‘Mind the Investment Gap’

Charles Stanley Direct: New to Investing Report

CHARLES STANLEY Direct

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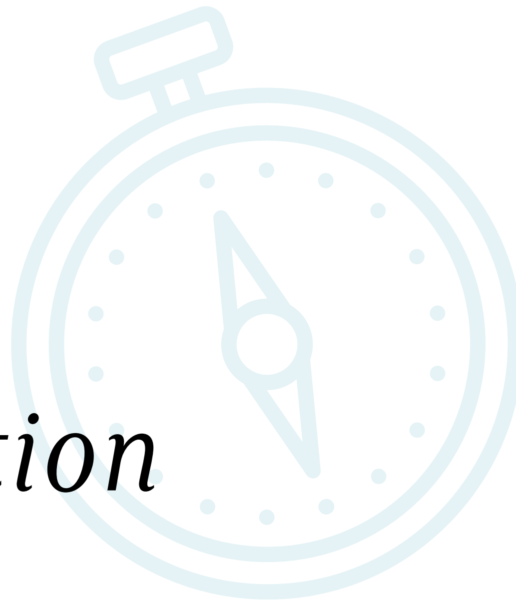


Introduction

We live in strange times.

Whether you want to get a foothold on the housing ladder, fund a comfortable retirement, or save up a financial nest egg, you will need to have a strategy in place to keep your plans on track.

Saving more cash will only go so far. It's helpful to have three to six months' salary saved as a 'rainy day' fund, plus some ready to fund short term expenses. But holding too much cash for long periods can prove costly, particularly in today's low interest rate environment where inflation can gradually eat away at your spending power.

Transferring some of your savings into investment products like a stocks and shares ISA – which gives you exposure to the stock market – can make your money work harder. But at a time when the world feels more unpredictable than ever, taking your first steps on the investment journey can be a daunting experience.

And it looks as if concerns about managing risk, how to master the investment process, knowing what investment to choose, or getting to grips with unfamiliar jargon, deter many of us from taking that step at all.

As a result, much of our hard-earned savings currently ends up falling into **The Investment Gap** delivering meagre returns rather than realising its growth potential. But does it have to be this way?

We know that cash is not delivering, and many of us know investment may be the answer. So, what's holding us back? In this report we examine what you want from investment and consider how best to support you if you choose to take the plunge and start closing the investment gap.

Rob Morgan
Investment Analyst
Charles Stanley.

The Investment Gap at a Glance

More than a quarter (26%) of UK adults have **increased the amount they save** regularly due to Covid-19

14% say that the **pandemic has prompted them to switch** their savings account to secure a better interest rate

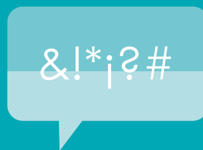
1 in 5 have had to **dip into their savings** to maintain their standard of living as a result of the pandemic

One in ten say that there's **money to be made** due to market volatility

A quarter (**24%**) of UK savers have **not tried investing** but are eager to try

Top Savings Goals:
(1) Retirement
(2) Putting money away
(3) A holiday

14% admitted **investing is too difficult** and they don't know where to begin



One of the **biggest barriers to investing** is the terminology with well over half (**55%**) not feeling confident

Almost one in ten (**9%**) say they have **seen more people investing and want to be involved**

Chapter 1

Save Our Savings

For over a decade historically low interest rates have hit savers hard. Now market volatility and economic uncertainty threaten to throw financial plans even further off course.

It's a time where you need to bolster depleted savings to achieve long-term goals or manage any short-term challenges thrown your way.

Statistics suggest that as a nation we're answering this call. The Bank of England suggests that UK savers hold £1.57 trillion in cash. And this has increased at record pace as a result of the pandemic.

Did you know?

Bank of England data suggests UK savers hold £1.57 trillion in cash. That's roughly equivalent to all UK residential mortgage debt.

Cash isn't always king

Everyone needs to set aside at least three months' income in case the worst should happen. You may need to keep some of your money easily accessible, if, for instance, your job is insecure or you have expensive monthly commitments like school fees to cover.

But are we at a risk of leaving too much of our hard-earned money in cash? An estimated 20% of household cash is currently held in the UK's savings product of choice – the Cash ISA. And the figure is rising.

Losing interest in cash

The fact is that cash has been a poor home for your money for some time – because it's been battered by inflation.

So although cash has yielded a modest return over the last 10 years it hasn't kept pace with the cost of living where staples like fuel and food have risen higher. And it could become less competitive because of Government measures – like increasing the money supply – taken to reduce the economic hit of the pandemic.

Fact!

Over the past ten years cash has typically retained just over 80% of its spending power – a 'stealth loss' of nearly £200 for every £1,000 saved.

