



# Investing:

The Definitive  
Guide To All  
Your Options

# Welcome To The Principles Of Investment

The following chapters in this e-guide aim to provide a basic understanding of investing and the options available. It is important for you to know that the value of investments can fall as well as rise and investors may not get back what they have invested.





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Part One

# Investing: Where Do I Start?

Successful investing is about simple principles and careful planning; not gambling. In this guide, we will help you understand the basics of investing and arm you with introductory knowledge to ensure you are able to take advantage of your international status.

## Why Skybound?

Skybound's team work constantly to find ways to protect and grow your investments so that your tomorrow is everything you dreamed it would be.

**If you're thinking about investing for the first time, it may seem a rather daunting step. You might not be sure what the difference is between a share, a bond and a fund, let alone which one could be right for you. And the way that some people talk about the financial markets can make them sound more like a casino than a place where you would want to put your life savings.**

Yet for most of us, investing – as opposed to saving our cash in a bank – is a crucial part of our financial planning. It offers the chance of higher returns, giving us a better chance of building up wealth to fund our long-term goals.

There are certainly risks associated with investing, but those can be reduced if you invest in a certain way. Learning how to do this is the key to making the best of the opportunities available.

### **Preparing To Invest**

Begin by making sure that your finances are on a stable footing, starting with a review of your current financial position. This should include looking at your existing income along with any regular expenses or outgoings, and debts which you might have. It doesn't usually make sense to invest if you have high-interest debts such as credit cards to pay off. That's because the interest rate you're paying may be higher than the returns you're likely to earn from investing. In other words, you may be better off putting any spare cash towards paying off your debts.

There are certainly risks associated with investing, but those can be reduced if you invest in a certain way. ”

Investments are a long-term decision, so you should also make sure you keep a separate emergency savings pot to draw on if you need cash urgently. How much you need depends on your circumstances, but as a general rule you should have at least enough savings to cover three months' worth of regular expenses.

### **Educate Yourself Before Diving In**

The next step is to learn about the likely risks and returns of various types of investments. Doing this before investing any money in the markets is important, because many new investors begin with unrealistic expectations. This means that they may take on too much risk in chasing after high returns and end up losing money.

So you should begin by reading about the difference between major types of investments such as shares, bonds and property, and the kind of returns that they have delivered in the past and might be expected to deliver in the future.

Once you've got to grips with this, you can start thinking about what kind of investor you are and which investments might be most suitable for you. This means taking into account your financial and life circumstances (which will affect your ability to take risks) and your personality and attitudes (since this affects how willing you are to take risks).

You should aim to hold a range of investments that perform differently in different circumstances, since this will increase your chances of earning good returns whatever happens to the economy. This is known as diversification and it's one of the most important lessons to learn in investment.

## **Which Kinds Of Investments Might Be Most Suitable For You?**



**Shares**



**Bonds**



**Property**

## **If You're Not Sure, Ask Your Skybound Financial Advisor**

Once you understand the principles of investment, it's time to think about the practicalities. For example, look into tax efficient ways to invest, such as international life assurance policies.

Don't worry if this sounds like a lot to take in, Skybound's team of experts are always on hand to help talk you through the finer details.

They can explain in easy-to-understand terms how this relates to your individual situation, and help you create a diversified investment portfolio.

Investments are a long-term decision, so you should also make sure you keep a separate emergency savings pot to draw on if you need cash urgently. ”





## Part Two

# Understanding Bonds

Simply put, a bond (also known as a fixed income) is a loan to a government or corporation. When you invest in a bond, you are lending money to the organisation that issued it. In return for the investment, the issuer delivers an agreed level of income in the form of a rate of interest (the 'coupon').

At an agreed date, the government or corporation will return the face value (the original issue price) of the bond, known as the maturity value.

### Talk To An Expert

Whether a portfolio bond is the correct investment vehicle for you requires more than a quick Internet search. Speak to an international investment expert at Skybound to for a comprehensive review of your situation.



In many ways bonds and shares are constantly in competition for investors' money. When the stock market is falling, investors often turn to the bond market for more stable returns. Investing in the bond market can also be an easy way to add diversification, ultimately reducing the overall risk in a portfolio.

The illustration to the right demonstrates the lifecycle of a bond as if held from the day of issue.

Most bonds can be bought at any time in the secondary market, not just on the day they are issued. The market price of a bond may actually be more or less than its face value.

As a consequence, and despite receiving a regular income, the value you receive at maturity may be less than the capital amount invested.



Investment in a \$1,000 Government Bond with a 2.5% coupon and a three year maturity.

#### **YEAR 1**

Coupon payment of 2.5% of \$1,000 – \$25

#### **YEAR 2**

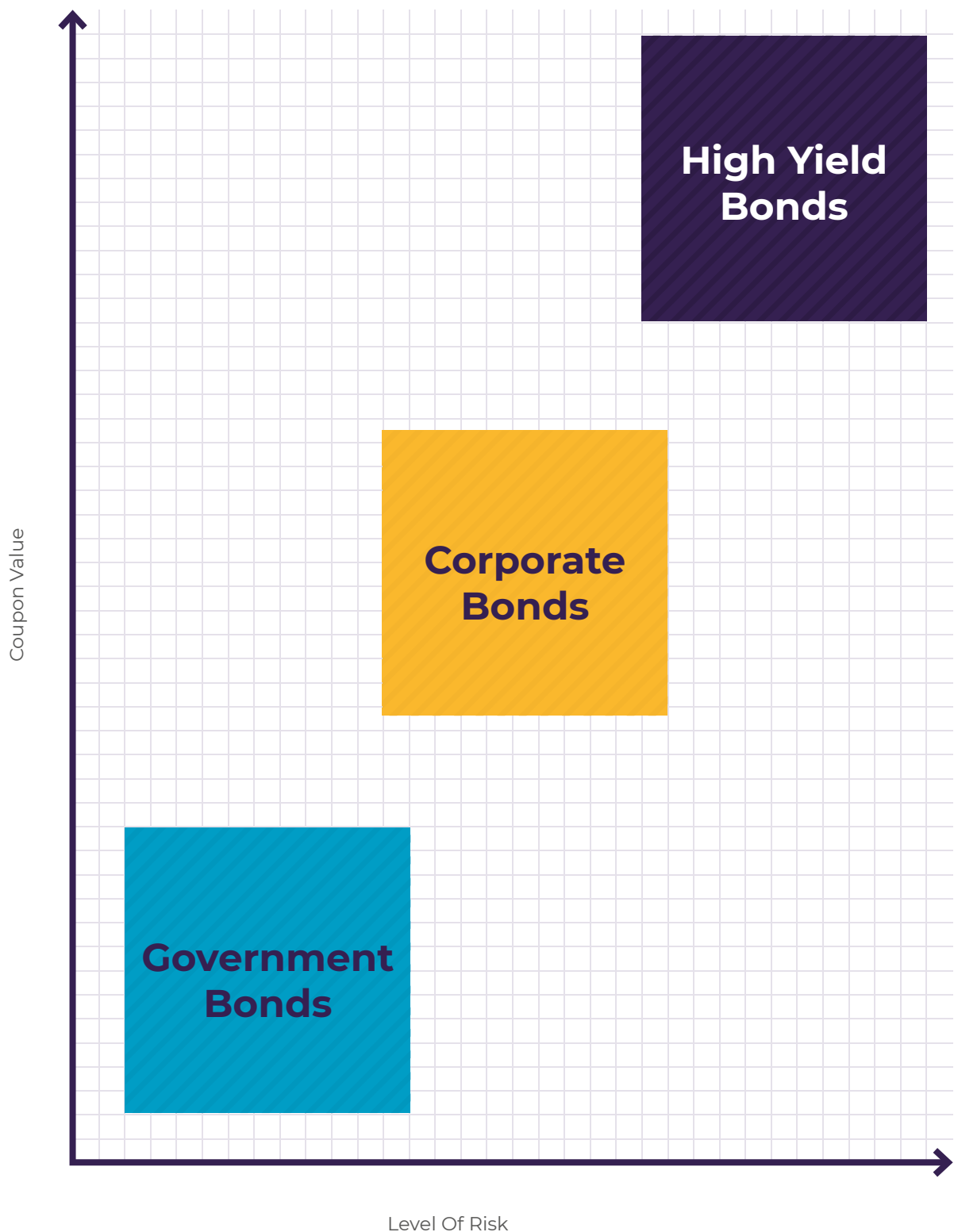
Coupon payment of 2.5% of \$1,000 – \$25

