

The investment workbook from the #1 best-selling author of

"How to Own the World"

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LESS
 **INVEST**
THE REST

Sorting your finances out
once and for all

ANDREW CRAIG

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Andrew Craig

Author and founder of Plain English Finance

About the author

Andrew Craig is a best-selling finance author, entrepreneur, and the founder of personal finance website www.plainenglishfinance.co.uk established in 2011.

His stated mission with the company is "to improve the financial affairs of as many people as possible".

He believes that you owe it to yourself to learn about money and investment because doing so is life changing.

Since launching Plain English Finance, Andrew has been featured in numerous national and specialist financial publications, including The Telegraph, The Financial Times, The Mail on Sunday, CityAM, The Mirror, The Spectator, Shares, Investors' Chronicle, and MoneyWeek.

Andrew's first book, "How to Own the World", has been one of the top-selling personal finance titles in the UK for several years, earning thousands of positive reviews on Amazon, Audible, and Goodreads.

His latest book, "Our Future is Biotech" (published in August 2024), reflects his enthusiasm for the transformative potential of the biotechnology industry.

Andrew began his finance career in the late 1990s on the Eurobond desk at SBC Warburg (now UBS) before transitioning to equities, joining the smaller companies team. From 2015 to 2021, he was a partner at WG Partners LLP, a specialist life sciences and biotech investment bank. Throughout his career, Andrew has met with senior management teams of over 1,000 companies and engaged with hundreds of professional investors.

Andrew lives in Hampshire, England, with his wife, Rachel, and their two young children, Ella and Oscar.

Live On Less, Invest The Rest

A plain English investment workbook

Andrew Craig

PLAIN ENGLISH FINANCE

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A note before we begin...

Before you dive into this book, please note that what follows is aimed primarily at people who have yet to reach pensionable age.

If you are at or very near retirement, I would argue that you really should consider speaking to a professional about your own personal circumstances. This is just because most people's financial affairs as they hit retirement are relatively complicated – especially given how many changes have been made to the pension rules in recent years and given complicated considerations such as what to do about tax and inheritance planning.

The “set and forget” investment strategy for building wealth outlined in this book is intended to be as simple to follow as possible and very much aimed at growing your money. You should be able to use it no matter how complicated your various pension arrangements are *up* to retirement but *at* retirement, you will most likely want to deal with that complexity: You will need to think about switching your investments from accumulation to income, about whether you might take a lump sum out of your pot, about how much of your money to draw down going forwards and all sorts of other considerations such as what to do with any property you own and tax in particular.

If you are at or near retirement, then we would urge you to consider seeing a good quality financial adviser or financial planner. We would hope that you will be in a stronger position to choose a good one having read the workbook at least ...

An important introduction

Before you go any further with this workbook, it is important to understand that it is the evolution of a document that was previously called “The Complete Guide”. We created the first version of our “Complete Guide” back in 2014. To explain a bit about how and why it came about: I had published the first edition of my book, “How to Own the World” (A7, see page 164) in 2012. Within a reasonably short period of time, we had sold a few thousand copies. Lots of people started to get in touch with me to ask questions about what they should do with their money and investments.

Long term readers of my output will know by now that there are very strict rules around giving people any kind of investment advice, particularly anything that can be seen as *personal* investment advice.

Anyone seeking to give *specific, personalised* financial advice in the UK, is required by law (by the financial regulator, the Financial Conduct Authority) to conduct a detailed “fact find” process with someone before they are permitted to give such advice. (This is true for *regulated* investments such as shares, bonds and funds at least. Sadly, anyone can say anything they like in *unregulated* investments such as bitcoin or dodgy property schemes. I think this is an absolute scandal personally - and has been and will be hugely damaging for so many people’s finances, but I digress...).

This “fact find” process can also be called a “Know Your Client” or “KYC” exercise. The idea is that any financial adviser must get to “know their client” to ensure that they give “appropriate” advice – that is to say advice that has very carefully taken account of the specific circumstances of that individual, including the full detail of things like their:

- ...income and expenditure,
- mortgage or rent,

- other debts,
- current investments,
- existing pension arrangements,
- attitude to risk,
- long term financial goals...

...and so on. This legal obligation is obviously, quite rightly, aimed at protecting people from the risk of bad or inappropriate advice. The aim is to minimise the chance that people lose money, take on more risk than is appropriate for their personal circumstances or do something fundamentally silly like make investments whilst they still have significant expensive unsecured debt (such as credit card debt or a bank loan. I address this issue specifically in a few pages time).

I think it is important to note that conducting this “fact find” or “KYC” process involves a great deal of work. There will need to be a face-to-face meeting in someone’s home or office, or a long phone call or series of phone calls in order for a financial adviser to get the full understanding of that person’s entire financial picture that they are obliged to get by *law*. An adviser will then spend many more hours gathering paperwork from the client and preparing a formal investment report which provides appropriate, specific and personally tailored recommendations.

Although I have passed the requisite exams to give financial advice, I don’t actually do this activity. I just don’t have the bandwidth to be travelling around the country doing face-to-face meetings, fact-find questionnaires and the preparation of detailed personal investment recommendations for individuals. I am a financial educator and fund manager, not a financial adviser.

However, as a result of the success of ‘[How To Own The World](#)’ (A↗) - that didn’t stop (and hasn’t stopped) lots and lots of people from getting in touch with me to ask me for personal financial advice.

Since about 2012, hardly a week has gone by without me fielding an email or message on social media from at least one person asking me for personal financial advice. It is not uncommon for someone to get in

touch, say something very kind about “How to Own the World” (which is very much appreciated of course) and then give me detailed chapter and verse on their personal financial situation and ask me specifically what they should do.

Questions will include things like:

- “Which fund should I buy?”
- “How much gold should I buy and what is the best way to buy it?”
- “Should I increase my mortgage to invest in the stock-market?”
- “Should I pay down my credit card before I start investing?”
- “Which accounts do I need to open and which stock-broker should I use?”
- “What should I do about my pension?”

We produced the “Complete Guide” and created our online “Plain English Finance Community” (B7) in an attempt to help people with all these sorts of things as best we could within the boundaries of what was legally allowed.

It is against the law for me to give anyone *personal* financial advice or answer *specific* questions about their own personal circumstances without going through that detailed “KYC” process I have explained above. I can’t do this. What I can do, however, is talk in *general terms* about things that people might do and that could be a sensible broad-brush approach to getting their financial affairs really nicely in order.

Advice versus Education

I suppose the fundamental difference here is between financial *advice* and financial *education*. The idea is that members of our Community get to the point where they can make their *own* decisions with real confidence and peace of mind.

I would also note that it is extremely difficult for me to keep up with all the inbound enquiries I get – as I’m sure you can imagine. Even today,

several years after we created our website and put a tonne of information on there for free, lots of people continue to get in touch with me by email and via social media platforms like Facebook, X / Twitter and LinkedIn to ask me for personal financial advice.

To be clear – I am delighted about this. It is an incredible honour that people do it and even feel comfortable sharing very personal details with me about their income and net worth, but it is also a real headache keeping up with it and explaining the legality around what I can and can't do.

This is the other reason that we created the original “Complete Guide” document and, arguably even more importantly, the live and interactive “Plain English Finance Community” which accompanied it.

As I say: This is the best way I could think of to help the largest number of people with their finances within the bounds of what is legally permissible *and* logistically possible.

Solving the “Advice Gap”?

Another point I would make is that *proper* personalised financial advice from a financial adviser is necessarily reasonably expensive. As I have said, financial advisers will have to go to all the effort of travelling around the country and do a great deal of work in order to be able to give legally appropriate financial advice.

The costs of doing this business are significant - including the costs of regulation and compliance, ongoing compulsory education and training every year, liability insurance, premises and employing staff.

Bear in mind that they will also have to do all this work for people whether they become customers or not - so they have to price in a meaningful number of people who decide not to become clients in their business model - driving the costs up even further.

To make this work economically, and actually make a living, the cost of this sort of personally tailored investment advice is usually several thousand pounds. This is quite obviously too much for the vast majority

of people.

As the Financial Times has put it, regulation of financial advice in the UK has:

...priced small investors out of the market by making it uneconomical for IFAs to advise anyone but the extremely wealthy.

This fact has attracted a great deal of press coverage (i↗, see page 164) in recent years and is generally referred to as “the advice gap.” In a nutshell: Good financial advice costs thousands of pounds. Most people really can’t afford this but need it, nevertheless. This is the “gap”.

Our original “Complete Guide” document, and our accompanying “Plain English Finance Community” were an attempt to help as much as we could for a fraction of those thousands of pounds that such financial advice usually costs.

And this brings me on to an important point of clarification: The original “Complete Guide” document from which this workbook has evolved, was really designed to go hand in hand with being a member of our online Community (B↗).

This new and significantly updated and improved version is available as a stand-alone workbook – and you may have acquired it on that basis. My belief is that it can certainly work as such and the reader is under no obligation to join our online group, but this is why you will find references to the accompanying Community at points throughout. Hopefully this makes sense!

Our Investment Fund

The other huge job we have done which we hope may be able to help here has been to create our very own investment fund: The snappily named “VT PEF GMAF”. (This stands for “Valu-Trac, Plain English Finance, Global Multi-Asset Fund” by the way. We wanted to call it the “Own the World Fund”, but that wasn’t permitted – a long and incredibly boring

story).

From almost the moment the first edition of my book was published way back in 2012, lots of people got in touch to ask if I might consider investing their money for them “like in your book”. It was clear that the ideal solution to this would be to offer an investment fund that aims to do just that.

The only problem with this idea was that it is horribly difficult and expensive to launch an investment fund. There are very significant costs involved and a huge regulatory burden to deal with. There is also a massive “chicken and egg” problem: Very few investors will put money into a fund until it has at least a three-year track record, preferably five- or even seven-years, and you can’t launch a fund and get a three- or five-year track record without any investors of course.

You also need to get to about £10 million in a fund before it will break-even and before big companies will work with you. So, you have to find several million from people who believe in you even though you have no track record – or be willing and able to fund many thousands of pounds a year of cost out of your own pocket whilst you get to £10 million.

Only a few years ago, the idea that we would ever be in a position to launch our own investment fund was a ludicrous and wildly unrealistic dream to me. How we then got there was a combination of some amazing luck and an unfeasible amount of hard work from a group of wonderfully committed individuals.

To cut a long story short, I met a gentleman called Roderick Collins in 2016 (now one of our board Directors) and he introduced me to his partners, Professors Andrew Clare and Steven Thomas from the Bayes Business School in London, and their colleague, Dr. James Seaton.

The combination of Roderick and the Professors’ know-how and the demand that came as a result of the audience generated by “How to Own the World” (A7), enabled us to “thread the needle” and look to get a fund launched.

The “VT PEF Global Multi-Asset Fund” is the result of several years

of work since then. People wanted a way of investing in all main asset classes and all main geographical regions – as per the message in [“How to Own the World”](#) (A7) – but in one place, as efficiently as possible and leaving the headache and administrative burden of working out how to do it to us. The Plain English Finance team and the Professors and their team, effectively started with a blank sheet of paper and designed an investment product which would aim to do just that.

The result is an investment fund which is based on many years of academic research. You can read all about it in more detail by downloading our [Fund Overview](#) (C7) document from our website.

As you will see as you read on, our fund is only one possible component of how you might approach your finances. Like any investment fund, it is designed to do a specific job and is therefore only relevant and “appropriate” for people who want that job done. What I mean by this should be reasonably clear by the time you have finished engaging with this document.

A final note on this new edition

Anyone who has seen previous editions of this document will note that this new version is a big upgrade and change of emphasis in terms of the overall approach. I’m conscious that cynics might wonder whether my previous approach was “wrong”. Why so many changes in this document, if the methodology in previous documents was supposed to be so good?

I would answer this by citing one of the great quotes from one of the most famous economists of the 20th century, Sir John Maynard Keynes, who famously said:

“When the facts change, I change my mind. What do you do, sir?”

The original version of this document is several years old now. Things change. There are new products, new rules, new things worth considering. To be fair, it isn’t so much that “the facts have changed”, more that we

have come to a better understanding of what people want and need as time has gone by. Our Community group has been particularly good for this process. We have been able to see the sorts of questions and challenges that have come up for people time and time again.

This new, updated and significantly improved version of this document, embeds all that we have learned from you, our customers, and our “How to Own the World” (A7) tribe in the last few years.

One of the drawbacks of this reality is that this document is a good deal longer than any of the previous editions. You will also quite possibly find that the document is rather repetitive – given that I have a habit of reminding readers about what we have just covered as we go along. As the classic old Roman saying has it: “*Repetitio mater studiorum est*” – repetition is the mother of learning.

