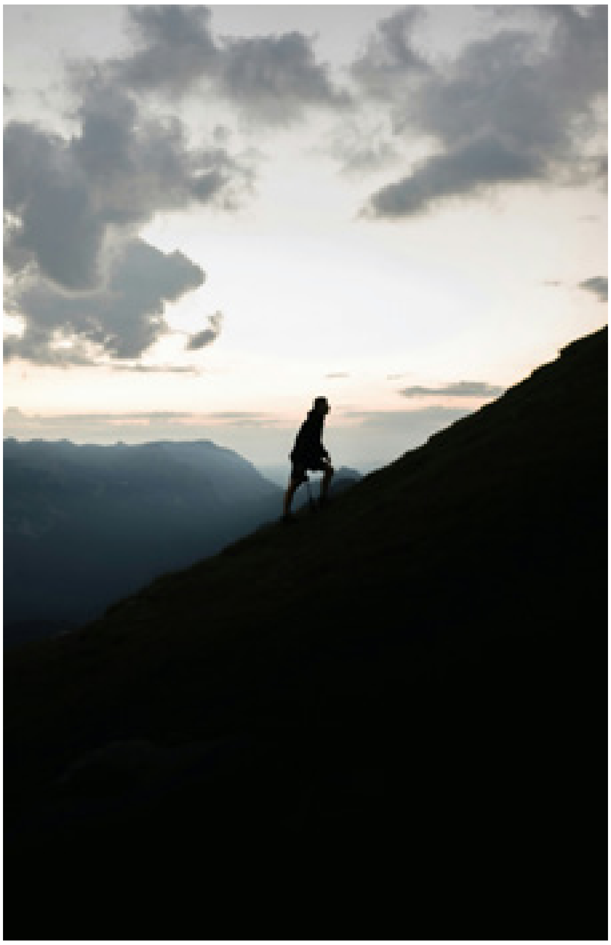
The principle

Pound-cost averaging is an investment strategy where you regularly invest a fixed amount of money regardless of market conditions. This helps reduce the impact of market volatility and keeps you disciplined about contributing.

For example, you might invest £200 each month in an ETF. When prices are high, you buy fewer shares; when prices are low, you buy more. Over time, this smooths out the impact of market fluctuations.

How to find out more

DIY Investor Magazine[9] provides free information to experienced investors and education to those new to savings and investment, including insight into volatility and the role of pound-cost averaging[10].



[9] www.diyinvestor.net/category/diy-investor-magazine/

[10] eqi.co.uk/info/articles/diy-magazine/investing-basics-a-simple-guide-to-volatility#:~:text=When%20prices%20go%20up%20the,is%20no%20guarantee%20of%20success

7 Understand Fees and Expenses

The principle

Every investment comes with costs, so be mindful of them.
The most common types of fees include:

- **Expense Ratios:** These apply to mutual funds and ETFs and represent the percentage of your investment that goes to management fees.
- **Trading Fees:** Brokerages can charge fees when you buy or sell investments.
- **Advisory Fees:** Robo-advisors and financial planners charge fees for managing your portfolio.

Look for low-cost investments to maximize your returns over time. For example, index funds and ETFs tend to have lower expense ratios compared to actively managed funds.