On the bond's **maturity** day, the year three coupon payment of \$25 (2.5% of \$1,000) and the maturity value (\$1,000) are paid out.

You pay a premium if you buy a bond above par (higher than its face value). You purchase it at a discount if you buy it below par. When a bond matures, you receive back the par value of the bond.

## What Are The Different Types Of Bonds?

There are several types of bonds, each offering different levels of return, with corresponding levels of risk:



## HIGH YIELD BONDS

Bonds with a credit rating of BB (Standard & Poor's)\* or Ba (Moody's)\* or below, (see 'what are the risks' on page 12 for a full explanation of bond ratings) are called High Yield Bonds or Junk Bonds and are considered to be at a higher risk of default (see page 14), but can potentially offer more growth. Such bonds are typically issued by start-up companies, companies that have had financial problems, or are in a particularly competitive or volatile market, and those featuring aggressive financial and business policies.

## CORPORATE BONDS

Corporate Bonds are debt obligations or IOUs issued by private and public corporations. Companies use the proceeds they raise from selling bonds for a variety of purposes, for example expanding the business.

## GOVERNMENT BONDS

The Government Bond market is the largest fixed-income market in the UK. The US Treasury Bond market is the largest in the world and is guaranteed by the US Government. In Germany, the Government Bonds are called Bundesrepublik Anleihe, or Bunds, and the French Government issues bonds known as Obligations Assimilables du Trésor (OATs). In the UK, Government Bonds are known as Gilts.

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\* For more information on these rating agencies, please visit their websites: [www.standardandpoors.com](http://www.standardandpoors.com) and [www.moody's.com](http://www.moody's.com)

# What Factors Affect The Price Of Bonds?

## Interest rates

Interest rates constantly change in response to supply and demand of credit, fiscal policy, exchange rates, economic conditions, market sentiment and changes in expectations about inflation. As these factors change, so do bond prices.

When interest rates rise, new bond issues come to the market with higher yields than older bonds, making the older ones with lower yields less attractive. Hence their price goes down.

## Yield

The yield is the rate of return on an investment and is expressed as a percentage. The yield is calculated by dividing the annual interest payment by the current market value. As the price of a bond declines, its yield rises.

### For example:

Let's look at a bond issued with a 4% coupon. If you were to buy \$1,000 worth at launch, you would receive \$40 in the first year ( $\$40/\$1,000 = 4\%$ ). But if the market value of the bond drops to \$800, the yield rises to 5%. Why? Because the coupon – \$40 – is now 5% of the \$800 market value of the bond ( $\$40/\$800$ ). If the market value rises to \$1,200, the yield will fall to 3.33%.

See calculations below:

Bond Value	Return On Investment	Yield
\$800	\$40 ( $\$40/\$800$ )	5%
\$1,000	\$40 ( $\$40/\$1,000$ )	4%
\$1,200	\$40 ( $\$40/\$1,200$ )	3.33%





### **Face value**

This is the value of a bond when it was first issued; the amount printed on the 'face' or front of the bond certificate. It represents the amount owed to the investor at maturity. On any day before maturity the bond's actual market value may be higher or lower than its face value. When a bond's market price fluctuates it has an impact on its yield. If the price drops below the bond's face value, its yield goes up. If the price rises above face value, the yield goes down.

### **Inflation**

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of a currency falls.

The interest rate paid to bondholders is typically fixed at a rate determined on issue. Consequently, if inflation rises, the 'income' received from the bond actually becomes worth less in real terms, as goods and services become more expensive.

Inflation is one of the most influential forces on interest rates. Rising inflation often leads to rising interest rates, which would effectively cause a reduction in bond prices. Conversely, deflation would result in a lowering of interest rates, which would increase the price of bonds.

Bonds still have some element of risk in addition to interest rates and inflation expectations. ”

## What Are The Risks?

Whilst bonds have a reputation for being conservative investments, they still have some element of risk in addition to interest rates and inflation expectations.

Credit risk is the potential for loss resulting from a decrease in the financial health of the issuing company. Most corporate bonds are evaluated for credit quality by companies who provide financial market intelligence, such as Standard & Poor's and Moody's Investors Service. Bonds rated BBB or higher by Standard & Poor's and Baa or higher by Moody's are widely considered 'investment grade'.

'Non-investment grade' or High Yield or Junk Bonds, those rated BB or lower by Standard & Poor's or Ba or lower by Moody's, are deemed to carry a higher 'default risk'.

Default risk is the risk of non-payment of the bond's coupon or failure to repay the bond's face value at maturity. This scenario would usually be as a result of the issuing company getting into financial difficulties or becoming insolvent.

Returns on corporate bonds are generally higher than on government bonds. This is because there is a risk of companies becoming insolvent and being unable to repay the bonds or meet coupon payments, whereas governments are less likely to default on their interest payments. In short, corporate bonds pay a higher coupon to reflect the higher risk of these investments, compared with government bonds.

Inflation risk, interest-rate risk and credit risk all play a part in the pricing of bonds – the greater the risk, the higher the yield. It's also true that investors demand higher yields for longer maturities. The reason for this is that the longer the investment term, the longer you're locked into a fixed rate of interest. If bond yields rise during that period you may lose out, as you could potentially have been getting a higher yield elsewhere. The higher yields of longer-maturity bonds compensate investors for the risk of being locked in for a long time.