As such, I make no apology for the length or for the repetition. The ultimate purpose of this document is to save you many thousands of pounds of fees in the short term, have a five, six or even seven figure impact on your wealth in the medium to very long term and give you real confidence and peace of mind about your finances along the way. I would hope, therefore, that the document is just as long and repetitive as it needs to be to maximise the chance that you get this tangible outcome.

What follows *will* more than likely take quite a few hours of your time but, as Theodore Roosevelt put it:

“Nothing in the world is worth having or worth doing unless it means effort, pain, difficulty...”

That having been said, I would hope that most people will find what follows more or less easy to follow, not least because you can ask any questions in the Community, should you get stuck. And it will still take significantly less time than all of us have spent watching rubbish films or devouring the latest box set of our favourite TV show. This is probably time well spent – given that the outcome you’re looking to achieve here is nothing less than life-changing.

So - I hope you find it extremely useful and that it has a significant, positive impact on your finances, on your peace of mind and on your whole life as a result.

The final thing I would say is that I want this process of gradual improvement to continue. I hope this workbook and our Plain English Finance Community (B7) will deliver for you in a huge way – but do please keep the questions and suggestions coming and we will ensure that any big improvements and changes needed in future will make it into future versions and into how we think about everything we do for you.

Happy investing,

A handwritten signature in black ink that reads "Andrew Craig". The signature is written in a cursive style and is positioned above a long, horizontal, slightly wavy line that extends across the width of the signature.

Andrew Craig
Founder and Investment Manager
Plain English Finance Limited

A note on ISAs versus pensions

Before we get into the meat of this workbook, it is perhaps worth a few words on pensions and ISAs specifically. For people based in the UK these are two of the most important vehicles for getting your finances sorted.

It is important to get the mix of how you use pension and ISA accounts roughly right. The challenge with this, however, is that doing so can be fairly complicated. The “right” answer will be a function of a complex cocktail of considerations based on your own personal circumstances, including whether you are employed or self-employed, how much you earn, how close you are to retirement, your attitude to risk and so on.

The other problem is that the rules governing these accounts change fairly often. In the time since I wrote the first edition of this document there have been a number of significant changes to the pension rules for example.

One of the most challenging elements of publishing a workbook like this one is the extent to which such changes can happen. In what follows I have tried to make our approach to investment as “evergreen” as possible. Many of the fundamental ideas that work for building wealth which we’re going to be looking at – such as making regular investments over many years into a big stock market index fund, or getting the right mix of assets based on your age – are more or less timeless.

That said, what often does change are the rules governing key investment accounts such as pensions and ISAs, retirement age and other tax considerations such as capital gains tax. Given this reality and given that the “right” answer will be a function of your own personal circumstances, it is hard to be prescriptive about precisely how someone might use their pension versus ISA accounts in a document like this. What I can do, however, is paint with a reasonably broad brush.

When working out how to use your pension versus ISA accounts, there are a number of key things to think about:

First – tax: With a pension, you get a tax benefit “on the way in” (as you invest money into that pension account) in that you are basically able to invest in your pension out of your gross (pre-tax) income. This is essentially some extra free money from the government – clearly a good thing. Anything you are able to allocate to an ISA, however, comes out of your net (post-tax) income. This is a key advantage of investing into a pension over an ISA.

Set against that however, you will be taxed on most of the money you take out of your pension when the time comes. By contrast, any money you take out of your ISA accounts will not be taxed – a key advantage of an ISA.

Secondly – access to your money: The other thing that is important to bear in mind here is that you will not be able to access any money that goes into your pension until you turn 55 – the “normal minimum pension age”. This number is also increasing from April 2028 – to 57 - and could well increase still further in the years ahead given the state of the UK economy and pension system.

This aspect of pension investment is clearly good news for maximising the chance that you will actually have enough to live on by the time you wish to retire, because you can't raid the piggy bank along the way, but it is important to bear this in mind as you decide how to allocate whatever you can afford to save and invest each month, nevertheless. You need to be happy that any money you allocate will be locked up until you hit retirement age which could be many years in the future of course.

Thirdly – contributions from your employer: If you are employed, the other advantage pension investment has over ISAs is that you should receive some sort of contribution from your employer. Between 2012 and 2019, the government implemented something called “auto-enrolment” forcing all employers to arrange and contribute to a pension of some kind for any employee aged 22 or over earning a minimum of £10,000 a year. Since April 2019, this policy has mandated that employees contribute at least 5% of their salary and employers at least 3% (for a total of 8% of

your salary going into a pension).

Many employers, particularly larger companies, have pension schemes which contribute more than that minimum 3%. If you have a generous employer who is willing to match your contributions to a pension it is probably a good idea to take advantage of that given that this is free money – as long as you are mindful of the points made above about not being able to access your money until you're in your mid or even late fifties.

Arguably the key consideration overall is deciding how much of the monthly income you are able to save and invest you decide to allocate to a pension account each month versus an ISA account, having taken account of all these various points. As might be clear, this isn't particularly straight forward given how complicated and personal these various considerations can be.

If you are employed it will be a good idea to speak to the relevant person at your company to make sure you understand what your options are with regard to your pension. You will also want to ensure your pension money is doing the best it can for you in terms of how it is being invested – something you will hopefully be better placed to do once you've read this workbook.

If you are self-employed, it is probably a good idea to speak to a financial adviser about such things. We have already looked at the fact that such personalised investment advice is necessarily quite expensive but if you're self-employed and want to maximise your chances of getting your mix of pension and ISA investment roughly right, you may want to bite the bullet at some point and seek professional advice. The alternative is to learn enough about such things so that you can work it all out yourself, which will of course save you the cost of getting advice, but this will take a fair bit of effort. What you decide to do will be a personal choice.

As a general comment on all of the above, I think it is worth highlighting that getting this stuff right is a marathon, not a sprint. The key thing is

to get to grips with the basics and aim to get things set up and roughly right. You have the whole of your working life to tweak, hone and improve such things as you go along but the key thing is to do something to ensure you are building wealth – and as soon as possible.

The final point I will make is that, although these considerations are relatively complicated, what follows in the rest of this workbook should help formulate your thoughts. This book provides a framework for thinking about investment overall. Once you've read it, you will hopefully have a better idea of how to get things roughly right – big-picture - and that should get you a fair way down the road to optimising such things over time.

A note on links

You will find links throughout the workbook and gathered together in an Appendix at the back. If you have the digital version of the book – these will obviously work in the normal way but we have also annotated these where relevant for readers of the print version using a reference letter in brackets, e.g. (A↗) or (i↗), in case you would like to find the relevant websites as you are going along.

Workbook “tick-list”

Before we get started, please find below a ten-step tick-list to help you keep track of the tasks you might complete to get your finances humming as you go through this workbook. We wish you the best of luck getting through each one in turn!

-
- 1. Work out how to find money to save and invest each month. Ideally at least 10% of your income.

 - 2. Pay off any expensive debt.

 - 3. Build up a “rainy-day” pot of cash.

 - 4. Use the idea of “100 minus your age” to work out the proportion of your money you might choose to allocate to “defensive” versus “aggressive” assets.

 - 5. Work out which “defensive” and “aggressive” assets you are going to use.

 - 6. Choose which stockbroker or investment company to use and set up the investment accounts you need (ISA, GIA, pension and so on).

 - 7. Set up monthly direct debits into whichever assets you have chosen.

 - 8. Work out what to do with any lump sum you might have.

 - 9. Re-balance roughly once a year.

 - 10. Use the idea of “100 minus your age” to tweak your investments gradually over time – perhaps only every five years or so...
-

PART ONE

First things first...

In this section of the workbook, we are going to cover a number of key things you need to think about before you actually start to put your hard earned money to work.

- Pay off any expensive debt.
- Build up a “rainy-day” pot of cash.
- Finding the money.

1
Pay off any expensive debt

The first thing to say explicitly is that you really must make sure you pay off any credit card or other expensive debt before you do any investment. This is very simply because the interest rate your credit card or loan provider will be charging you on any outstanding balances you may have, will almost certainly exceed the return you can make on your investments - unless you are very lucky, very clever, or both.

This might seem obvious to you, but you'd be surprised how often people get in touch with me excited about starting off with investment, but who still have significant credit card or other debts with high interest rates.

I see this a lot in the crypto space in particular, where it is not uncommon to see people even taking on credit card debt to make investments in crypto. Right at the beginning of this workbook I wanted to be very clear that this is a really bad thing to do.

Putting money into any kind of investment whilst you still have any kind of costly debt outstanding is like filling a bath with the plug hole open - where the speed that the water disappears down the plughole exceeds the speed at which the tap is filling the bath!

Please note, this may not apply to cheap debt, however, which might include student debt or mortgage debt on your house, for example. If the interest rate on your debt is lower than the return you can make on your investments, then there is a chance that the proverbial bath might fill faster than it empties - if you get my drift.

The most obvious potential example of this is mortgage debt. Most people will look to build wealth in their pension at the same time as having a mortgage. For many, it may also be perfectly sensible to allocate something to a stocks and shares ISA account each month whilst you still have mortgage debt too.

It is important to think reasonably deeply about this, however, particularly with interest rates being much higher today than they were in the recent past. When interest rates were, say, 2% - it was something of a no-brainer to prioritise stock market investment over paying down your

mortgage, given that the return you were likely to make over long periods of time was likely to be higher than the cost of servicing your mortgage so you would be making real forward progress financially by doing that.

With interest rates so much higher today this is no longer as clear cut. The key thing is to get the mix right over time.

My own belief is that it is probably worth allocating at least some money to long-run stock market investment over and above paying down your mortgage, given your returns over time will hopefully exceed the interest rate you're paying, but there is no clear answer here given that the "right" approach, such as there is one - will be based on your own very personal circumstances.

In the meantime, however, what is very clear is that you really must pay down any expensive debt – such as credit card debt or bank loans before making any kind of investment.

If you don't do this, there is a high chance you won't make any forward progress financially and investing will be a waste of time at best, and really quite damaging for you financially, worst case scenario.

As boring as this might sound, particularly if you're excited about getting started with investment, you should allocate any spare cash that you've managed to find to paying down any expensive debt first until that is done.

By the way, you might consider reading a classic book on all of this stuff and on the subject of getting rid of debt in particular: "The Richest Man in Babylon" by George S. Clason. (ii↗)

2

Build up a “rainy-day” pot of cash

The next thing to consider is that you should not begin to invest any money into the sorts of financial assets we will be looking at here, until you have first paid off any expensive debt *and* saved at least a month's salary as cash, ideally more...

Most experts in personal finance suggest that when you start saving, you should keep 100% of those savings in cash until you have built up a "rainy-day" pot which can cover you and any family you might have for a certain amount of time if you were to lose your job. Different commentators advocate different sums of money, but the convention seems to be anywhere from one to six months of salary. What you decide to do in this respect is entirely up to you. I would suggest that if you feel safe in your job or if you are reasonably skilled, you might consider one or two months sufficient but by all means consider keeping more than this by, particularly if you have children.

To be clear, I am suggesting that you do not begin to *invest* any money into the sort of *financial assets* we are looking at here, until you have first saved at least a month of salary that you keep in cash, ideally more. Only once you have done this should you start allocating some of your monthly savings to investment.

3
Finding the money

There is a simple formula for becoming wealthy that is well understood by the rich and unchanged since humans invented money:

Live on less than you earn and invest the rest...

In an ideal world, you are going to want to be saving and investing at least 10% of your monthly income. If this seems unrealistic, there are two tricks which can help you get there. The first is a psychological one: Simply work out how you can best *spend* 90% of your income each month, rather than how you can save 10% of it. This is obviously a simple case of glass half full versus glass half empty, but the weird thing is that it actually works. Psychologists refer to this kind of phenomenon as “reframing” – a very powerful technique for change in any area of your life.

If you say to yourself “I am going to spend 90% of my money on x, y and z” and then automate what happens with the remaining 10%, you might find it easier than you thought to have 10% of your income available for investment.

The best way to do this is by making a detailed budget. These days there are plenty of really good apps that can help you with this – some of which are even free of charge. Below are links to three articles which should give you a good idea of what is out there:

1. Money To The Masses [article](#) (xxvii↗)
2. The Times [article](#) (xxviii↗)
3. ClearScore [article](#) (xxix↗)

If you have a copy of my first book, “[How to Own the World](#)” (A↗), you might also re-visit “Mapping Your Route” from page 221 onwards. That chapter is all about budgeting and includes a detailed table to help you calculate your outgoings.

If you still can't find money for investment a few weeks after having drawn up a budget or of using a budgeting tool, then you might consider

the second and slightly more radical of the two tricks I mentioned above: To move house!

If you can't save money given your current living arrangements, change them. This will put you in a position to save money far more quickly than trying to spend less in the pub or drink fewer cappuccinos every week.

