

Investment strategies explained

You will have developed a relationship with your financial planner and discussed your financial goals, working with them to understand more about what you are looking to achieve.

Within this process, your financial planner will gain enough knowledge and understanding of your goals to ensure you understand exactly what it means for your financial plan and its investment strategy. Your financial planner will work with you to select the most appropriate investment solutions for you.

As you invest and over time as an investor you will see a range of terms used to discuss various investment strategies and concepts. This document aims to cover some of the most common terms to help you make the most of the investment reporting and commentary you can access.

Understanding investment strategy

Diversification

Diversification, broadly speaking, means to spread your money across a range of different investments. It aims to maximise long term returns from a given group of assets by holding a mix that would each react differently to a given event. It is the investment equivalent of "Don't put all your eggs in one basket". This reduces the impact on the portfolio of any individual investment risks.

Cautious, Balanced, Growth, and Adventurous

- Cautious describes investing with more of a focus on risk management than return-maximising seeking strategies. This typically involves a high allocation to lower risk assets like fixed income securities and cash, with less exposure to equities or other more volatile markets. This strategy suits investors with a lower attitude to risk or those with shorter term financial goals.
- Balanced describes a portfolio which is ideal for investors who want a balance between capital appreciation and volatility control. A typical balanced portfolio includes both equities for growth and fixed income for stability, reducing overall volatility.
- Growth describes investing with a focus on long term growth over risk management. While not all our risk seeking, growth strategies will tend to have more assets in investments like equities than lower risk assets like fixed income and cash.
- Adventurous describes high-risk, high-reward strategy focused on maximum capital growth over the long term. It involves a large allocation to equities and often specifically riskier areas within this like emerging markets. This approach offers strong growth potential but comes with higher volatility and risk of losses, especially during market downturns.

Active

Active investing refers to a strategy where investors or fund managers make specific investment decisions with the goal of outperforming the market or an index. This approach involves continuous research, analysis, and timing of trades to capitalise on market fluctuations.

Passive

Passive investing is a long-term investment strategy that aims to replicate market returns rather than outperform them. It involves holding index funds or exchange-traded funds, that track a specific market index.

Ethical

Ethical investing is an investment approach that considers both financial returns and moral/social values. It involves selecting assets based on environmental, social, and governance (ESG) criteria. It favours companies that are committed to sustainability, social responsibility, and ethical business practices.

Investment styles – while not exhaustive, we cover below some approaches to investment which active managers or other investors might focus on to provide their returns

- Value investing is a long-term strategy that involves identifying and investing in stocks that appear to be undervalued. The goal is to capitalise on market mispricing or expected catalysts and events, with the expectation that the stock's true worth will eventually be recognized.
- Growth investing focuses on companies expected to experience above-average revenue and earnings growth. Investors using this strategy prioritise businesses with strong competitive advantages and innovative products.
- Quality investing involves selecting companies with strong fundamentals, including solid balance sheets, consistent earnings, competitive advantages, and high return on equity.
- Income investing is a strategy focused on generating regular cash flow from investments rather than seeking capital appreciation. This strategy involves favouring assets with higher than average, or potentially increasing, income generation (through dividends or interest) rather than those which might have potential for growth in capital value.

Model portfolios and funds

- Funds are investment vehicles where many investors pool their money together to invest in a mix of assets like stocks and bonds. Funds help investors spread risk and access a wide range of investments without having to pick individual stocks or bonds. The Fund structure can be highly flexible and allow access to a wider investment universe as well as benefits around taxation and income treatment.
- Model portfolios are pre-constructed investment portfolios designed to match specific risk levels and financial goals. They provide a diversified mix of assets, such as stocks, bonds, and alternative investments, often following a strategic allocation based on historical performance. While a useful tool for investors this approach can be limited by the tools available on a given investment platform hosting the model, for example fewer funds to choose from or a 'drag'; from some time out of the market to make trades.

Asset allocation

Asset allocation is the process of dividing an investment portfolio among different types of assets e.g. stocks, bonds and cash. Normally a chosen asset allocation is driven by the level of risk to be taken and then populated by suitable investment vehicles to build the portfolio.

Absolute return

Absolute return refers to strategies which aim to provide a positive return regardless of market conditions. Therefore, it can be a useful tool to help diversify within a portfolio.

Equity

Equity refers to ownership in a company, typically through shares of stock. When you own equity in a company, you own a part of that company and may benefit from its profits through dividends or capital gains if the value of the share's increases. However equity is the last rung on the ladder of the company's capital structure and bears the losses before holders of the company's debt for example, and the prevailing price of the equity can show significant variation as the company's fortunes move up and down.

Fixed income

Fixed income refers to investments that provide regular, set payments over a specific period, typically in the form of interest. The value of fixed-income investments can fluctuate based on interest rates, but they are generally considered less volatile than equities.

Property & Real Assets

Property and real estate refer to land and buildings that can be bought, sold, or rented. Real estate investments can include residential properties, commercial properties, and industrial spaces. Investors in real estate can earn income through rental payments or capital gains if the property value increases. Real assets generally refer to assets which have some tangible link to real world cash flows and so generally tend to have a level of inflation link to their expected return.

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