Inflation risk, interest-rate risk and credit risk all play a part in the pricing of bonds – the greater the risk, the higher the yield. ”

## Key Benefits



Capital growth



Fixed 'income' stream



Diversification

## AND FINALLY...

The complexities of yields and credit ratings can easily detract from the key benefits associated with bonds, such as capital growth and a fixed 'income' stream. Bond returns are not highly 'correlated' with those of shares. In other words, if share prices fall, bonds will not always follow suit and will often rise. For this reason, when combined with other asset classes, they can be a useful diversification tool (read about diversification in chapter 4).

Where the running yield (an estimate of the income return) of a bond fund is greater than the redemption yield (the total return if all the bonds in a fund were held to maturity) it may signify an erosion of capital. Yields are not guaranteed and may rise and fall.

This chapter sets out the basic characteristics of bonds. It is not designed to be investment advice and should not be interpreted as such. Other factors may need to be taken into account before making an investment decision. Whilst bonds have a reputation for being conservative investments, there are elements of risk that an investor should be aware of in addition to interest rates and inflation expectations.

Note that a bond should not be confused with a 'portfolio bond' or 'collective investment bond'. These are structures (or 'wrappers') with a life assurance element, in which multiple savings and investment solutions can be held.

## Part Three

# Understanding Shares

By buying a share in a company you are, for better or worse, tying the fate of your investment to the performance of that company. You are buying a part of that company and its future profits, or if the company doesn't perform well, a share of its losses.

**Speak to your Skybound financial advisor...**

...who will be able to offer further advice about investing into shares and whether they are a suitable investment for your needs.



## What Are Shares?

By buying a share in a company you are, for better or worse, tying the fate of your investment to the performance of that company. You are buying a part of that company and its future profits, or if the company doesn't perform well, a share of its losses. You may receive a share of the company's profit in the form of a dividend payment – you can also benefit from a future rise in the company's share price. However, the value of investments in shares (also referred to as 'equities') can go down as well as up.

Investing in shares may be more suited to someone willing to accept medium or higher risk, as they are generally regarded as riskier than some other investment vehicles such as government or corporate bonds.

Historically, the best returns for long-term investors have been from shares, although past performance should not be assumed to be a guide to future performance.

Stock markets can be divided into two separate categories – primary and secondary. Both are equally important to companies wishing to raise capital.

### The primary market

This consists of shares in two types of companies.

- Those issuing shares for the first time (an Initial Public Offering or IPO).
- Those who are already public and are looking to raise new funds by offering new shares.

### The secondary market

Existing company shares are traded on a daily basis. Movements in their prices indicate the relative performance of the companies over time. Most investment in shares is in the secondary market.

Investing in shares may be more suited to someone willing to accept medium or higher risk, as they are generally regarded as riskier than some other investment vehicles.

”

## The Share Price

Share prices in the secondary market reflect the supply and demand for the individual share.

- If more investors wish to purchase than to sell a particular share, the share price rises.
- If more investors wish to sell than to purchase a particular share, the share price falls.

Many factors will influence the value investors place on a share in the short term. The dominant factors affecting the demand for shares can be broadly categorised as follows:

### Macro factors

- Political events
- Legislative changes
- Unexpected events (terrorism/natural disasters)
- Interest rate movements
- Inflation forecasts

### Micro factors

- Company's profit forecasts/warnings
- Company's dividend history/policy
- Merger and acquisition activity
- Changes in management
- Activity in competition
- Valuation of shares

As well as these 'rational' factors, more emotional factors may affect a share price. For example, the development of a 'herd mentality' with investors buying a share because of a perception that others are doing the same.

## THE GOLDEN INVESTMENT RULES

Investing in shares involves risk taking. There are a number of golden investment rules to help reduce an investor's overall exposure to risk:

### Spread the risk

Between different companies and different sectors – diversification is key!

### Keep up-to-date

There are a number of sources available online for checking share prices; you can see the price changes to the minute as well as the high and low prices over defined periods.

### Stay calm

The stock market often reacts in an exaggerated manner and can move sharply from day-to-day. Generally, the aim is to 'buy low and sell high'. Sounds easy, but it can be much more difficult in reality.

### Reduce the losses

Should you face the scenario where a share is not performing as hoped, you may wish to consider cutting your losses. It is important to consider pre-determining when to sell shares – the lowest price where you feel you cannot afford to lose more. This strategy should also be used to determine the highest price at which shares will be sold – it's important not to be too greedy as stock markets can be volatile, meaning positive returns can quickly disappear.

## Share Classification

Shares are classified in accordance with the nature of the issuing company. Typically shares are classified in the following way:

### Sector

Sectors relate to the key operations of the company, i.e. the product it sells or the service it provides, for example, formation technology, financials and healthcare.

### Size

Defined as small, medium and large capitalisation. For example, a 'large cap' would be a large multi-national company such as Microsoft.

### The characteristics of the company

Shares can be categorised in accordance with the current and future earnings or dividend characteristics of the company:

- Growth shares are shares in companies that have experienced sustained growth in sales and earnings, with a consensus that this is likely to continue.
- Income shares are shares in companies which, unlike growth shares, have dividend policies which favour paying out a large proportion of the profits to shareholders.
- Value shares are shares in companies which are attractively valued relative to the shares in other companies in their sector. This means the investor believes the share price is below what the actual asset is worth, even if that asset does not seem attractive at that point in time.

### How they fit with the economic cycle

Shares in cyclical sectors usually rise when the economy is growing and fall when the economy is slowing down, for example building, general retailers, and leisure sectors.

Shares in non-cyclical sectors attract a constant level of demand which means they can obtain a more constant value in a recession, for example pharmaceuticals, utilities, and food retailers.

## AND FINALLY...

The stock market may have the potential to deliver higher returns than other investments, such as savings in a bank or bonds. However, there is significantly more risk involved, with more knowledge required to make the right decisions.

Which shares you select depends on your attitude towards risk. Nobody can predict the stock market and therefore it is wise to choose a diversified portfolio of shares in different companies across different sectors.

A convenient way to gain exposure to stocks and shares whilst diversifying risk, is to invest in a fund holding a collection of shares.

This brochure has been designed to give a basic understanding of investing in shares. It is not designed as investment advice. The value of shares may fall as well as rise. Past performance is not a guide to the future.

Generally, the aim is to 'buy low and sell high'. Sounds easy, but it can be much more difficult in reality. ”

Part Four

# Understanding Diversification

This chapter highlights the importance of spreading the risks associated with investing and how they can be reduced by creating a balanced investment portfolio.

## Why Skybound?

Our team of experts make sure you're invested across all major markets and industries to ensure your portfolio will always be well-diversified.