If you are renting, move, go and rent somewhere at least 10% cheaper and invest that difference. Although if you are making the change, why not consider somewhere 20% cheaper, invest 15% and have 5% more disposable income?

If you own a house, and your mortgage payments are eating up so much of your monthly income that you can't find 10% of your money to invest then it may make sense to sell the house and downsize. I appreciate this may seem like a fairly dramatic course of action, but it can help you ensure your finances are more balanced and you have investments other than just your primary residence.

Negative Equity

I do appreciate that some people reading this may be suffering from negative equity. For those who don't know the term, this means that if you were to sell your house you would end up with less than you need to pay your mortgage back. This can be a stressful situation to be in. If you are in negative equity, it may not be immediately obvious that you can benefit from moving home. What you decide to do will be an intensely personal decision, based on your own specific circumstances.

Being completely honest, however, if I found myself in that position today, I would be worried about two things:

1. The very real risk that interest rates are likely to increase in the years ahead. Remember, they were at a 300-year low and this was not sustainable. (NB - in the time since I wrote the last edition of this workbook, interest rates have increased significantly).

2. Obviously linked to this, the risk that the value of my property will fall further.

There is a chance that if you hang on, things might get better and the value of your property might bounce, depending on where you are. But the future is unknown, and what if it doesn't? There is also a chance that your property may fall further in value at the same time as your mortgage payments rise along with interest rates. Given the state of the British and global economies, certainly there is a chance of the latter scenario. Confronted with this reality, wouldn't it be better to bite the bullet, downsize as much as possible – and as soon as possible – and use the money you free up to pay back the rest of that loan?

Having come this far, you will hopefully now have worked out how to find at least 10% of your income for saving and investment, paid off any relevant debt and built up a “rainy-day” pot of cash sufficient for your own personal circumstances.

This done, you should now be ready to give consideration to investment specifically – the subject of our next section...

PART TWO

Q: What now?

A: Investing

- Investing versus trading.
- Investing: how to invest so that crashes don't matter.
- Introducing the idea of "100 minus your age".
- How to approach "defensive" assets.
- How to approach "aggressive" assets.

4

Investing versus trading

Once you have eradicated any expensive debt and saved a decent amount of cash in your “rainy-day” pot, you are ready to start *investing*.

To be clear, we are talking about *investing* here, *not trading*. These are two very different things.

One of the most important things to understand when it comes to your finances, your money and maximising the chance that you become wealthy is the crucial difference between investing and trading.

This is a topic that is incredibly poorly understood, and never more so than today with the rise of social media, the crypto and trading markets, and far too many Instagram and Tik-Tok influencers who have never passed a finance exam.

It is really important to understand the extent to which trading and investing are two completely different things. Failing to understand this difference is one of the key reasons so many people fail with their finances.

This is an incredibly important distinction to understand, so it is worth taking a moment to clarify this key point.

The first thing to say is that *investing* is for absolutely *everyone* – and almost no matter how much you earn. It is something everyone should do as soon as they are able to, and even with tiny amounts of money and should continue to do for their entire working life – no matter what is going on with the news or the economy too by the way, a topic to which we will return.

The same cannot be said about *trading*. At the most basic level the reason this is so important is quite simply because for the significant majority of people:

...You have a high chance of making money and becoming wealthy if you *invest*.

...You have a high chance of losing money if you *trade*.

This is true for most people. To be clear, I have nothing against trading as an activity overall. Done well and done at the right time in your life,

and under the right conditions, it can be powerful, and potentially a good way to grow your wealth.

It is just really important to understand the difference between these two activities, and the fact that getting investing right should be a much higher priority than learning how to trade for the vast majority of people. Investing really should be everyone's first priority.

In this section of the workbook we look in some detail at why this is: First - investing is about *gradually building wealth* over a *long period of time*, ideally a very long period of time. You invest whatever you can afford into something sensible every month for many years. If you do this reasonably well over long periods of time, you have a solid chance of becoming wealthy – no matter what your income, background, or education level by the way.

There is more than a century of evidence that this is the case. It is also how the majority of millionaires became millionaires, particularly when this is done over several generations.

Ultimately the reason investing works is quite simply because by doing it you give yourself financial exposure to human progress. This is something very real and tangible.

Trading is something completely different. It involves attempting to time financial markets in some shape or form, often over relatively short periods of time and requires a great deal more skill than investing.

Investing is about human progress and global growth. It helps to provide capital for real businesses that are doing real things in the real economy: Developing new software, or trying to cure cancer or build a factory, ship, or building for example.

Trading is much more of a zero-sum game. It is financial speculation which doesn't really create anything. If you win, it is generally because someone else has lost. As a result, in the main, investing is fundamentally good for the world and for human flourishing. This is much less the case for trading.

To be clear, some people *can* make a great deal of money through

trading, but it is really important to understand that most people don't, and why this is. It is well established that 70-80% of people lose money when trading.

The reason for this is actually quite simple: Becoming a good trader is hard and time consuming.

1. If you are going to trade – of course you really must learn the skills required to do it well. I would say that the work required to become a half-decent trader, and do it properly so that you have enough skill to stay safe when you do it, is at least an A-Level's worth of study, at best. In fact, it is actually probably more like a degree's worth before you will get properly comfortable and consistently good and have the deep understanding of financial markets and the key trading techniques you will need. Even then, there is no guarantee you will get there, even if you are willing to do the work.

It is worth thinking about the fact that to be good enough, you will need to understand the subject matter really well. Ideally you will need to be an "A" grade student or close to it. If you have a poor understanding of what is certainly a complicated subject there is a real risk that you will lose money. Just as you wouldn't want an airline pilot or brain-surgeon who had only a mediocre understanding of their subject matter, you really don't want to be a trader unless you have a very firm grasp of what you're doing. This idea should come sharply into focus when you consider that you will be competing with some of the smartest and best-resourced people in the world if you do decide to start trading.

2. Secondly: Even once you have put in that initial work to learn about it at a fundamental level, the amount of time and effort required to actually do any kind of trading and succeed at it on an ongoing basis is also significant, and prohibitively so for many people. This is certainly the case for busy parents for example, or if you're just starting out in your career and have a tonne of work and study to do. Be careful about anyone who tells you it "only takes five minutes a day". It might take them five minutes a day after years of practice, but that will absolutely not be true for any beginner, not

to do it properly and actually acquire sufficient skill to protect yourself from the risk of losing money.

As another general comment, if you're going to take the very real risk of losing the money that you've worked so hard to save, don't you think this is something that you should be spending more than five minutes a day on anyway? This is pretty important stuff after all.

3. Thirdly: Another really important point that is poorly understood is the fact that unless you have *significant net worth* in terms of liquid assets and cash, trading is actually highly likely to be something of a waste of your time in *absolute* terms. The financial return you might make on the time you need to spend on it will be fairly small compared to lots of other things you might be doing with that time. Unless you have quite a lot of money already, I would say ideally a chunky five- or even six figure sum, you are not going to be able to deploy enough capital at a *low enough risk* to make all that extra work and time spent staring at screens worthwhile in *absolute* terms.

The best trading educators will show you that you should only ever risk a relatively small amount of your money on each trade, ideally not more than 1%. If you only have a few hundred or even a few thousand pounds, then if you take that advice, as you almost certainly should, you'll only be able to make relatively small amounts of money from trading.

If you think about this in terms of the optimal return on your *time* (which is by far your most valuable resource), this is likely to be pretty poor compared to many other things you could be doing with that time.

Say for example, you have even as much as £10,000. Even if you have a fantastic year and make a 30% or 40% return in a year, you will have made £3,000 or £4,000 in *absolute terms* over the course of a year. Although this might sound great, for a beginner this will likely have required many, many hours of your time to achieve.

I think it is important to think quite deeply about whether that time might have been spent better doing something else. If you'd spent those hours on getting better at your job, or even on getting a new job, might you have managed to increase your salary by a great deal more than that for

example? For many people this is possible, in time at least. An increase in your skill level and / or salary also has the advantage that you're very likely to benefit from that increase for many years to come, possibly forever after. In contrast, for many new traders a 30% or 40% year will so often be followed by a year where you may then lose money, which is nowhere near as good an outcome, clearly.

Put another way - the return on trading is far less *reliable* than the return on becoming more skilled and better paid. Without wanting to sound too boring: Truly the hours you might spend trying to learn how to trade currencies or glued to crypto groups on social media would almost certainly be better spent becoming better and more valuable at your day job, and getting paid more as a result. Or, if you hate your day-job, on spending the time to figure out what else you could do with your life, acquiring the skills to do it and making that move.

I believe that this is a really important point to make. Far too often people who have very little money go straight to things like crypto and currency trading, completely bypassing doing the best with the far more fundamental things like savings, ISAs, and pension arrangements. To me, this is certainly doing things in the wrong order, and like someone with a white belt in karate or judo fighting black belts on day one of their martial arts journey; very likely to result in you getting hurt.

4. Fourthly: Trading and crypto services are also invariably expensive on the basis that they promise "life-changing returns". To me, there is no worse a rookie mistake than someone with e.g. £3,000 of savings paying some un-regulated "guru" £1,000 of that to "learn trading". It is my firm belief, borne out by the evidence, that most people will be better off spending their time on things that earn them money and saving and *investing* (not trading) 10% or more of those earnings for many years until they have much, much more than a few thousand pounds.

It is for these reasons that so many people fail at trading and it is a completely inappropriate activity for the vast majority of people. Many

trading educators, whilst sometimes teaching viable skills (the best of them at least), often don't actually help people improve their finances in the real world. Simple, regular investing by direct debit into a sensible mix of funds is a vastly better idea, in my opinion.

This is also a set and forget approach to succeeding which only really needs to be looked at again every five or even ten years to have a massively positive impact on your chances of becoming wealthy. This approach to *investing* is the focus of the rest of this document.

To be clear, I am categorically not saying that all trading is bad or that everyone working in that field is unethical or dodgy. If you have the time and the money and are ready to do the work, then learning how to trade is something to consider and can be fairly powerful.

I'm just saying that this is only something you should do *after* you have put the more fundamental financial building blocks in place, after you have built up enough of a capital base to make it worthwhile, and only if you are willing to commit a great deal of time and effort to it.

Sadly, far too many people are trading when they really would be far better off investing. If this sounds horribly boring, it is probably worth bearing in mind that the best investors and the most successful people think in terms of decades not months or years.

On the road to becoming wealthy if you want to maximise the probability that you succeed, two of your greatest allies are *time* and *patience*. When you then become sufficiently wealthy, let's say in your thirties, forties, or fifties realistically, depending on how early you start and how much you earn, that is the time that you might deploy some (not all!) of that wealth into trading strategies, single stock investment or crypto.

To really jam this point home, it is probably worth my flagging that I have had several years in the last two decades where I was 100% focused on entrepreneurial stuff and wasn't working full time in a conventional job, and before Rachel and I got married and we had our children. Back then, I traded fairly often and I had some pretty solid success at it; because I had a decent amount of capital, I'd worked in financial markets for an

investment bank for many years, read a tonne about it and had many hours a day to commit to it. Nowadays, however, I basically don't do it at all. Almost never.

Although I consider myself to have the skill set, nowadays I have a family and a very demanding job which I love and am very excited about and committed to. I just don't have the time to trade at the moment, so I don't do it at all. I am sure I will get back to it in the future, but my honest belief is that the ROI (Return On Investment) of every hour I spend on Plain English Finance is much higher (and more than likely lower risk too), than if I spent that hour on trading. I think this is actually true for many, possibly even most people.

I believe that one of the most important ideas for succeeding in life generally is deploying the 80/20 (or 90/10) rule to all that you do. That is to say that you should focus 90% of your effort on the 10% of actions that bring you 90% of your success. I do this as best I can and that doesn't currently leave room for trading, even though I have the experience and the capital.

For most people, perhaps the best time to become a trader is actually once you are retired. If you have a fair bit of money, a decent amount of time on your hands and an interest in financial markets – this could be a great activity for you.

For much of the rest of the population, however, it really isn't. Another one of the tragedies for so many people not understanding the difference between investing and trading is the fact that a good number of people try *trading* and lose money and then give up on *investment* – because they fail to understand that these are two completely different things.

I have seen this time and time again in more than 25 years of being involved with financial markets.

Single stocks vs entire markets

The other key thing worth covering right out of the gate here is the difference between investing in single stocks as against entire markets.

Along with trading, rather than investing, another of the rookie mistakes so many people make is to invest in single shares (individual companies) without understanding in any meaningful way how to do that.

The evidence shows that a lot of investors only own a handful of shares, quite often only one or two household names that they are particularly enthusiastic about. Nowadays this might be something like one or two of Apple, Tesla, Facebook, Amazon or Google, for example. Another thing that people often do is choose to buy a “hot”, high-risk share because a friend has given them a share tip.