Mind the Investment Gap

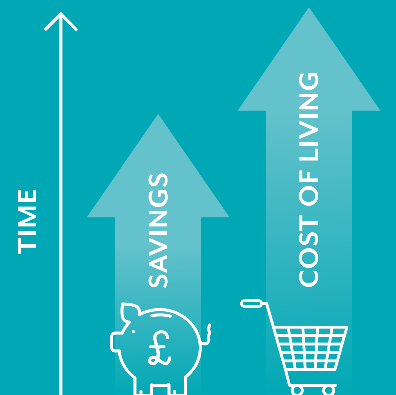
So are we losing out? Well yes, when you compare it with the year on year returns on stocks and shares.

Long-term market studies have calculated that shares typically beat cash around 70% of the time over a two-year period and if you extend the holding period to 10 years your chance of beating cash rises to over 90%.

This is particularly stark in today's environment where savings interest rates are near record lows, while yields on equities are near record highs which means that in the last twelve months savers missed out on some £38bn of income (source: Janus Henderson) – this means we are unwittingly letting our savings fall into an Investment Gap equivalent to £1,350 for every household.

Did you know?

£1 in 2010 was the equivalent of more than £1.20 today in terms of its spending power? But cash on deposit has typically only increased to around £1.10 per pound saved.



Charles Stanley insight:

The relentless increase of inflation over time can be detrimental for those keeping large sums in cash which are attracting interest at a low or even zero rate. Earning a competitive rate of interest on cash helps but it is difficult to earn an inflation-beating amount for a sustained period, especially in the current environment of low interest rates. By keeping too much in cash, investors could be at risk of not making the most of their money – or not achieving their financial goals.

Short-term needs are best addressed through saving cash and long-term ones through investing. Unlike cash, riskier assets do not offer security of capital, but over the long-term they tend to do better and therefore build wealth more effectively. Striking the right balance between risk and reward is something every investor must consider and re-visit periodically – it's important to make the most of money, but it's also vital not to lose sleep over it. Have a financial plan and regularly review it to check it is on track, as well as taking on the appropriate level of risk.

Chapter 2

Investing in a Covid-19 World

We don't yet know how much the Covid-19 crisis will affect long term finances, but it's certainly forced many of us to rethink how we save for the future.

Did you know?

1 in 14 (7%) have used the impact of Covid-19 as an opportunity to encourage friends and family to start investing.

Changing habits

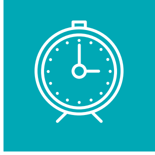
A glance at our study shows many of us have been inspired to switch our savings up a gear in 2020. A quarter (26%) said they had increased the amount of money they save regularly; 14% claimed the pandemic had prompted them to shop around for a better interest rate and a similar number (13%) had used more online financial products and services.

Top five saving goals

UK		Male		Female	
My retirement	41%	My retirement	47%	My savings account	40%
My savings account	36%	My savings account	32%	My retirement	37%
A holiday	27%	A holiday	24%	A holiday	28%
My mortgage or rent	17%	To clear my debt	16%	A property deposit	20%
A property deposit	17%	A new car	15%	My mortgage or rent	18%

Misconception: UK savers expect their cash savings to increase in value over the next 12 months, however this positive outlook is unlikely to prove realistic as interest rates remain subdued and prices continue to rise.

Time to Get Invested?



When it comes to investing, consumers are becoming more curious too. One in ten (11%) said there's money to be made due to market volatility, and almost the same number (9%) have seen more people investing and want to get involved. But we've not bridged the investment gap yet, as one in five (21%) still think it's too risky to invest right now. This suggests that managing risk is a key investment roadblock – but there are others too.

Charles Stanley insight:

Volatility is an inevitable part of investing; a necessary evil and investors must always be prepared to ride the ups and downs. It's often the case that the market falls more quickly than it rises, which is psychologically challenging.

Selling out due to fear can be the worst thing to do. Large falls can be followed by large rises, so those doing so, risk losing on both sides. In the absence of a crystal ball, 'keeping invested' is often the best strategy, no matter how uncomfortable.

Daily monitoring during a falling market can result in an over-emotional reaction and make rational decisions difficult. Having a well-diversified portfolio and an appropriate strategy, should mean fewer regular checks.

One way to counter market ups and downs, as well as taking some of the stress out of investing, is to contribute money at regular intervals rather than a lump sum. The advantage is that market timing is not a concern.