## **Reduce The Risk: Diversify**

Risk is a necessary and constant feature of investing – share prices fall, economic conditions fluctuate and companies can occasionally become insolvent. Indeed, the very returns that these assets can generate are typically there to compensate investors for the risk they take.

There are many different asset classes available to invest in, each possessing different risk characteristics. The risks for each asset class cannot be avoided, but when they form part of a diversified portfolio and are managed collectively, risks can be diluted.

You can spread your investment across a wide range of asset classes and sectors, and help reduce the risk that the portfolio will be overly reliant upon the performance of one single asset.

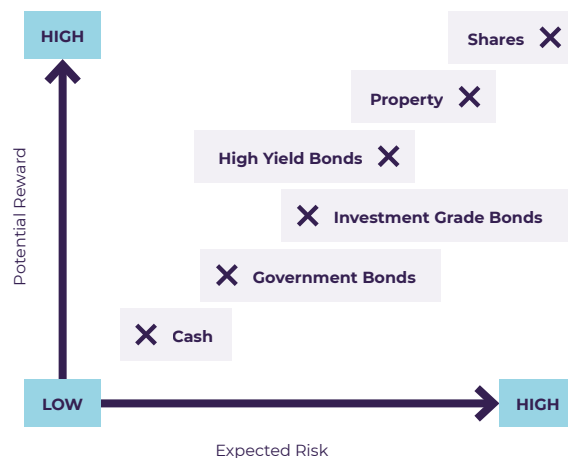


## Asset Allocation

One of the best ways to spread risk is to invest across several different asset classes. The principal choice is between shares, bonds, cash, and perhaps other 'alternative investments' such as property.

The different 'risk/reward' characteristics of each asset type are illustrated in this graph.

The aim is to select asset classes that behave in different ways, the theory being that when one asset class is underperforming, the other is outperforming. For example, bonds often behave differently to shares by offering lower but more consistent returns. This helps provide a 'safety net' by reducing many of the risks associated with reliance upon one particular asset.



## Sector Exposure

Depending on what they sell, produce, or what services they provide, companies can be classified by 'sector'. For example, Wal-Mart resides in the 'Retail' sector and BP in the 'Oil and Gas' sector.

Just as it is important to spread an investment across different companies, it can also be wise to select companies from different sectors.

For many reasons, companies within different sectors can perform very differently in different market conditions. By diversifying across sectors, an investor can access companies with good growth expectations, without necessarily overexposing their whole portfolio to undue risk.

For example, technology shares are generally seen as having higher growth expectations, but are also known to be volatile and react to market conditions. Some stability can be achieved by holding companies across sectors associated with lower growth expectations, or those sectors which are less sensitive to changes in market sentiment such as utilities or consumer staples.

Picking the right balance of these depends upon your own risk profile. ”

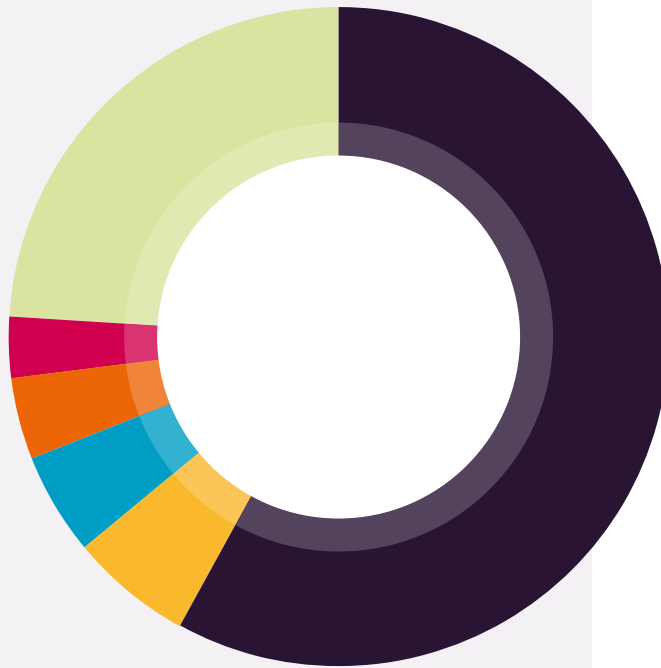
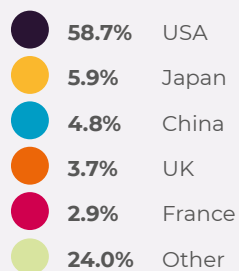
## MAKE SURE YOU HAVE A GLOBAL VIEW

### Geographical Location

You might feel better investing most of your portfolio in a particular market – but is it the most sensible option?

The US has been by far the strongest performing of the world's major stock markets for some time. The US is also by far the largest stock market in the world, making up nearly 60% of the total global stock market. By comparison, the next largest – Japan – makes up less than 6%.

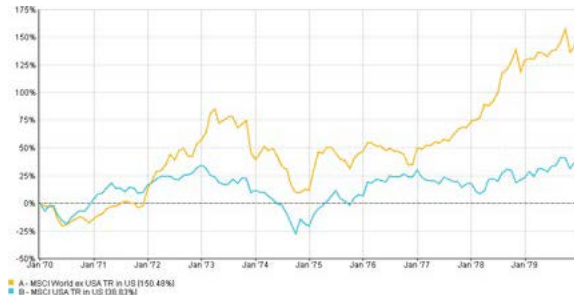
#### Breakdown Of The Global Stock Market



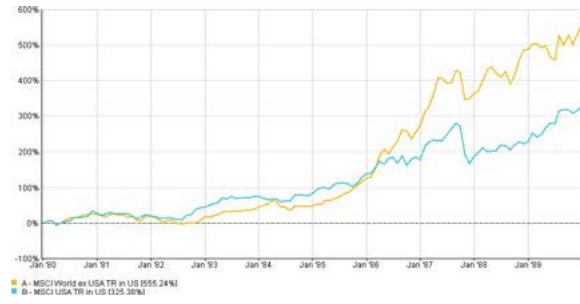
### ...the US stock market performed better than the rest of the world in just two of the past five decades...

Although the US currently makes up over half of the global stock market, only invest there and you'll miss out on over 40% of the world's opportunities. That's a big amount to shun. Not only that, in previous decades the combined performance of the rest of the world's stock markets has actually done better than the US more often than not. In fact, the US stock market performed better than the rest of the world in just two of the past five decades.