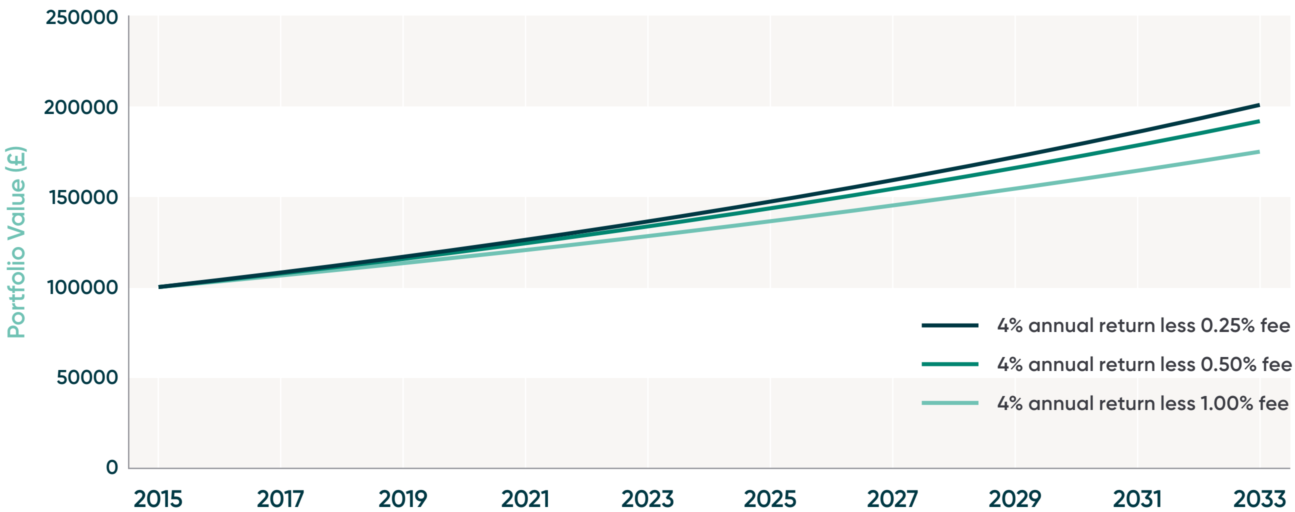
How to find out more

Fees may seem small but over time they can have a major impact on your portfolio and so understanding the fees you pay is important.

The following chart shows an investment portfolio with a 4% annual return over 20 years when the investment either has an ongoing fee of 0.25%, 0.50% or 1%.

Portfolio Value from Investing £100,000 Over 20 Years

A difference of nearly £30,000 – just from fees



Do take time to review fees. Index tracking funds can cost as little as 0.2 per cent for example, and, as a rule of thumb, fees above 0.75% can negatively impact a portfolio, particularly if that investment is underperforming.

8 Avoid Common Mistakes

The principle

There are common traps investors can sometimes fall into that can impact long-term performance:

- **Trying to Time the Market:** It's impossible to predict market highs and lows. Stick to a long-term strategy and be wary of trying to guess if stocks will rise or fall in the short-term.
- **Chasing Trends:** Watch out for investment hype based on the latest news, trends or what 'everyone else' seems to be doing. Invest in things you understand and align with your goals.
- **Not Rebalancing:** Over time, your portfolio might become too weighted in one area (like stocks). Rebalance periodically to maintain your desired asset allocation. For example, if you are approaching retirement, you may want to consider Funds or investments that are more cautious and less focussed on achieving high growth.

How to find out more

It may sound counterintuitive but research has shown that the most active traders earn less per year than buy-and-hold investors, who averaged just 2% portfolio turnover in a year.[11]

DIY Investor Magazine reviews how to create and sustain a balanced portfolio[12] over time, and how to avoid many common investing missteps.

[11] Brad M. Barber and Terrance Odean: *Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors*

[12] www.diyinvestor.net/diy-building-a-balanced-portfolio/

9 Compound Interest

The principle

Compound interest is a powerful concept in investing because it allows your investment returns to generate earnings on both the initial principal and the accumulated interest over time. Here is an example:

Compound Growth Example (10% Annual Interest)

Year	Start Value	Annual Investment	Interest @10%	End Value
1	£100	–	£10	£110
2	£110	£100	£21	£231
3	£231	£100	£33	£364
4	£364	£100	£46	£510
5	£510	£100	£61	£671
6	£671	£100	£77	£848
7	£848	£100	£95	£1,043
8	£1,043	£100	£114	£1,257
9	£1,257	£100	£136	£1,493
10	£1,493	£100	£149	£1,742

Key Assumptions

- Interest is calculated annually at 10%.
- Annual investments of £100 are made at the start of each year from Year 2 onward.
- All figures are rounded to the nearest pound for clarity.

How to find out more

There are several features on the impact of compound interest[13] as well as the role it plays in generating wealth[14].

Compound growth also plays a role in investments that pay dividends, such as dividend-paying companies or mutual funds.

Reinvested dividends are used to purchase more shares, which may in turn generate additional dividends, helping your investment grow over time.

[13] eqi.co.uk/info/articles/diy-magazine/investing-basics-compound-interest #:~:text=Compound%20interest%20is%20the%20multiplier,the%20greater%20the%20end%20result

[14] www.diyinvestor.net/investing-basics-the-power-of-compound-interest-and-why-starting-early-is-crucial/

10 Keep Learning

The principle

The world of investing doesn't stand still. New trends emerge, economic conditions shift and markets innovate. That's why building your investing knowledge is an ongoing process.

Whether it's understanding new investment types or deepening your grasp of risk and diversification, ongoing learning can help you feel more confident about the decisions you make.

How to find out more

There is a wealth of information online as more and more people are taking control of their long-term financial plans.

There are also trusted, independent websites that provide impartial insights but as with everything in life, do watch out for any offer that sounds too good to be true, for example, the financial watchdog the Financial Conduct Authority cautions that cryptocurrency scams[15] are widespread.

Ultimately, no one will care about your money as much as you do.

Investing is not a get rich quick scheme but by starting small, remaining disciplined and focusing on the long term, you can start your investing journey with confidence.

[15] www.fca.org.uk/consumers/crypto-investment-scams

eqi.co.uk