All too often, buying a small number of shares of any kind like this is a dangerous approach to stock-market investment, unless you have a deep understanding of how to do that.

To give you an idea of how much you need to know before you should even think about investing in a single share – below is a list that I have posted several times over the years when someone has suggested to me that they want to buy a single asset - because it has fallen a great deal in price or because someone at work has given them a share tip. I hope this will give you an idea of just how much you need to learn before you engage in this activity.

If you’re going to think about “punting” on single stocks (or single commodities for that matter), at the very least you should produce a detailed investment checklist to work through every single time you think about doing this before you buy a single share.

For shares, this should include (off the top of my head):

1. Valuation metrics such as P/E and EV/EBITDA ratios, Return On Capital Employed, Earnings Yield, Dividend Yield and DCF (Discounted Cash Flow). In more complicated sectors like banks or oil and gas, there are a whole raft of other specialist ratios you will need to consider.

2. Balance sheet metrics: Gearing ratios such as Net Debt to EBITDA, tangible and intangible assets and what you think about how they have been valued.
3. Revenue, profit and earnings growth numbers (historical and forecast).
4. Likely / potential company specific news flow coming in the next year at least, preferably more than that.
5. Macro factors which might affect the company: Geopolitics, government changes, tax changes, currency risk.
6. Other exogenous factors. What are competing companies doing? Is there a new technology or trend which could threaten (or help) the company?
7. How good are management and how committed? Do they own lots of shares or not? How much do they pay themselves and how is this calculated?
8. What about index considerations. Is the company part of an index? Might it fall out of that index? If it is not in an index, might it be included in one any time soon? (This will create buyers or sellers from index investors).
9. What does the current shareholder register look like? How smart are the other shareholders? How long have they been involved? What sort of investors are they?
10. What is the current “short interest” on the company? What are the hedge funds doing?
11. What are various technical indicators for the company looking like? (E.g. RSI, MACD, Bollinger bands etc...).
12. What are forecasts doing across most of the above?

Very importantly, you should also have an *exit* plan. Consideration of the laundry list of things I’ve just given above might give you confidence to *buy* something. How are you going to decide when to *sell* it though? Most amateur investors literally never even think about this when they buy a share, yet deciding when to sell is arguably even more important than when to buy.

In my experience very few people understand this stuff or do this work prior to buying and selling shares, and this is one of the reasons stock market investment can be so dangerous.

Make no bones about it, if you don’t understand *everything* given in the list above in real detail, and quite a lot more besides actually, you really

do have no business at all making investments in individual shares. At the very least, if you do decide to do this anyway, you should realise that what you are doing is very risky indeed and much more akin to gambling than investing. This is true even if you're investing in big, famous household name shares by the way. Plenty of big companies have fallen 80-90% or more, or even all the way to zero over the years.

The fact that a company is a “good company”, doesn't tell you much about whether the shares are a good investment or not. Arguably the more important considerations are then what you are paying for those shares and what may or may not happen in the future – all of which is pretty complex stuff.

If you have a detailed understanding of the list given above, and an exit plan too, then you can look yourself in the mirror and know that you're not just rolling the dice / putting your money on black. If not, you have very little of the information you need to buy a single stock and there lies great danger.

Crucially, however, this need not matter and should not prevent you from getting involved in stock market investment, for the simple reason that you can *buy the entire market*, rather than trying to learn all the stuff given in the list above so that you can choose single stocks safely.

For most investors, investing in an entire stock market is likely to be a far better option than learning the huge amount that you need to learn before you can invest in single shares with any level of confidence and sufficient skill.

Buying the entire market has a number of advantages over investing in single stocks:

- It does not require you to spend a huge amount of time learning about all this complex stuff.
- It ensures that you are diversified across a large number of companies and industries.
- It takes far less time and effort generally.

- It is also very cheap to do – and tax efficient if you’re using your pension and ISA accounts.

The evidence shows that the majority of investors underperform the market as a whole – so why not just buy it? This will increase the chance that you do better than most investors – by definition.

As veteran American investor John Bogle has put it:

“Don’t look for the needle in the haystack. Just buy the haystack.”

To buy entire markets, all you need to do is understand what an index is and then how you get exposure to that index by using something called a tracker or Exchange Traded Fund (ETF). We will look at this in more detail later in the book.

If you have read “How to Own the World” (A7), you will know that the last two chapters of that book are called “Keeping it simple” and “Taking things further”. The first of these explains a set and forget, low stress/sleep at night approach to investing that should grind out high enough returns and protect the downside enough such that you will have a good chance of getting properly wealthy over time. Explaining this approach in more detail is the focus of most of the rest of this workbook.

The chapter, “Taking things further”, gives you a number of ideas, tools and resources to use to start on the road to becoming more of a “trader” – that is to say, making more regular purchases and sales of financial products and giving consideration to investing in *individual* shares or other assets such as Exchange Traded Funds (ETFs) on a commodity, index or currency – or using something called spread betting, for example.

The further down the road I have gone on this journey, the more I have realised that the “Keeping it simple” approach is very likely the best approach for the *vast majority* of people. I explicitly made this point at the beginning of the “Taking things further” chapter in the most recent edition of “How to Own the World” (A7) - under the header “Automation best for most?” (page 274) and I’ve expanded on these important

themes here in this workbook over the last few pages.

My whole point here, particularly for younger readers, and for those who don't yet have a decent amount of capital, is that you most certainly should do as much as you can to become more financially literate.

Please realise, however, that the long game, and using automated direct debits into sensible funds, is likely to be your best bet for a long time to come and be very careful of anything that looks like trading or even thinking about investing in a single company (or any crypto stuff for that matter) - until you're a long way further down the road.

In the next section, we will turn our attention to *investing*.

5

Investing

If you have followed me or Plain English Finance for any length of time, you may have heard me say that I think investment success is probably about 90% admin' and only 10% asset selection.

This is certainly not any kind of scientific or accurate number. All I mean when I say this, is that if you set up the right saving and investment habits into the right accounts and invest in almost anything vaguely sensible and for the long-term, there is a high chance that you will make some exceptional forward progress with your finances over time. You could very likely become a millionaire if you do this consistently for a long enough period of time, almost no matter what you earn.

The vast majority of people simply don't do this. Often this is because they don't have enough confidence about what a "sensible" approach to their finances might be, so they do nothing, like the proverbial "rabbit in the headlights..." This is nothing short of tragic – for millions of people and, perhaps even more importantly, for the society we live in, particularly in the UK.

Over the next few pages I will provide you with what I think is a logical approach to investment that anyone can understand and implement, and that should help you get past this block as a result.

As a key first step on that road, it is perhaps worth saying a little about the big-picture end-goal of investment overall. This is a key starting point. The clearer an idea you have of where you want to go, the more likely you are to succeed in getting there after all.

So, with that in mind - what is the most fundamental point of investment?

The answer is that, ultimately, the whole point of investment is that there comes a magical moment at some stage in your life where *you are able to live on your money or, even better, the money you make from your money rather than the money you make from working.*

In the language of economics: You are able to live on your *capital* rather than from your *labour*.

This should be everyone's north star when they think about money,

investment and financial markets. If this sounds crazily unrealistic to you, then I would point out that actually this is just the whole idea of a “pension” after all.

Of course you may also want to use investment to help you achieve certain financial goals long before “retirement”. This would include short- to medium-term things like saving for a holiday, or a large expense such as a car or wedding, and to help you build towards a deposit on a property too.

Using financial market investment to grow your money can potentially help you achieve such things more quickly than the traditional approach of saving only in cash. That said, it is crucial to strike the right balance between chasing higher returns and the risks inherent in financial markets – a key focus of this section of the book.

It is perhaps worth saying that saving and investing is something that we are not very good at in the UK. To be able to live on your money, you will need to build up to a solid six or even seven figure sum.

This is because, depending on where interest rates are when you want to stop working, each £100,000 you have in your investment pot should buy you anywhere between about £4,000 and £8,000 a year of income.*

If we take the middle of that range, so about £6,000 for every £100,000, you can see that £500,000 could buy you around £30,000 a year of income on average, whereas if you’d managed to get to as much as a million, you’d have more like £60,000 or so to live on each year.

Sadly very few people in the UK are getting to these numbers. Estimates vary but the average pension pot in the UK at the time of writing is somewhere between £40,000 and £60,000.

As you can see based on the number range given above, this is only enough to buy somewhere between £1,600 and £4,800 a year of income – depending on the size of the pot and interest rates when you retire. The

* These numbers are based on “annuity rates” at the time of writing – the amount of income you can swap a certain amount of capital for. These are always changing but this is likely to be a sensible range for some years to come.

state pension is currently around £10,000 a year so this implies most people in the UK will have to get by on less than £15,000 a year at retirement, and many people on some way less than that.

The other point to mention is that you need to think about the impact of inflation in all of this, particularly given where levels of inflation are nowadays and might be in future.

Perhaps of most importance, there are real concerns about the extent to which the government will be able to afford the pension obligations of millions more retirees in future, given the state of the British economy, levels of government debt, our rapidly ageing population and the fact that so many of us will live well into our nineties and even beyond that in the years ahead. Increasingly, we have too many old people who need funding and too few young people who are working and paying tax. This problem is compounded by how few people are investing.

The UK pension system was set up in 1909 to fund people over the age of 70 when life expectancy at the time was 47! There were a lot of workers paying tax to fund relatively few retirees who lived past 70. The situation today is night and day different, but successive governments have essentially tried to pretend there is no problem and have lacked the political will to be honest with the electorate about such things.

This is a big part of the reason the government has more than £2.6 trillion of debt outstanding, we've done vast amounts of Quantitative Easing (QE) in recent years, and one of the causes of inflation and the cost of living crisis we're enduring at the time of writing.

As a result, it isn't an exaggeration to suggest that we confront a pensions crisis in the years ahead, and regardless of who is in power in Westminster. Sadly, millions of people are sleepwalking into an impoverished future.

Crucially, this has a great deal less to do with people's incomes and much more to do with the fact that too few people are making the most of investment, truly. This reality is a big part of our mission. The good news is that millions of people *can* do something about this looming

pensions crisis. They “just” need to do a better job with saving and investing, as does British society as a whole.

The even better news is that if you start early enough and do a sufficiently good job with investment, you could even find yourself able to live on your money some way earlier than traditional retirement age.

This possibility has gained more attention in recent years with the rise of the so-called “FIRE” or “Financial Independence Retire Early” movement. FIRE devotees prioritise saving and investing with the aim of achieving financial independence and being able to “retire” before traditional retirement age.

The idea is to accumulate around 25 times your annual expenses. This implies you might expect to achieve an investment return of around 4% per annum consistently – which is quite a conservative assumption and leaves quite a lot of room for error by the way (i.e., if you’re able to make a higher return than 4% over time).

Many people think the idea of getting to a large six- or even seven-figure sum is unrealistic. I showed in my first book that this is not the case. Even people on average incomes can realistically aspire to achieve this if they do a sufficiently good job with investment over a sufficiently long period of time. We will look at this in more detail in the pages that follow.

A big part of the reason so many people are cynical about this possibility is because they don’t understand the power of compounding returns. It is estimated that more than 60% of British adults don’t understand compounding.* I would argue that this is one of the reasons about the same number of British adults don’t save and invest. It probably goes without saying that people who believe they have half a chance of turning hundreds of pounds into millions of pounds are far more likely to invest. We look at compounding in more detail in the next few pages.

* <https://www.aviva.com/newsroom/news-releases/2023/04/effect-of-inflation-on-savings-not-understood-by-majority-of-brits/>

Perhaps one of the other main reasons so few people invest is because when they think about investment, the first thing they think about is the risk of a “stock market crash”. So, let’s deal with that concern first.

“How to invest so that crashes don’t matter...”

In December of 2017, I was incredibly honoured to be asked to contribute a chapter to the prestigious “Harriman’s New Book of Investing Rules” (iii) alongside some of the world’s most famous investment professionals.

My chapter was entitled “How to Invest So that Crashes Don’t Matter”.

As I said at the beginning of that piece:

“I believe that I can arrange my financial affairs such that I am comfortable that whether there is a massive crash or whether stock markets power ahead, my ability to meet my longer-run financial goals will be largely unaffected. You should feel the same way too...”

How can I say that I’m confident I can invest without worrying about financial markets crashing? How is this possible? In this section of the workbook, we’ll look at a number of key ideas which explain why.

(By the way – if you’ve read an older version of this workbook you will notice that I’ve expanded this section considerably in this new 2025 edition. This has come about as things have changed and evolved and as we have learnt more over the years about many of the key things people have wanted to understand).