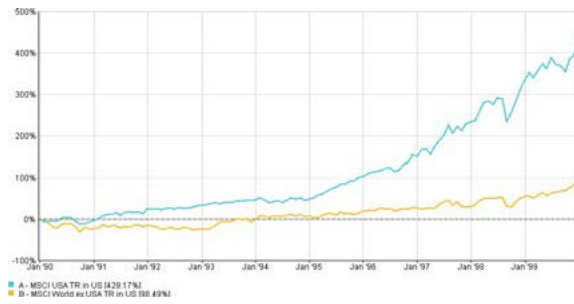
## 1970s



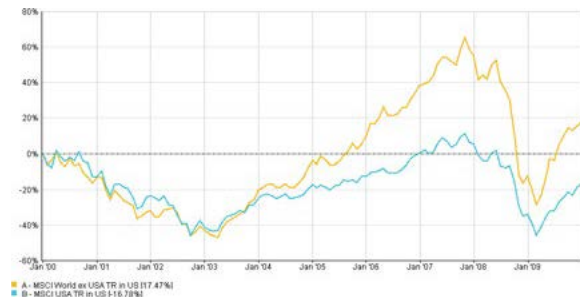
## 1980s



## 1990s



## 2000s




## 2010s



Past performance is not a guide to the future.

Source: FE Analytics





...the US  
stock market  
performed  
better than  
the rest of the  
world in just  
two of the past  
five decades...

## Share-Specific Risk

The well-documented insolvency in 2008 of Lehman Brothers, one of the US's biggest investment banks, illustrated the danger associated with investing in seemingly safe, large, multi-national organisations.

Whilst the impact would have been catastrophic to an individual with their life savings in the company, an investor holding their shares as part of a well-diversified portfolio would have seen the effect considerably diluted.

By investing in as little as 20 different companies covering multiple sectors, the majority of share-specific risk can be reduced.

Also, to ensure your portfolio is well diversified it can be also wise to ensure that different shares represent a stake in companies of different sizes, this way you can spread the risk associated with, for example, smaller companies.

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## Investment Style

Diversification highlights the importance of ensuring that an overall portfolio has exposure to varying types of investment styles. Some shares are held because investors believe their value is likely to grow significantly over the long term. These are known as 'growth shares'. Others are held because they are regarded as being cheaper than the inherent worth of the companies in which they represent a stake. These are known as 'value shares'. Please refer to chapter 3 - Understanding shares - for more information about shares.

It is important to have a blend of styles to ensure that the portfolio as a whole is not overly vulnerable to the risk/return characteristics of each individual share type.

To ensure your portfolio is well diversified it can be also wise to ensure that different shares represent a stake in companies of different sizes.



## AND FINALLY...

The key benefit of diversification is the reduction of an investment portfolio's overall risk. This is achieved by reducing the reliance upon one particular asset class, share, sector or geographical region, to generate returns.

The premise of diversification is a simple one; whilst one asset in an investment portfolio may be declining in price, another unrelated asset may be gaining; maintaining the balance required for a healthy portfolio.

In practice, it is difficult to create the perfect balance of assets, sectors, investment types and markets to suit a specific investment objective and risk profile. However, the innate diversification qualities of collective investment schemes, combined with the 'know-how' of a Skybound financial advisor, can present a sound, individually-tailored diversification solution.





Part Five

# Understanding Investment Funds

This chapter sets out a basic understanding of investment funds. Other factors may need to be taken into account before making an investment decision. Your Skybound financial advisor will be able to offer you advice on this.

**Speak to your Skybound financial advisor...**

...who will be able to offer further advice about investment funds and whether they are a suitable investment for your needs.



## What Are Investment Funds?

The majority of investors lack the time or experience to closely manage a portfolio of individual shares, bonds and/or other investment instruments. For such investors, a diversified portfolio of investment funds, together with the 'know-how' of a financial advisor, can present a sound, individually tailored solution.

Investment funds, under the management of a fund manager, pool together money from many investors to collectively invest in a selection of shares, bonds, cash or other financial instruments.

Each investment fund has an objective outlining what it aims to achieve for its investors. This allows you to choose funds that meet your investment objectives and that are appropriate to the level of risk you are prepared to take. The objectives can be found on the fund factsheet, key information document, or prospectus.

It is the fund manager's job to create a portfolio that blends different types of shares, bonds or other financial instruments to achieve the objectives of the fund.

As with all investments of this nature, the most important thing to remember is that investment funds should be viewed as a long-term investment, meaning at least five years but preferably longer.

A portfolio of investment funds, together with the 'know-how' of a Skybound financial advisor, can present a sound, individually-tailored solution. ”



# TYPES OF INVESTMENT FUNDS

## Equity funds

These are funds investing in a portfolio of shares of different companies, and potentially across different industries.

Depending on the investment strategy of the fund, some funds may only invest in large companies and some only in medium-to-small companies. There are also funds that will only invest in particular sectors, such as health or telecommunications – offering a diversified investment into a particular industry or theme.



**Investing in a portfolio of shares of different companies/ across different industries**

## Bond funds

In general terms, bond funds invest in a portfolio of fixed-interest securities, for example, government bonds or corporate bonds (bonds issued by companies). The bonds held in the fund will typically generate an income (or coupon). The fund is able to distribute some, or all, of the income received.

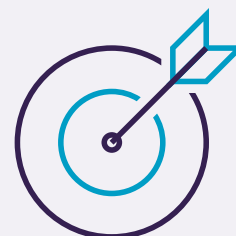
Funds that invest in government bonds are generally considered to be less risky than funds investing in corporate bonds. However, rates of return, whether in terms of capital growth or income paid, are not guaranteed and can still go down as well as up.



**Bond funds invest in a portfolio of fixed-interest securities**

## Specialist funds

Specialist funds invest in a specific sector, country or region. No matter what you are interested in investing in, there is likely to be a fund that invests in it. Examples include: healthcare, technology, USA, emerging markets, property, or natural resources.



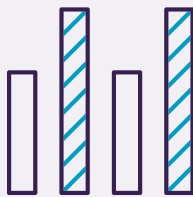
**No matter what you are interested in investing in, there is likely to be a fund that invests in it**



**Global funds offer a convenient solution to achieve a geographically diverse portfolio**

### **Global funds**

A truly diverse portfolio should take advantage of global diversification opportunities. Global funds offer a convenient solution to achieve a geographically diverse portfolio. If you do not have any specific preferences of countries or regions to invest in, global funds are the easiest way of gaining exposure to global companies or markets.



**Balanced funds have the advantage of investing in a mixture of assets including both shares and bonds**

### **Balanced funds**

Balanced funds have the advantage of investing in a mixture of assets, including both shares and bonds. It would be common for a balanced fund to have the majority of the portfolio invested in a mixture of these assets, with the remainder held in other classes such as property or cash. However, this varies depending on the objectives of the fund.

It is important to be aware of the asset allocation between shares, bonds, and other assets, in order to fully understand the risks and potential rewards inherent within a particular fund.



**Developing countries have the potential for very high economic growth**

### **Emerging markets funds**

An emerging market fund invests in shares or bonds issued by companies or governments in developing countries. Developing countries have the potential for very high economic growth. Examples include Brazil, Russia, India, and China. This high growth potential may be due to a number of factors, such as political and structural changes in the country, for example: privatisation, liberalisation of trade, or providing better access to capital. The main risks, on the other hand, are political instability, volatile economic conditions, and generally less structured markets and regulatory regime. The financial markets in such countries can therefore fluctuate dramatically.