Chapter 3

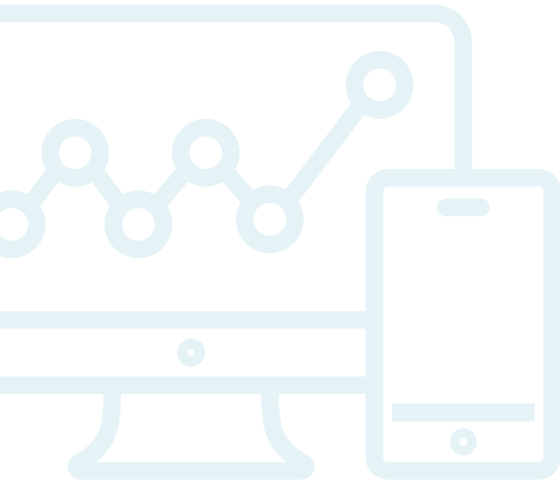
Investment Roadblocks

Our study suggests that a quarter (24%) of us haven't tried investing yet but would like to.

Do you currently invest?

	All	Male	Female
Yes, and I still do	35%	45%	27%
No, but I want to	24%	18%	30%
No and I don't want to	15%	9%	20%
I don't know/ Prefer not to say	6%	5%	7%

When asked to identify the main reasons people might consider investing, poor returns on cash savings came out on top (33%), followed by saving for retirement or for a house.



Barriers to investing – the four Cs

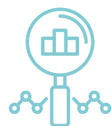
When it comes to barriers to investment it all boils down to four Cs.

Concerns over Risk v Reward:

Performance is a key factor. Two in five (40%) said they were concerned about market volatility and felt investing was just too risky.

Choice:

14% admitted they were overwhelmed and didn't understand how to invest and thought it was too difficult, and the same number said they thought it would be too time consuming.



Complexity:

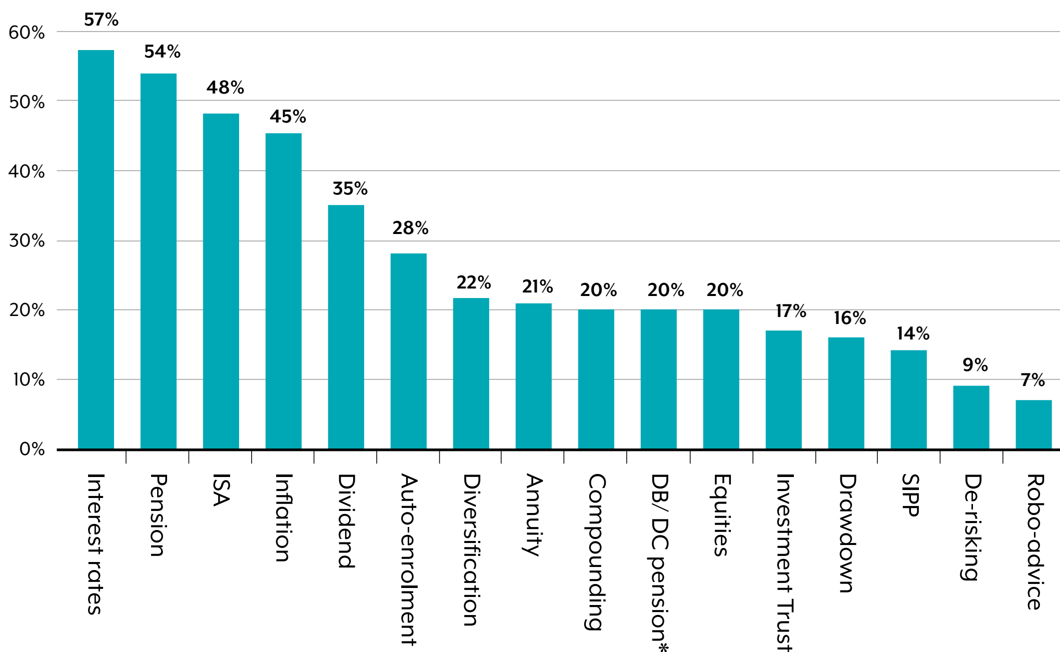
A fifth (20%) said they found keeping on top of the data too challenging.

Communication:

Not speaking my language. Off-putting financial jargon is probably the biggest barrier of all. Well over half (55%) the people we questioned weren't confident they understood financial terms and this was particularly true among women. 45% of men said they felt confident versus only 37% of women.

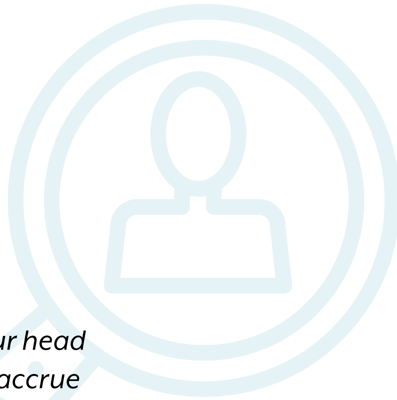
Terminology spotlight:

Have heard of it and fully understand it:



*Defined Benefit / Defined Contribution pension

Case Study: Kate, 31



"Investing is a whole different world to get your head around. The amount of knowledge you must accrue is so vast that I don't know where to begin. I'm not sure I have enough to invest in the first place, nor do I have the time to do it. But I know I want to make my money work harder than it currently does. I would have valued more financial education on investing for the long-term, whether that be from school or university. Learning even the smallest things to help break down all the jargon, what the risks are, and planning for the long-term would have made it so much more accessible."