6

Two key investment phases & sequence risk

One of the first things to understand when thinking about how to approach saving and investing enough to get to the point that you can live on your money, is that there are *two key investment phases* in your life. These are: Accumulation and decumulation (which is sometimes called “drawdown”). Let’s look at each of these in turn:

Accumulation

This is the period in which you attempt to build wealth by saving and investing. You might think about this being your focus from roughly the age of, say, 30 (or, ideally, even younger) to the age of 60 (or younger if possible).

What is really key here is that *you must think in terms of this taking many years* – for most people this will be anywhere from 20 to 40 years – and it is really important to think along those lines and not be in a hurry.

Time and a very long-run approach are two of your biggest allies in investment for all sorts of reasons, as we shall see in what follows. This is also why the earlier you start, the better – even if only with relatively small sums. It is far better to invest a small amount every month now without fail than nothing at all in the hope that you’ll invest a lot “one day” in the future. The best investment platforms and fund supermarkets let you start with as little as £25 a month for example. This is absolutely worth doing as compared to doing nothing.

To illustrate this point: If £1 invested today achieves long-run stock market returns of around 7.5% - after 20 years, that £1 would have become nearly £4.25, after 30 years, nearly £8.75 and after 40 years just over £18!

The US stock market actually returned an average of 10.46% in the century from January 1923 to December 2023. At this rate of return, £100 invested would have become £731 after 20 years, nearly £2,000 after 30 years and more than £5,300 after 40 years.

Put another way – the £1,000 television that a 25 year old might buy

– could rob their 65 year old self of somewhere between £18,000 and £53,000. Or, perhaps illustrated even more powerfully, that sort of investment return could turn £10,000 into somewhere between £180,000 and £530,000 over a lifetime of investing from your twenties to your sixties.

I think it is worth really dwelling on that reality for a moment. I would argue that this is one of *the* most important things to understand when it comes to investment – and, actually, even just to *life* more generally.

This is just how powerful an effect compounding can have over many years and shows just how important it is to try and get at least *some* money to work as soon as you can!* Far too few people understand this stuff which is a tragedy for individuals and for society more broadly for all sorts of reasons.

Decumulation

The other key investment phase you need to understand is decumulation or “drawdown”. This is the period in your life when you will want to live on the wealth you have built in the accumulation phase. We might think about this as, say, roughly from the age of 60 onwards - or younger if you start early enough, can earn and invest a lot, or do a really good job or are particularly lucky with your investment returns.

As we’ve seen, the holy grail of investment is to get to a point where you can afford to live on the returns you make on your money and, traditionally, it is assumed that you can do this if your pot is something like 25-times your annual living expenses.

In that example, say you want £40,000 a year to live on, you will ideally need to get to a pot of £1 million or more to be able to reliably take £40,000 a year of income out of your pot from investment returns and

* If you want to see this stuff at work, please do have a play with some numbers on this excellent website: <https://www.thecalculatorsite.com/finance/calculators/compound-interestcalculator.php>

for that pot to remain intact – so you can live on the money you make from your money!

Most people will have paid off their mortgage by this point and hopefully won't have any more expenses related to children by then either, so for many this will be a pretty decent disposable income.

Of course many people won't get to a level where they can live on *just* the investment returns from having a very large pot. This is why this phase is called “decumulation” or “drawdown” – because many people will have to use a combination of the income (or investment return) from their pot and “drawdown” or “decumulate” from the pot itself – the capital – between retirement and death.

To illustrate this – imagine you had £500,000 and wanted to live on £25,000 a year. Assume you make a 5% return in a given year – this will mean that you'll be able to withdraw £25,000 to pay yourself and still be left with £500,000 (5% of £500,000 is £25,000).

Imagine, however, in the following year you actually lose 5% but still want to pay yourself £25,000 – this will mean that you'll end that next year with £450,000 in the pot – because you've lost £25,000 and paid out £25,000. Perhaps in year three you are lucky and make a 10% return. Then you'd be able to pay yourself £25,000 and end the year with about £470,000 (you make £45,000 of investment return, 10% on £450,000, which takes you back to £495,000 and then pay out £25,000 of that).

The key consideration here is to ensure that your pot lasts you as long as it needs to, to ensure you don't run out of money. It is perhaps worth mentioning that this can be pretty complicated stuff and obviously a very important subject: Running out of money in retirement is a pretty horrendous prospect – which is why it is crucial to be on top of things as best you can and as soon as you can.

...Risk of Loss and “Sequence Risk”

A key focus then is on how you might do the best job you can with investment in both phases – *accumulation* and *decumulation*. When thinking about this – there are two important considerations:

First – your *investment returns*. The higher these are, the more wealth you can build and / or the faster you can build it. You might think about this as the return *on* your money.

Secondly – the crucial importance of avoiding suffering a large loss along the way. Or, put another way, the return *of* your money!

One of the key challenges here is that investments which increase your chance of making a higher return generally also increase your chance of suffering a large loss. Another important thing to consider is that a very large loss will impact you differently depending on how old you are. Not losing money becomes increasingly important as we get older.

The reason for this should be fairly obvious: If you are 30 and have built an investment pot of, say, £10,000 – a 50% stock market (or bitcoin) crash would reduce the value of that pot to around £5,000. This isn't great but it is clearly a great deal less problematic and stressful than if you are 65 years old and the £1 million you have spent a lifetime building falls to £500,000 in the same scenario (with the same percentage fall).

If you are 30 in this scenario, you still have many years ahead of you to build your investment pot. If you are 65, however, you do not have that time and will more than likely need this money to fund you and your family in retirement.

This is why, for most people, the older you get, the more catastrophic a large loss is likely to be and the more you need to be thinking about the return *of* your money rather than *on* it.

Professors Andrew Clare and Stephen Thomas, with whom we collaborate on our investment fund (C7) describe this reality as “sequence risk” (they are two of the world's leading authorities on the concept). This is one of the most important and poorly understood ideas in investment,

particularly as you get close to retirement, and we'll look at it in more detail in the next few pages.

What you want to do then, is maximise your potential annualised investment returns over a lifetime of investing and minimise your risk of loss, and most particularly a large loss, especially as you get closer to retirement as explained above.

There are two key reasons why reducing the possibility of suffering a large loss is a very important consideration for an investor generally:

1. The crucial role played by human psychology.
2. Something called “the break-even fallacy”.

Let's look at each of these in turn:

1. Human psychology – we are hard-wired for failure

As I have written on numerous occasions over the years, we human beings are quite literally hard-wired psychologically to be bad investors. The way our brains work hugely increases the likelihood that we will buy high and sell low.

When we see an asset going up and “lots of people making money”, there is a high chance we will rush to buy that asset given how strong our FOMO (Fear Of Missing Out) is. When we then see it plummet, there is an equally high chance we will rush to sell it as we panic. Sadly, this is gilt-edged human nature.

It is this panic selling that is of most concern when it comes to long-run stock market investment, however. Many “higher risk” assets *will* deliver high percentage returns in the long-run. The problem is that they can be highly volatile in the course of that long-run. Few people have the mental fortitude to continue to own and continue to buy something that has fallen a long way – and this will always happen with riskier assets at

various points in time.*

The record of many decades of evidence is that investing in the stock market (in shares or “equities”) will give you the best chance of making reasonably high real returns over time. Set against this fact, stock markets have a habit of crashing every few years and often as much as 50% or more.

In the 2007-2009 “global financial crisis”, for example, stock markets all over the world plunged. Arguably the world’s most important index, the S&P 500, fell from around 1,500 in October 2007 to the slightly spooky and biblical low of 666 by March 2009. That is a fall of around 56%. The UK stock market fell by even more than this, as did pretty much every other stock market in the world to a greater or lesser extent. Each of these markets had already done a similar thing a few years earlier in the dot.com sell off of 2000 to 2002.

All over the world journalists churned out the usual hyperbole about how “dangerous” investment is and people reacted as they so often do when there is a stock market crash: They pulled money out of the stock market in a panic and gave up on investment. In doing so, they turned a “theoretical” loss into a real one.

At the time of writing, the S&P is at around 6,000 – that is about 800% up from the 2009 low. Those people who gave up on stock market investment in recent years have potentially missed out in a big, life-changing way. Sad though this is, many people find it almost impossible to sit on a paper loss of any magnitude and ride it out, confident that things will get better in the longer term.

This is why stock market crashes are so corrosive and many people are scared of the whole idea of “investment”. It seems too frightening, risky and capricious an activity. But it really need not be as we shall see below.

Financial products are one of the few things that people tend to buy when they’re expensive and sell when they’re cheap – for reasons of

* A very good book on this subject is “The Psychology of Money” by Morgan Housel

deep-seated human psychology. It is for this reason that most people's investment returns are generally a long way lower than the returns of the stock market as a whole. And that is the people who are actually investing. Even worse, most people don't invest in the stock market at all so have no chance of benefitting from these sorts of returns – one of the main reasons so many people struggle financially and also a big part of why the UK is in such a pickle economically by the way. Below we'll look at how you might deal with this reality.

2. The break-even fallacy

The fact that our brain can lead us to buy high, sell low and also, very possibly give up on investment entirely is bad enough, but there is a second consideration that means that the impact of risk and volatility on your real-life ability to make money can actually be even worse! This is something called “the break-even fallacy” which too few people understand (in my experience).

The break-even fallacy is all about how maths works at the most fundamental level when it comes to calculating percentage returns. It is the arithmetic fact that a higher percentage return is required to get back from a price level to break-even (square one) than was suffered when an asset originally fell to that price level.

If this sounds a bit complicated - hopefully the table on the next page will help explain: As you can see from the table, if something you own falls 50%, you will then need it to go up 100% to get back to where you started (not 50%). As I say - the phenomenon shown in this table is often poorly understood.

Many people naturally assume that if you lose 50% of your money, for example, you will then need to gain 50% to get back to square one. This is incorrect. If you are down 50%, you will need to make fully 100% to recover that loss.

If you are down 25%, you will need to make 33%, if you suffer a 90%

fall, you'd need that thing to go back up 900% and at 95% - you would need to be lucky enough to see no less than a 1,900% recovery (as so many people have experienced in the crypto world in various altcoins in recent years).

Figure 1 - Table illustrating the break-even fallacy

Percentage loss	Percentage needed to recover loss	Percentage loss	Percentage needed to recover loss
5%	5.3%	50%	100.0%
10%	11.1%	55%	122.2%
15%	17.6%	60%	150.0%
20%	25.0%	65%	185.7%
25%	33.3%	70%	233.3%
30%	42.9%	75%	300.0%
35%	53.8%	80%	400.0%
40%	66.7%	85%	566.7%
45%	81.8%	90%	900.0%
		95%	1900.0%

It is extremely important to understand this. If you have £10,000 in a high-risk asset such as bitcoin or, say, £100,000 in shares in your pension or investment account, and you are unlucky enough to see a 50% fall in the value of your position (as people so often do in crashes), you will end up with £5,000 or £50,000. To get back to your original £10,000 or £100,000, you will then need to make a 100% return, *not* a 50% return.

This is why Warren Buffett, arguably the world's greatest living investor, has said about investment:

“Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1.”

Sequence Risk

We can illustrate further how important it is to avoid a large loss if at all possible, by looking in more detail at this idea of “sequence risk”.

Sequence risk is the idea that the *order* of your returns can matter more than your total returns and even the volatility (risk) of returns when it comes to building wealth in the real world.

This may sound a bit complicated, but it is sufficiently important to merit an attempt to explain as best we can in “plain English”.

The idea of sequence risk is so unusual in investment thinking that it requires a couple of simple numerical examples to illustrate. Below, we'll look at the impact it has in both the accumulation and decumulation phases:

Accumulation: The importance of ORDER “on the way up”:

Let us take the example of a thirty-year-old who has managed to save £10,000 in their twenties. Let us also assume they are able to save and invest £500 a month into a stocks and shares ISA account.

(The concept is easier to illustrate and comes across more powerfully with bigger numbers, so please forgive us if this seems like quite a punchy savings assumption! I appreciate that someone will need to be on a pretty decent income in order to be able to invest £500 a month. The point is just as valid with smaller numbers but doesn't “pop” quite as much as what follows. I might also point out that £500 a month should be a number that many couples can aspire to save together – i.e., perhaps around £250 a month each).

Next, let us assume they are able to make roughly equity market returns

from the age of 30 to the age of 60. We will therefore assume 7.5% per annum (as roughly what many equity markets can deliver in the long-run. This is actually quite a conservative number when you compare it to the last century of returns of the S&P for example).

So – in our example, they are starting with £10,000, saving £6,000 a year and making 7.5% returns.

Now comes the really interesting bit – let us assume that *one* year in those 30 years (and only in one year), they suffer a big stock market crash. The S&P 500 fell just over 38% in 2008, so we are going to use that number for the purposes of illustration.