## Risk And Return

As with all investments, there is a degree of risk. Of course, investment funds can go down as well as up in value. It is important that you are comfortable with an investment fund's risk profile and susceptibility for short term volatility.

Additionally, you may want to consider 'currency risk' – a risk associated with funds investing in foreign assets. While currency impacts tend to be dwarfed by stock and bond market performance over the long term, foreign exchange movements can hamper bonds' ability to reduce portfolio volatility over the short-to-medium-term. One way to overcome this is to invest in currency-hedged funds.

Performance figures are available from the fund manager, or alternatively are often made available in the financial press or more widely on the internet. The figures will typically show cumulative investment performance over a range of different time periods.

The performance or return from a fund is often compared against a benchmark index or sector average performance. A benchmark index is a target against which investment performance can be measured. The benchmark index will be based on the values of a group of securities or other assets, such as property. It is used to determine the relative rate of increase/decrease. Sector averages denote the average performance of all funds within that particular sector.

The ranking of a fund within a particular sector is an indication of how well a fund is performing in comparison to funds with similar investment objectives. However, you should note that past performance is not a guide to the future.

Investing in funds is generally considered to be a long-term investment, and it is therefore more important to look for funds and fund managers that consistently outperform the sector average over a sustained period of time. Remember, a fund may outperform its sector but if the sector average is negative, the actual return on the fund could also be negative.

## Charges

Funds charge investors a fee based on a percentage of the amount invested, which is deducted from the fund price. Fees have been decreasing for many years and now average around 0.9% for actively-managed funds and 0.15% for index-tracker funds or ETFs.


The charges figure will be shown as a Total Expense Ratio (TER) or Ongoing Charges Figure (OCF), which both include the fund's Annual Management Charge (AMC) and any other ongoing running costs. The OCF also includes any performance-related fees and one-off charges while the TER does not, so the OCF gives the most complete picture.

## AND FINALLY...

There is no doubting that investment funds offer the potential for growth and a convenient way to diversify risk. However, with such a wide choice available, all with varying performance, objectives and risk profiles, it is important to choose wisely.

To become adept at analysing investment funds and various fund manager strategies, you must have a broad understanding of how investment works.



A photograph of two women in an office environment. The woman on the left, with dark hair, is smiling and looking towards the right. The woman on the right, with curly hair, is also smiling and looking down at a laptop screen. She is wearing a light blue button-down shirt, a silver watch, and two silver bangles. A purple text box is overlaid on the upper left portion of the image.

The innate diversification qualities of investment funds, combined with the ‘know-how’ of a Skybound financial advisor, can present a sound, individually-tailored investment solution. ”

Part Six

# Building An Investment Portfolio

To the novice investor, the world of investments can seem a daunting place. Consulting a Skybound financial advisor prior to making any investment decisions is always a wise move.

Even with advice, it is important to have a broad understanding of how investment decisions are made before creating an investment portfolio. There are many factors that contribute to how an investment portfolio is constructed. This chapter will help you understand the significance of these factors.

## Speak to Skybound...

Our experts can help you construct a portfolio that meets your specific requirements.





## Things To Consider

Each investor is different. You might have already retired and need to ensure that your investments are secure. On the other hand, you might be prepared to accept a higher exposure to risk in return for potentially larger returns.

Here are some key considerations:

### Age And Investment Duration

Age may dictate investment duration. For example, a young professional investing in a pension may be more likely to take higher levels of risk, due to the length of time available to recoup any short-term losses. Alternatively, an older couple may be far more cautious with any savings, as they will be keen to preserve capital to support their retirement.

### Investment Objective

You may be looking for the value of your investment to increase in value over time, perhaps to purchase a second home or finance a child's education. Or you could be looking for investments to provide an income for retirement. An investment objective needs to be determined before deciding the asset allocation of a portfolio.

### Existing Financial Commitments

It is important that a portfolio reflects any significant financial commitments, such as a mortgage to repay or a family to support. If you are reliant upon your investments to meet these commitments then a high-risk approach is unlikely to be entirely appropriate.

### Attitude To Losses

Clearly defining how much of a loss you are prepared to accept as a percentage of your portfolio is vital. A Skybound financial advisor will ascertain your risk profile by assessing your reaction to short-term losses upon being given a hypothetical investment scenario.

If a loss of less than 5% is acceptable, you are likely to be a risk-averse investor. But if you are prepared in the short term to lose more (for example 20-25%) in exchange for a higher chance of gaining additional profit, you might be considered a higher-risk investor.



It is important to have a broad understanding of how investment decisions are made before creating an investment portfolio. ”





## Defining A Risk Profile

There are various tools available that help financial advisors to assess a client's risk appetite. Filling in a 'risk questionnaire' with your advisor is one way of discussing the considerations mentioned on the previous page and will enable an advisor to consider which risk profile best suits you.

### A Low-Risk Profile

This means the investor places greater importance on preserving the capital value of their investment over increasing its value.

The low-risk investor may choose to invest in the lower end of the risk spectrum, with a long-term goal.

### A Medium-Risk Profile

If the investor can tolerate some fluctuations and volatility, but tends to stay away from investments that may dramatically or frequently change in value, they might be considered to accept medium levels of risk.

The medium-risk investor may have a long-term goal for the investment.

### A High-Risk Profile

If the investor is willing to accept a greater possibility of a decline in the value of their investment in return for potentially higher returns, they are more than likely to be considered a high-risk investor.

They will be prepared for the possibility of losing a large proportion or possibly all of the money invested.



## Get Going!

Once you are comfortable with all the major considerations you need to take into account when building a portfolio, and your Skybound financial advisor has helped you to identify which risk profile best suits you, it is time to decide where to invest.

Different asset classes have different risk/ return characteristics, as illustrated in the diagram on the next page.

A Skybound financial advisor will take into consideration all of the information gathered, including investment objectives and risk profile, to ascertain the most appropriate blend of asset classes.

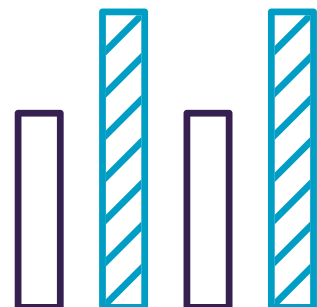
Generally speaking, risk averse or low-risk investors tend to construct portfolios with a bias for cash and bonds, and less exposure to shares. Despite a low potential for significant capital growth, a portfolio with this structure is likely to be far less volatile than one with a high weighting in shares.

Medium-risk portfolios are likely to have a more balanced weighting between bonds and shares.