Did you know?

Simplifying and removing financial jargon (38%) tops the list of barriers to investing.

Chapter 4

Bridging the Investment Gap

Of those that don't currently invest, most are open to the idea. So how do we solve the four Cs and start bridging the investment gap?

The good news is, it's never been easier to start investing. But the first hurdle to overcome is knowing where to start. The key thing to think about is why you want to invest – is it for your first home, your children's school fees, or retirement? This will help you decide what product to use. Before you start there are some things you should check off first:

Where to start

Pay off any high-interest debt such as credit cards

Have a reserve of cash as an emergency fund (enough money to pay 3-6 months' worth of bills)

Contribute to a pension plan through work

Know your investment goals and how to achieve them

Once you've established your investment goals you need to decide how you want to achieve this; through growth (growing your money over the long-term) or income (using the capital to produce a regular income). Whatever type of investment you have there will always be some risk involved, so you need to consider what your risk tolerance is first – are you cautious or adventurous?

What product is best?

There is a lot of choice out there when it comes to investing. Spreading investments between different investments and asset classes (such as shares, bonds, and funds) is a good move. If one of the investments performs poorly, another may make up for it. Investors can build portfolios of various shares and other assets so they're not overly reliant on any one investment – this is known as diversification.

Learn the basics

Getting to grips with the basics of investing and understanding some of the key terms, such as inflation and the power of compounding, will help you take your first steps to investing. You don't need to be an expert, but greater knowledge will build your confidence. To help, Charles Stanley Direct has created a new hub on its website for those new to investing. It aims to eliminate or explain the off-putting jargon that is so often a barrier and provide a step-by-step guide to getting started.

Erica's journey

"For the first time ever, I have a small pot of savings and wanted to make that money work for me. I just had no idea where to start. It's not that I haven't been exposed to people in finance – I actually have lots of friends and family in the industry themselves – but it's just that I've felt that because I knew so little, I didn't think I deserved a seat at the table. Finance and maths have never been my strong suit, but I wanted to get serious about my finances. So, I wanted to get educated first.

Getting started was a bit overwhelming, but I'm taking it step by step and am slowly becoming more confident. There's so much information out there and one of my key lessons so far is the importance of knowing what you're investing for. It makes such a big difference to not just the assets that you invest in, but the products you use to do so.

Trying to alter my mindset has been challenging too. I know that the benefits of investing are only really felt longer term, but it's really tempting to keep track of them daily. I've found it really helpful to put aside a specific time each month to have a look at how everything's getting on. That means that I can make any changes that I think might be necessary, without coping with the anxiety of daily market movements and what it means for my money.

I'm still very early on in my investing journey, but with just the few steps that I've taken, I'm already a lot more optimistic about my financial future."

Top tips for new investors

1. **Have a rainy-day fund:** Most people need a fund to cover unforeseen events. This is usually three to six months of income in case of any sudden change in circumstances.

2. **Learn the basics:** Once you know the basics, you are in a much better position to navigate the investment decisions.

3. **Have investment goals**: Is it for you or your child, and for what purpose – retirement or a shorter-term goal? This will dictate the type of investment product you use, such as an ISA, Junior ISA or Pension.

4. **Consider how much you are going to contribute and how often:** Like any other form of investing, you'll need to think whether you can invest as a lump sum, or will you invest in a series of lump sums or monthly contributions.

5. **Think about risk:** This is usually connected to how long you want to invest for and how much you can afford to contribute. Investing in higher risk shares should be taken over the longer-term, and for shorter time periods (e.g. 5-10 years), you could use a lower risk option, such as cautious funds.

6. **Weigh up individual investment / fund selections:** Investment choices depend on specific circumstances, goals, attitude to risk and investing time horizon. This will influence how much money is allocated and, if appropriate, how much of this is invested in the stock market.

7. **Commit:** There are no shortcuts, with long-term investing, time and patience is required.

About Charles Stanley Direct

Charles Stanley Direct is an award-winning digital, do it yourself investment platform.

If you don't know where to start, visit our dedicated **New to Investing hub** which provides a selection of resources for first time investors. It includes a free guide, articles and tips and a series of videos following the progress of novice investor, Erica, as she starts out on her own investment journey and asks the questions everyone wants to ask, to help along the way.

www.charles-stanley-direct.co.uk

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101.53 December 2020