The table on the next page shows you how this person will build real wealth, given the assumptions we have made, but illustrates the significant difference that results from the *order* in which those returns happen. I have highlighted the impact of that 38% down year in dark grey, or orange if you have the digital version, in each of four scenarios: Whether someone suffers the big loss at the age of 30, 39, 49 or 59. The fifth scenario (on the right column) shows their progress if they don't suffer that big 38% loss in any year.

LIVE ON LESS, INVEST THE REST

Figure 2 - Illustrating the importance of order in accumulation

AGE	30	39	49	59	NO LARGE LOSS
30	£10,000	£10,000	£10,000	£10,000	£10,000
31	£12,200	£16,750	£16,750	£16,750	£16,750
32	£19,115	£24,006	£24,006	£24,006	£24,006
33	£26,549	£31,807	£31,807	£31,807	£31,807
34	£34,540	£40,192	£40,192	£40,192	£40,192
35	£43,130	£49,207	£49,207	£49,207	£49,207
36	£52,365	£58,897	£58,897	£58,897	£58,897
37	£62,292	£69,314	£69,314	£69,314	£69,314
38	£72,964	£80,513	£80,513	£80,513	£80,513
39	£84,437	£92,551	£92,551	£92,551	£92,551
40	£96,769	£63,382	£105,493	£105,493	£105,493
41	£110,027	£74,136	£119,405	£119,405	£119,405
42	£124,279	£85,696	£134,360	£134,360	£134,360
43	£139,600	£98,123	£150,437	£150,437	£150,437
44	£156,070	£111,482	£167,720	£167,720	£167,720
45	£173,775	£125,843	£186,299	£186,299	£186,299
46	£192,808	£141,282	£206,271	£206,271	£206,271
47	£213,269	£157,878	£227,742	£227,742	£227,742
48	£235,264	£175,718	£250,822	£250,822	£250,822
49	£258,909	£194,897	£275,634	£275,634	£275,634
50	£284,327	£215,515	£176,893	£302,307	£302,307
51	£311,652	£237,678	£196,160	£330,980	£330,980
52	£341,026	£261,504	£216,872	£361,803	£361,803
53	£372,603	£287,117	£239,138	£394,938	£394,938
54	£406,548	£314,651	£263,073	£430,559	£430,559
55	£443,039	£344,250	£288,803	£468,851	£468,851
56	£482,267	£376,068	£316,464	£510,014	£510,014
57	£524,437	£410,273	£346,198	£554,265	£554,265
58	£569,770	£447,044	£378,163	£601,835	£601,835
59	£618,502	£486,572	£412,525	£652,973	£652,973
60	£670,890	£529,065	£449,465	£410,843	£707,946

Source: Plain English Finance

£260,000 poorer?

You can see that if they have that large 38% crash year when they are 31, they end up with a pot of £670,890. If, however, they are unlucky enough to experience that massive fall at the age of 59, they end up with £410,843. This is a £260,000 difference. The person who endures a big stock market crash *the year before they retire* will be nearly 40% worse off than someone who suffered it as they were just getting started on their investment journey.

Of course - they will be even better off if they manage to avoid having a big down year at any point on the journey and will end up with even more (right most column).

The bigger these numbers are, the bigger the difference. This “sequence risk” could make a large six- or even seven-figure difference to a highly paid professional over thirty years of investment – which is why it is *so* important to understand.

Crucially all of these scenarios have the same overall *average* percentage returns and *volatility* because the person averages 7.5% for 29 years and has one 38% crash year (apart from the right-most column where there is no large down year).

But there is a very significant difference in their actual, real-world outcome as you can see...

This is sequence risk. It is actually just a simple function of how the maths work – and “the break-even fallacy” in particular (as explained above). In my experience, this reality is seldom, if ever addressed by fund managers or by the financial press. It is the most important investment concept which far too few people understand or take account of in their thinking.

Decumulation: What about on “the way DOWN” (retirement)?

We have seen the large potential variation in your likely real-world

experience as an investor caused by sequence risk “on the way up” in accumulation. Now let us consider the same concept with respect to what may happen in retirement.

We are now looking at someone’s real-world experience from the age of, say, 60 to 90. Let us assume that they have managed to build an investment pot of £500,000 by the time they turn 60 (something we firmly believe is entirely possible for anyone who starts their investment journey early enough and invests sensibly by the way – as you can see from the example above).

Let us also assume that they have paid off their mortgage and can live reasonably well on, say, £25,000 a year – so will want to take this amount out of their pot each year (they will “withdraw” £25,000 a year). We will keep the average annual return and “terrible crash year” assumptions the same at 7.5% and minus 38%.

(For the avoidance of doubt – we acknowledge fully that these are not “realistic” numbers – no asset is going to give you a smooth 7.5% every year for 29 years with only one big down year – but all we are trying to do here is show the very significant real-world impact of sequence risk in the most compelling way possible so that the point really comes home. These huge differences in your real-world end result will also occur with more “realistic” numbers). Below, you can see the crucial difference in the *order* of returns in retirement. In this scenario, if someone is unlucky enough to experience a big crash year when they have just retired – they will then run out of money before they turn 85 (left hand column).

In contrast, if the crash doesn’t happen until they are 80, they will still have £782,879 by the time they turn 90 – what a difference!

Most significantly, if they never suffer a big crash year at all, they will power into their nineties with more than £1.5 million!

Again – it is important to stress that the three scenarios on the left have the same overall average percentage returns and *volatility* – but there is a very significant difference in the real-world impact on the individual’s wealth (as you can see).

Figure 3 - Illustrating the importance of order in decumulation

AGE	60	70	80	NO LARGE LOSS
60	£500,000	£500,000	£500,000	£500,000
61	£294,500	£510,625	£510,625	£510,625
62	£289,713	£522,047	£522,047	£522,047
63	£284,566	£534,325	£534,325	£534,325
64	£279,033	£547,525	£547,525	£547,525
65	£273,086	£561,714	£561,714	£561,714
66	£266,692	£576,968	£576,968	£576,968
67	£259,819	£593,365	£593,365	£593,365
68	£252,431	£610,993	£610,993	£610,993
69	£244,488	£629,942	£629,942	£629,942
70	£235,950	£650,313	£650,313	£650,313
71	£226,771	£387,694	£672,211	£672,211
72	£216,904	£389,896	£695,752	£695,752
73	£206,296	£392,263	£721,059	£721,059
74	£194,894	£394,808	£748,263	£748,263
75	£182,636	£397,544	£777,508	£777,508
76	£169,458	£400,484	£808,946	£808,946
77	£155,293	£403,646	£842,742	£842,742
78	£140,065	£407,044	£879,072	£879,072
79	£123,695	£410,697	£918,128	£918,128
80	£106,097	£414,625	£960,112	£960,112
81	£87,179	£418,846	£579,770	£1,005,246
82	£66,842	£423,385	£596,377	£1,053,764
83	£44,980	£428,264	£614,231	£1,105,921
84	£21,479	£433,509	£633,423	£1,161,990
85	£-	£439,147	£654,055	£1,222,265
86	£-	£445,208	£676,234	£1,287,060
87	£-	£451,723	£700,076	£1,356,714
88	£-	£458,728	£725,707	£1,431,593
89	£-	£466,257	£753,260	£1,512,087
90	£-	£474,351	£782,879	£1,598,619

Source: Plain English Finance

No-one talks about this stuff!

The reason I stress this point is because it is vanishingly rare ever to see this utterly crucial reality presented to you by the finance-industry.

Why is this, you may ask? Perhaps because there is no statistic or measure that easily summarises this aspect of investing. Fund managers and financial advisers can easily compare themselves and market what they do with respect to percentage returns and, at the more sophisticated end of the market, “risk” or volatility-adjusted returns over a relatively short period of time, but there is currently no “league table” for master of the universe fund managers to compare each other based on their ability to deal with sequence risk.

Perhaps another reason for this is that the comparison would need to be made over *very* long periods of time – far longer than the standard 3-5 year performance numbers which most fund-management companies use.

This does not change the fact that reducing the possibility of big drawdowns (falls or losses) is certainly one of the key considerations when it comes to investment – and particularly as you approach retirement.

A fund or other investment which might look fantastic over a period of five or even ten or more years but which then falls as much as 50% just ahead of your retirement will have served you very badly in real terms. This is why it is crucial to get your *mix* of investments right over time, something we will look at in more detail shortly.

“...A rock and a hard place”

So far, we’ve shown how important it is to maximise your chances of having a big pot at retirement, not least given how little you’re likely to get from the government in the years ahead. We have also shown the merciless mathematics of the break-even fallacy and sequence risk and what a huge difference these can make to your ability to grow your wealth.

It seems that we are stuck between the “rock” of needing to make the highest investment returns we can and “the hard place” of avoiding ever making a large loss at any point in our investment journey and most particularly as we approach retirement. Happily, there are a number of ways you can deal with this reality.

First, let’s look at some of the key ideas with respect to that which apply to anyone in the *accumulation* phase – as you save and invest during your working life...

7

Four key investing ideas

Over the next few pages of this workbook we are going to look at four crucial ideas which can help you maximise the chances that you get a great result, minimise the risk that you lose money, and, hopefully, give you real peace of mind along the way too. These four key ideas are:

1. Investing for the long-run, and ideally the *very* long-run.
2. Investing regularly each month and automating your investments.
3. Ignoring the news and sticking to your guns.
4. Using an elegant approach to investment called “100 minus your age”.

Let’s look at each in turn...

1. Invest for the long-run – ideally the VERY long-run...

When it comes to stock market investment, the clear evidence of history is that the longer you invest, the less likely you are to make a loss and the more likely you are to make a decent return. Several decades of evidence shows that if you invest in a stock market for one day you have roughly a 50% chance of making a positive return. If you invest for three months, this probability increases to around 65%. Investing for a year or more gives you about a 73% chance of being up. After ten years or so your chances increase to more than 94% and trend towards 100% in the years that follow. These probabilities increase if you invest regularly each month – more on which below.*

In the short run there will always be volatility in financial markets and particularly in stock markets. In the long-run, however, you have a high chance of making solid forward progress. The reason for this is that at a fundamental level when you invest in the stock market, you are actually just investing in *human progress* – something I have described as “the most

* Source: Macrobond data from MSCI World Equity Mid and MSCI Large Cap Total Return in GBP, 1 January 1972- July 2022

important investment theme in history.”

To illustrate how powerful this is: As near as we can calculate it the world economy as a whole was worth about \$12.5 trillion in 1985. By the end of 2021, this number had grown to \$96.3 trillion (even after adjusting for inflation). That is to say that the global economy had grown by around 670%!

It is forecast to continue to grow to nearly \$135 trillion by the end of 2028. In that timeframe we’ve had the dot.com crash, the global financial crisis of 2007-2009, Covid-19 and countless other terrible news stories about war, famine, terrorism, global warming and so on but anyone invested in global progress will have done rather well financially. This is one of the reasons my first book was called “How To Own The World” (A7).

The power of human progress

As top UK fund manager Nick Train has said:

“In 1919 the average American had to work 1,800 hours to earn enough to buy a fridge; by 2014 it took less than 24 hours’ labour and the product would be far superior.”

This is one of the most fundamental things to understand when it comes to investment – the sheer, magical, wonderful scale of human progress over time. Far too few people really appreciate the magnitude of this reality. This is in large part due to a problem with our brains or “cognitive bias” called the “hedonic treadmill.” This is the well-established fact that humans are very good at assimilating progress and change and then, crucially, *taking that change for granted incredibly quickly.*

Nearly all of us carry a device around with us every day which is vastly more powerful than the computer that put a man on the moon only a few years before I was born. That device can give you access to almost any information you might think of and not far off any song or book ever

created in less than a minute. You can make audio or video calls to people on the other side of the world entirely for free and we use our smart phones as diaries, cameras, fitness instructors, dieticians, radios, torches, maps, tour guides, watches, magazines and newspapers and a whole constellation of other things. You can run a multi-million pound a year business entirely from a smart phone. Many people do.

Sir Arthur C. Clarke (the British author who wrote “2001: A Space Odyssey”) said:

“Any sufficiently advanced technology is indistinguishable from magic.”

If you showed an iPhone or Samsung Galaxy to someone from even the late 1990s (let alone the 1940s or 1800s) – it would look like utterly incredible magic to them – like something out of Star Trek. Yet today it is something which billions of people in the world take entirely for granted and which seems utterly ordinary and pedestrian.

Along the way, however, the “magic” embedded in that device – which would be so mind blowing to that person from the 1990s – has created several trillion dollars, pounds, euros etc... of real economic value.

The same can be said across many areas of human development. Cars are better. Planes are better. Global travel has massively increased. Comfortably more than a billion people have been lifted out of poverty and the world is actually, factually by far the most peaceful and abundant it has ever been in history and by a significant margin. The list of positive developments is remarkable but few if any of them ever make it into our news, or our idea of the world.