A high-risk portfolio often has a greater proportion of shares, with less exposure to bonds. Whilst the value of the investment may rise significantly over the long term, the volatile nature of shares means that there is a risk of dramatic variations in value both up and down.

Medium-risk portfolios are likely to have a more balanced weighting between bonds and shares.

”



## Asset Allocation:

This is the process of dividing investments among different kinds of asset classes, such as shares and bonds, to optimise the balance of risk and reward, based on an individual's specific situation and goals.

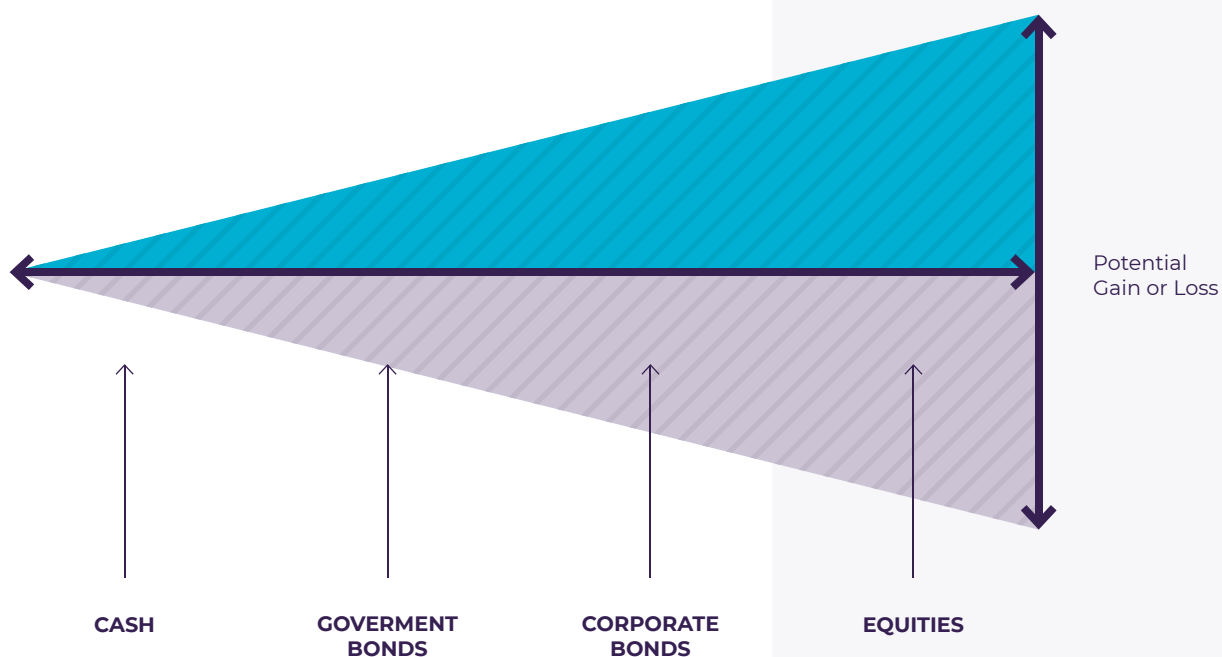
## Reviewing Your Investment Portfolio

Having built a portfolio, it is important that both you and your advisor continually review how it is performing.

One important rule of thumb is to never get emotionally tied to any specific investment – the progress of a portfolio should always be objectively re-analysed and rebalanced accordingly.

Lower Risk / Return

Higher Risk / Return



## AND FINALLY...

There is no doubting that it is possible to build a comprehensive portfolio of investments to suit the risk profile and goals of each individual investor.

However, building a truly diverse and successful portfolio is a complex process. Even with the 'know-how' of a Skybound financial advisor, it is useful to gain a general understanding of how portfolios can be tailored to suit specific needs and goals. Only then are you truly in control of your investments.

Building a truly diverse and successful portfolio is a complex process. Even with the 'know-how' of a Skybound financial advisor, it is useful to gain a general understanding of how portfolios can be tailored.

”



Part Seven

# An Introduction To Investment Risks



## How Skybound can help...

Our team use the very latest technology and research to assess your attitude to risk and then use this information to form investment recommendations.



## How Much Risk Can You Handle?

There are many different reasons for investing and no two people will have exactly the same objectives. For some it might be to pay off a mortgage, for others a way to build a retirement fund, or safeguard their longterm savings.

The level of risk that you, as an investor, may be willing to accept is an important consideration that needs to be established before making an investment. As well as your willingness (or not) to accept risk, you should also consider how much risk you need to take to reach your investment goals, and also how much risk you can handle without changing your life goals. The relationship between your investment objective, risk tolerance, and capacity for loss provides your overall attitude towards risk. This is often known as your risk profile. Your Skybound financial advisor can help you to ascertain your risk profile by means of a series of questions.

Typically, your risk profile will be identified by a number. The lower the number, the lower the amount of risk you are willing to accept. Investment risk falls into the following broad categories; low risk, medium risk and high risk.

Different kinds of investment carry different levels of risk:

### Cash

Cash or deposit accounts are often regarded as low risk, but they are not risk-free, as the crisis of the 2007 'credit-crunch' showed. Inflation too can reduce the purchasing power of cash savings if it exceeds the rate of interest earned. This means that the real value of cash based investments could decrease over time. There is also an 'opportunity risk' of not being invested into other types of investments that could potentially deliver better returns.

### Bonds

Many low-risk investors choose to invest in bonds or fixed-interest securities. When investing in a bond, an investor is essentially lending money to the issuer of a bond, usually a government or a company. In return for the loan, the issuer pays a rate of interest, usually at regular periods. The loan is usually repaid by the issuer at the maturity date. The benefit to the investor of this type of investment is that they expect to receive a regular income. However, there is a risk that the issuer may fail to return part or all of the original investment, or that the redemption value may be less than the original purchase cost if the bond is sold before maturity, or that the issuer is not able to continue paying the regular income.

Investing is not about gambling or speculation. It is about taking measured financial risks to achieve specific goals.



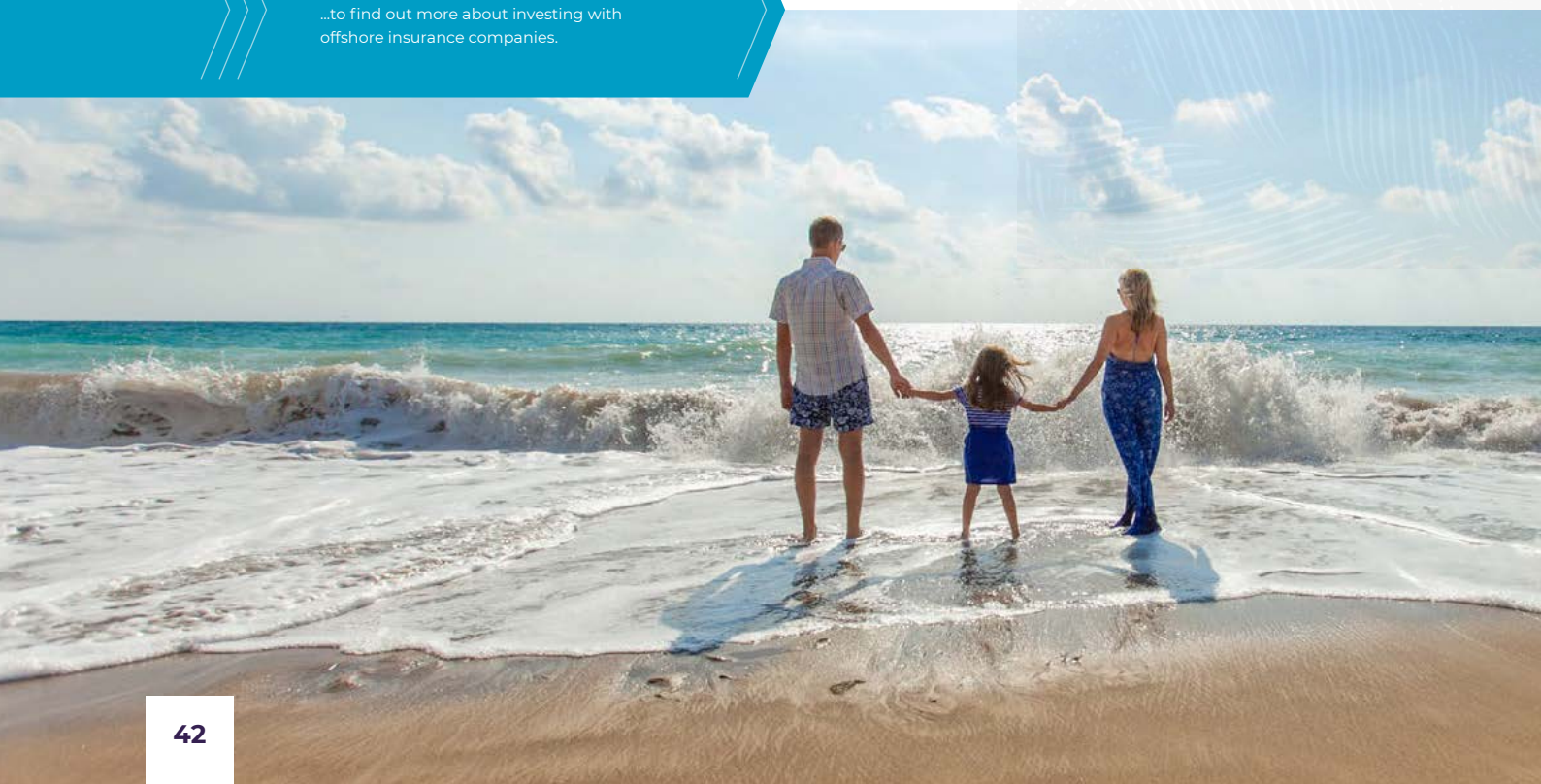
Part Eight

# Understanding Investment Opportunities

with offshore insurance  
companies

Speak to your Skybound financial advisor...

...to find out more about investing with  
offshore insurance companies.



## What Is An Offshore Insurance Company?

These are companies that are based outside of the country from which they accept business. Typically, these companies are based in an international financial centre, such as the Isle of Man, and are registered and regulated there.

The Isle of Man, Ireland and Luxembourg are some of the best known offshore centres for financial services companies. Other centres include Gibraltar, Guernsey and Jersey.

Today, these countries offer a well-regulated and reliable framework to help ensure investors' interests are protected. For example, the Isle of Man has regulations in place which protect investors with policies issued by Isle of Man authorised insurers. The regulations state that if an authorised insurer is not able to meet its liabilities, then policyholders, located anywhere in the world, are protected by a compensation scheme which offers policyholders up to 90% of the value of their policies back, less any outstanding charges, and with no upper monetary limit.

The nature of the relevant regulations differs between offshore locations and it is important to fully understand the details before investing.

## What Do These Companies Offer?

Offshore insurance companies offer investment through their ability to provide life assurance products that invest in one or more underlying assets. These assets can vary, from investment funds to stock and shares, depending on the product and company. Whilst an element of life assurance is likely, this protection element is sometimes of minor consideration compared with the main investment focus of the product. This arrangement is sometimes referred to as a life assurance 'wrapper' or 'bond'.

Offshore insurance companies typically offer a range of products, including single premium whole of life policies, often referred to as 'portfolio bonds'. These portfolio bonds can provide access to almost all investment funds in the market. Some portfolio bonds allow you to invest in stocks and shares, government and corporate bonds, and other investment instruments, with the convenience of all assets being held in one portfolio, and giving easy access to capital.

As well as portfolio bonds, insurance companies may also offer products that can receive regular investments or a combination of regular investments and one-off cash sums.



Offshore insurance companies offer investment through their ability to provide life assurance products that invest in one or more underlying assets. ”

# WHY INVEST OFFSHORE?

Insurance-based products offer the following advantages:

1

## Investment Freedom

Investments can be spread across a wide range of different funds and asset types. They therefore offer you the ability to hold many of the assets described in the other chapters.

2

## Convenience

The insurance company takes care of the effort involved in investing in a diversified investment portfolio and manages all paperwork involved in buying, holding and selling investments. It is also possible to switch investments as often as required, all within a single product.

3

## Consolidated Valuations

A single product value is provided, which consolidates the value of all the underlying holdings. These regular valuations for the wrapper show the opening and closing values, a list of the current holdings, and a note of all transactions during the reporting period. They will also reflect any additional monies paid into or withdrawn from the wrapper.

4

## Lower Costs

You can benefit from the insurer's purchasing powers. Due to the volume of business involved, insurers can often secure better terms from investment fund providers than a private investor is able to by investing directly in a fund.



# 5

## **Tax Benefits**

Perhaps the most significant advantage is the fact that the investment can usually grow virtually free of tax. This can result in potentially greater overall returns. The tax implications when you withdraw money from the wrapper will vary between countries, and it is important to be fully aware of the relevant laws in the jurisdiction in which you are resident for tax purposes. But, essentially, these products allow you to decide when and how to take proceeds from your investment. This means that you can decide when to pay tax and, if your circumstances change, at what rate.

# 6

## **Transfer And Consolidate Existing Assets**

Some single premium bonds allow you to transfer in your existing fund holdings and/or assets. This enables all investments to be held within one product wrapper – which can simplify administration and cut costs.

## **AND FINALLY...**

Offshore investments are no longer restricted to the very wealthy and today are offered by major companies operating from politically and financially stable and reliable locations around the world. Given the options available, it is important for you to pick the right offshore investment.



## Securing Your Future.

Wherever You Are Today.

We exist to educate and guide you through the important decisions required today, to ensure you benefit from the freedom of tomorrow.