At the most fundamental level, anyone invested in this reality will have done far better than people who haven’t, and this is more than likely to continue in future if the record of two centuries of history is anything to go by. The challenge is that there will be some volatility along the way. In the next couple of sections we look at how you can deal with this!

2. Invest regularly each month (automate)...

Another key idea is to invest regularly every month, ideally by direct debit. You should also look to *automate* your investments if at all possible. This has three significant benefits:

First, it defeats the natural inertia we all have about doing the admin'. Getting a direct debit set up once is relatively easy and then requires a minimum of effort going forwards. Once you've done it, you will not have to make complex decisions about when to put your money to work. This will maximise your chances of actually doing something with your finances sooner rather than later.

Secondly - investing regularly each month achieves something variously known as "smoothing", "averaging in" or "pound cost averaging". To explain: Obviously, the price of any financial asset or market goes up and down over time. By investing each month, you improve your chances of buying in at a good average price over time and you ensure that you do not put a *large* amount of money into something just ahead of a crash.

If anything you own does crash, by averaging in each month you will then automatically be investing when it is cheap in the months that follow that crash. Over time this will increase your chance of achieving "market" returns or at least close to market returns, rather than the much lower than market returns that many investors make.

Thirdly - investing automatically removes you from the equation. This is likely to be a very good idea as it minimises the chance that you buy high and sell low as a function of the powerful inbuilt psychological biases we explained earlier.

To explain: As we have already seen, the S&P 500 index in the US fell from about 1,500 in October 2007 down to 666 in March 2009 (that is a 56% collapse). It then went from 666 all the way to around 6,000 as I write this in late 2024, around an 800% recovery.

The problem is - human nature is such that if you had tried to time your investments to take advantage of these moves, you would almost

certainly have got it wrong. In fact, the situation is actually worse than that: There is a high probability you would have sold low and bought high and timed your investments about as badly as it is possible to.

This is because we are hard-wired psychologically to get this wrong. We humans are essentially herd animals. We pay a disproportionate amount of attention to what everyone else around us is doing. Much as we fight it, very few of us have the knowledge or self-confidence to be truly contrarian.

When the market bottomed at 666 in March 2009, nearly everything you would have read or seen in the news would have gone on about how risky stock market investment is and how much money everyone had just lost. As a result, you would have been highly unlikely to have considered putting your hard-earned savings into the stock market.

Even more insidious, however: As the market recovered from the bottom: 10% up, then 20%, 30%, 40% and all the way up to more than 800% (today), it would have been perfectly natural for you to say to yourself (pretty much every few months): “Oh well. I’ve probably missed out now. The market is at an all-time high. I’m too late”. You will then not have invested.

After a few years of this, the next thought you might have will probably be something like: “I really must sort this investment thing out. Look! The market is up more than 800%. It just keeps going up. Some of my friends have made a fortune. I’ve been avoiding it the whole time and missing out. Right. That’s it. I’m in.”

You know the rest. Just as you decide it is time to put your money in the stock market, along comes the next crash, you get absolutely flattened and spend the next decade licking your wounds. The cycle repeats. This happens to far too many investors time and time again. It is human nature. The other tragedy is that often when this happens, people give up on stock market investment altogether preferring to stick to cash and property perhaps. This is highly likely to have a negative impact on your chances of optimising your finances over a lifetime.

As we saw a few pages ago, the US stock market returned 10.46% per annum in the century from January 1923 to the end of 2023. Most investors achieve several percentage points lower than this for the reasons given above. Given the power of compounding at higher rates of return this has a huge negative impact on people's ability to become wealthy – especially over many years.

The antidote to all of this is to *take yourself out of the equation by investing automatically each month and doing so for the very long-run*. Do not try to second guess what is going to happen. Do not try to time the market and start thinking “I should buy this now or sell that now”. Do not ask supposed “experts” what they think either. Just invest what you can afford, every month, without fail, into something sensible (more on this shortly) until such time as you want to live on the proceeds (a time that will arrive sooner than most people believe is possible if you do this).

In our example of the S&P 500 above – if you had been automating your payments monthly, you would have bought in at around 1,500 just before the crash (ouch) but then every month after the crash too (at levels along the lines of 680, 750, 850, 930, 1,000 and so on – all the way up to around 6,000 today. Lovely!).

The net result of this approach is that you grind out consistent and meaningful returns (and likely far higher than interest rates) through the economic cycle, no matter what is happening. Thanks to Einstein's “eighth wonder of the world” - compound interest - the tortoise then thrashes the hare and you will very likely end up with more money than most people think is possible.

You can see just how powerful this can be from the two tables opposite, showing the impact of compounding certain returns on investing £250 and £1,666 a month over time.

Figure 4 - The power of compound interest

After x years	Saver 0% return	Investor 8% return	Investor 10% return	Investor 12% return	Investor 20% return
1	£8,000	£8,584	£8,737	£8,893	£9,544
5	£20,000	£25,991	£27,816	£29,796	£39,568
10	£35,000	£57,214	£65,286	£74,752	£132,538
15	£50,000	£103,731	£126,936	£156,423	£383,182
20	£65,000	£173,035	£228,370	£304,794	£1,058,910
30	£95,000	£430,117	£669,845	£1,064,024	£7,792,017

Assuming £5,000 lump sum to begin and £250 saved each month...

*Source: Plain English Finance**Figure 5 - Return on saving your full ISA allowance of £20,000 a year*

After x years	Saver 0% return	Investor 8% return	Investor 10% return	Investor 12% return	Investor 20% return
1	£25,000	£26,339	£26,687	£27,039	£28,503
5	£105,000	£130,776	£138,432	£146,651	£186,127
10	£205,000	£318,114	£357,900	£403,897	£674,217
15	£305,000	£597,218	£718,993	£871,235	£1,990,092
20	£405,000	£1,013,040	£1,313,102	£1,720,247	£5,537,651
30	£505,000	£2,555,525	£3,898,874	£5,054,712	£40,886,331

Assuming £5,000 lump sum to begin and £1,666.66 saved each month...

Source: Plain English Finance

3. Ignore the news and “stick to your guns”!

Another related point is the merit of *completely ignoring the news* when it comes to investment. We have already seen the importance of the big picture and the long game – of owning human progress – when it comes to investment success. “The news” is essentially entirely irrelevant to that big picture and long game. In fact, it is even worse than that. The more you pay attention to the news, the more likely you are to fall foul of human psychology, buy high, sell low and reduce your investment returns.

Since I published my first book people regularly get in touch with me to say something like:

“Thanks so much for your book. Having read it, my wife and I really want to start investing but we are worried that now is probably a bad time because of coronavirus (or Brexit or Iran or Trump or Australian bush fires or a possible stock market crash etc... etc...). When do you think we should start investing please?”

My answer is always the same: Stop thinking about the news and stop thinking about any kind of “right time” to invest. The right time for you to start investing, if you haven’t done so already, is almost certainly right now.

Coronavirus was (is) a massive story. Brexit was a massive story. Iran is often a big story as is North Korea, or a Syrian refugee crisis, Yemen or Libya. An ongoing “sort of” trade war between the US and China is yet another one and Ukraine, Israel and Gaza are particularly at the time of writing this updated edition. But, truly, if you were to go back through every single year since journalism was invented, you would realise that there are similar “big stories” week after week, month after month and year after year. This is because this is how the media makes money.

News editors and journalists say things like: “Blood sells,” and “if it

bleeds, it leads.” Which is why essentially all newspapers and TV channels focus 99.99% of their attention on the 0.01% of bad things that are happening in the world today.

As serial entrepreneur Elon Musk has put it:

“The news tries to answer the question: what’s the worst thing that happened on Earth today?”

This gives everyone a heavily distorted view of the state of the world as a result – and, by extension – of financial markets. It is actually an incredibly stupid and unhelpful feature of modern society when you stop and think about it.

A few years ago I wrote an article where I said:

“People who have taken no time to study it or really understand it, think that the stock market is horribly risky. This is perhaps unsurprising given that the media goes bananas every time there is a “massive crash” and that is most people’s “reality” when it comes to investment. The vast majority of the time that a sensible, diversified portfolio will gradually and entirely effectively build your wealth doesn’t make front page news...”

I also wrote about how human beings are hard-wired psychologically to focus on the extraordinary to the exclusion of the unremarkable, and how this reality is particularly relevant to investment and a big part of the reason so many people fail at it. When financial markets crash, you will see lots of headlines like “£120 billion wiped off shares in a day.” What you will never see is a headline that says:

“The global economy has grown 670% since 1985...”

The gradual and significant increase in wealth that comes from investing over many years and sticking to your guns never makes the front pages of our newspapers and no television presenter ever says:

“Great news – the stock market has increased by 3% this month...”

As a result, most people have a horribly distorted view of and understanding of financial markets, and this is incredibly damaging to their chances of becoming wealthy.

The most effective solution to this reality is to understand it, believe in human progress, *automate* your investments over long periods of time and *completely ignore the news*.

Taking this approach will very likely increase your investment returns, quite possibly by several percentage points – which can have a life-changing impact on your ability to become wealthy.

Perhaps more important still, it will reduce the administrative burden of your financial affairs and likely bring you real peace of mind. Regular, automated investment removes a great deal of stress and hassle and, I would argue, helps you sleep at night. It also increases the chance that you get your finances sorted. This is actually one of the most important considerations when it comes to investment given how many people never do! You have to be “in it to win it” after all.

The lesson of history is that sticking to your guns with confidence over long periods of time will increase your chances of success.

As Warren Buffett has put it:

“Lethargy bordering on sloth remains the cornerstone of our investment style.”

Or as his right hand man Charlie Munger famously joked when it comes to investing:

“Don’t just do something, stand there!”

For what it is worth - I would also argue that anyone invested in this reality who has also had the self-discipline to ignore “the news” along the way as I am suggesting here has also very likely enjoyed wonderful peace of mind and a generally sunnier disposition. Following the news is one of the main reasons most people do so badly with investment and is demonstrably bad for our mental health too.

To really understand how bad it is to let the news affect how you invest, or even stop you from investing entirely as happens to so many people, consider this statement:

“For the twenty years ending 12/31/2015, the S&P 500 Index averaged 9.85% a year. A pretty attractive historical return. *The average equity fund investor earned a market return of only 5.19%...*”

Here is a bit more from that [article](#) (via [7](#)) to explain why this is:

“Study after study shows that when the stock market goes up, investors put more money in it. And when it goes down, they pull money out. This is akin to running to the mall (sic) every time the price of something goes up and then returning the merchandise when it is on sale - but you are returning it to a store that will only give you the sale price back. This irrational behavior (sic) causes investor market returns to be substantially less than historical stock market returns...”

This article is a few years old - but makes the point sufficiently well. Of course these numbers are even worse today given that the S&P is up so much more since that article was written in December 2015! It is also perhaps worth dwelling on the fact that the quote above is focused on people who have chosen to invest at least. The reality is actually even

worse given so many people don't invest at all, in the main because they're too fearful of doing so.

There is a great deal of academic and real-world evidence that you should totally and utterly ignore the news when thinking about investment. Whatever may or may not be happening in the world at the moment, the evidence of history is very consistently that you really don't need to worry in the slightest about 99.9% of the news stories of the day such as Ukraine, Israel and Gaza, Coronavirus, Brexit, Trump or trouble in the straits of Hormuz (again) – not when it comes to your investments at least.

To live a good and prosperous life, with far less stress than most people seem to be suffering these days, you need only arrange your financial affairs to benefit from mankind's inevitable progress in a vaguely sensible way and leave well alone for many years.

You must have confidence in your game plan and stick to your guns. Of course doing this is far easier once you understand a bit about finance – given how much more confident you will be about what you are doing.

Professors Elroy Dimson and Paul Marsh of the London Business School have shown that investing in UK smaller companies ("small caps") achieved an annual return of no less than 15.3%, from 1955 to 2015 when the study was published. You read that right. An average of 15.3% a year for 60 years.

Those are extraordinary returns. If you max your ISA each year and make an average return of 15.3% per annum – you will have over £1 million in just over 15 years. A couple could get there in less than 12 years! Amazing stuff really. If you're using an ISA account to do this, you won't even incur any tax liability. You can literally become an ISA millionaire over the course of several years with no tax to pay.

There is a problem, however (although it is a problem with a solution): Although this performance track record over no less than sixty years is amazing (and almost entirely unknown by the vast majority of people other than a small minority of folks in the City), the 15.3% returns didn't

come smoothly every year. Some years smaller companies powered ahead by 30% or even 40% or more. On several occasions between 1955 and the present day, however, they fell by more than 50%.

If you remember what we said about human psychology a few pages back, you will understand how these falls will so often cause people holding UK small caps to give up in fear, crystallise their 50%+ loss and then very likely never invest in the space again – a terrible result all round and obviously nowhere near the 15.3% annual return they could have made by sticking to their guns.

What is really important to stress again here is the importance of the very long-run – of doing this over long periods of time. To maximise your chances of success you really do need to invest consistently over many years. When it comes to investing, patience gives you a huge advantage. Another reason so many people fail at this is because they just aren't patient enough and don't give the whole process enough time to work. This is why it is so important to set up something automatic alongside everything else you do in your life and just let it run its course.

So often over the years I've had people get in touch with me who have only been investing for two or three years or, in some cases, even for only a few months or even weeks, and who are disappointed they haven't seen more progress yet or even that they currently have less than they started with. Often such people are considering giving up on investment.

This is one of the most important things to fight. The bad news is that building wealth invariably takes a long time but the good news is that if you are willing to be patient and really commit to the process, the results can often be far beyond what most people think is possible.

It is important to stress that stock market returns are not smooth or consistent. A great deal of performance might come every few years over relatively short periods of time. Because of this, you want to ensure you have as much capital invested at all times as you go to ensure you capture that upside when it comes.

This reality is captured in a very well-known phrase in investing circles

which talks about “*time in the market not timing the market*”.

It is really important to keep going for a very long period of time to ensure you get the best result possible.

As an example of how this can work: Imagine your investment returns were as bad as zero for as long as ten years. You saved money each month but didn't earn any positive investment return at all over an entire decade, perhaps as the market went up and then down and then back up again (which can and does happen of course).

But say in that time you managed to save £500 a month on average (perhaps £250 each for a married couple, as per our earlier example). This would mean that at the end of that decade you would still have a pot of £60,000 (£500 x 12 x 10).

Crucially, imagine too that you kept at it and kept your pot allocated to the stock market and then the market suddenly had three really strong years in a row. This actually happened from 2019 to 2021 so let's use that as an example. In those three years, the S&P was up around 31.5%, 18.4% and 28.7% respectively. In this example if you'd started 2019 with that £60,000 – three years later you'd have more than £120,000. Your £60,000 would have grown to £78,900 in 2019, then this would have grown to just over £93,400 in 2020, and then you would have got to just over £120,200 in 2021).

In fact, fast forwarding another two years through 2022 and 2023 is quite instructive here. In 2022 the S&P was down just over 18.1% and then up about 26.3% in 2023. So your £120,000 pot at the end of 2021 would have fallen to just over £100,000 through 2022 but then grown back to more than £128,000 a year later. In fact you'd have tens of thousands more than this assuming you had continued to put £500 a month to work over those 5 years of course!

This is why having confidence in what you are doing and sticking to your game plan over many years is so important and what I mean when I say that investment success is truly 90% about admin' and only 10% about what you invest in (within reason).

Wall Street versus Main Street

I think it is important to highlight another point here – which is just how often financial market performance is in no way correlated to “the news” or even the economy. I’ve just shown how the US stock market increased by 18.4% in 2020 and 28.7% in 2021. As the coronavirus crisis was raging around us and lockdowns were wreaking havoc with people and economies all over the world, the US stock market had two exceptionally big positive years.

If you had asked the average person with no knowledge of investment whether that would have been a good time to invest in the stock market, most people’s answer would have been a resounding “no”, as I’m sure you will agree.

More often than not the performance of the stock market bears very little relationship to what is going on in the news or even what is happening in the economy. Too many people think that if there is a recession, there will be a stock market crash, another reason people avoid investing. This is a very simplistic view which, the evidence of history shows us, is so often entirely wrong. In fact there are plenty of professional investors, talking heads and financial advisers who get this wrong too.

Far more important than trying to work out what may or may not happen based on “the news” or what the real economy is doing, successful investment is about doing something every month, forever, from the moment you can afford to for your entire life, and making sure that you are in the right mix of assets over time.

If you have actually made the effort to set up an investment account with a good quality company, optimise your ISA and pension arrangements and set up the necessary regular direct debits, you will be 90% of the way to investment success. The final 10% is about choosing something sensible to make those payments into and sticking to your guns over many years.

As a final comment here, this is also the first thing you should focus on when it comes to your money and finances. Regular, automated

payments into sensible investments in your pension and ISA accounts with 10% or more of your monthly income, every month, forever, should be a much higher priority than any kind of trading or putting money into things like crypto for example. If you want to trade and / or invest in crypto then by all means look into that, but only after you've sorted out this more fundamental stuff first. Here I'm repeating the point I made earlier in the section on investing versus trading.

So now let's look at how you might go about doing the admin' and "choosing something sensible..."

4. Use the idea of "100 minus your age"

One of the key things you are going to want to get right when you arrange your financial affairs is to trade off risk versus reward.

As we have seen, a key feature of investing in financial markets is that assets which might provide you with a higher percentage return tend to be riskier and have the potential to lose you lots of money in a crash (assuming you panic and sell out of course).

At the other end of the investment spectrum, things that are inherently safer will tend to give you lower investment returns. This has been particularly problematic in recent years with real returns on defensive asset classes like cash and bonds at historically low, even negative levels in real terms (after inflation).

We've already seen a number of ways you might deal with this in the *accumulation* phase of your investment journey: By investing for the very long-run, automating your investments every month and ignoring the news.

Another way to deal with the trade-off between higher return, higher risk assets and lower return, lower risk assets – big picture - is to do your best to get the right *blend* of them over time.

One of the most durable ideas in investment which seeks to help you with how you might get this blend roughly right is something called "100

minus your age”, often credited to John Bogle the founder of Vanguard.

For some decades now, many financial advisers and smart investors have used a basic rule of thumb that says that the percentage you invest in “risky” / “aggressive” assets such as equities (shares) should be “100 minus your age”, with the rest being held in “lower risk” / “defensive” assets – such as cash or bonds.

In the accumulation phase, these percentages give you an idea of how much you might invest each month into those respective assets. In the decumulation phase (when you’re no longer investing each month but seeking to live on your pot) – they can give you a rough idea of how your pot should be allocated overall.

For example, if you are 30, you might invest roughly 70% of what you can afford each month into higher return investments such as shares, and around 30% in more "defensive" assets. If you are 70, you might have only 30% of your pot in riskier, higher return assets, and 70% in lower risk assets.

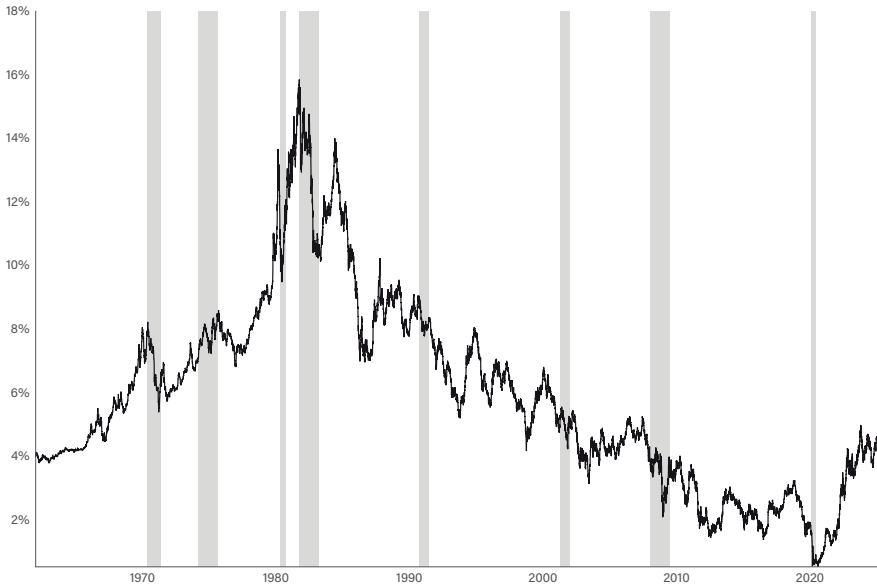
If you take this approach - you probably then only need to review your investing plan every five years or so – perhaps on the occasion of your 30th, 35th, 40th, 45th etc... birthdays. For example, a 40-year-old might allocate 60% of what they can afford to invest each month to higher risk assets and 40% to lower risk ones for the next five years. At 45, they would then tweak this to 55% into higher risk assets and 45% lower risk for the next five years and so on.

Traditionally this approach used equities (shares) for the “riskier” proportion of your investments and bonds for the lower risk bit.

“100 minus your age” is a helpful idea when it comes to reducing sequence risk which we looked at earlier. If you reduce your risk as you get older, you should avoid that awful nightmare scenario of seeing your investment pot smashed to smithereens when you most need it – something that has happened to far too many people over the years – and entirely unnecessarily in my view.

LIVE ON LESS, INVEST THE REST

Figure 6 – 10 Year Treasury Rate - 54 Year Historical Chart



Source: MacroTrends (www.macrotrends.net)

Like any idea in investment, “100 minus your age” isn’t perfect, however. It was first devised in an era when bond returns were far higher than they have been for much of the last many years.

This graph shows the 10-year US treasury interest rate going back to the 1960s. This is the interest rate used to decide mortgage rates across the US and is the most liquid and widely traded bond market in the world – so a good rough proxy for the return an investor might expect on the “bonds” bit of their portfolio.

As you can see, interest rates were very low from the financial crisis of 2007 until quite recently. Even today, real interest rates after inflation are still historically low. For the last fifty years, however, bond rates have more normally been between 4% and 8% and even as high as nearly 16% at peak in the early 1980s.

Looking at the graph – you can see that they’ve probably averaged around 6%. It should be intuitively clear that implementing “100 minus your age”, using bonds for your “defensive” allocation, will give you very different outcomes with bond rates at 1% or 2% to what you can achieve

when they're more like 6% (e.g. if 50% of your portfolio is earning 6% versus earning 1%-2%).

For a fair chunk of the last fifty years – someone at retirement who had managed to build a nice big pension pot could expect to earn around 6% or even 8% a year just sitting with 100% of their money in bonds. For folks with around £1m in their pension (an entirely realistic goal by the way), that was around £60,000-£80,000 a year of “risk-free” income. Obviously, with real interest rates now much lower - this number has fallen a long way. It is much harder to earn enough of a real return on your pension pot as a result, particularly when you factor in real inflation.

This reality has incredibly serious consequences as you might imagine, most particularly for people at or near retirement. As [I have written elsewhere](#) (iv↗), low interest (bond) rates have been one of the most important considerations for investors for much of the last few years. Arguably, they make “100 minus your age” a good deal less useful an idea today than it was when real interest (bond) rates were far higher than they are today.

Life expectancy and retirement age

The other consideration here is life expectancy. Amazingly enough, this has increased by around *thirty years* in the last century in the developed world. (You can look at how remarkable this phenomenon has been [here](#)) (v↗). Scientists predict that this trend will continue. Many children born today have a very good chance of living well past 100. If we are living 30 or even 40 years longer today than when “100 minus your age” was conceived, then presumably we need to take this into account?

A similar and related point concerns retirement age. If people used to retire at 60 and now many knowledge workers might continue to work until 70 or beyond – then that is another decade or more where their money might be better off earning a higher return, given it will not be needed yet to generate income to live from.

“120 Minus your age”?

Given what has happened to real interest rates, life expectancy and retirement age, some financial advisers have advocated simply changing the rule to “110 - or even 120 minus your age.”

If real interest rates are punitively low and we are living and working longer, then perhaps we can afford to keep more of our money in “riskier” / “higher return” investments for longer in the hope of building a bigger retirement pot.

People just haven't been saving and investing enough

A related (and more negative) point concerns the fact that in the last two or three decades the vast majority of people in the (developed) world have made insufficient provision for their retirement. For most of the 1950s right up until the 1980s, Americans saved around 9% of their income, on average for example. This had fallen to about 2% by the time of the financial crisis in 2007.

The same has been true in most of the developed world – certainly in the “Anglo-Saxon” bits of it. As interest rates have fallen and credit has become far easier to get hold of, a depressingly large percentage of the population have chosen to save less and borrow more – the absolute 180-degree precise opposite of what they “should” have done (and one of the key reasons for the financial crises in recent decades too).

It is perhaps worth contrasting our behaviour in the Anglo-American world with savings habits in many parts of Asia. In China, for example, savings rates have traditionally been some way north of 30% of income! In Singapore, citizens must invest 20% of their monthly income into the Government pension fund (the Central Provident Fund), and employers then add another 17%. That is 37% of what you earn being invested in your future (and Singapore's future too).

It is perhaps worth contrasting the growth experience of such countries

in recent decades as compared to ours. Singapore has grown at more than 6% a year on average since the 1970s – a far higher rate than the UK's. It is also worth dwelling on the fact that GDP per capita (average annual income) in Singapore in 2022 was just shy of \$83,000 (and growing) vs c. \$46,000 in the UK (and shrinking).

Of course, high savings rates aren't the only reason for high rates of economic growth in these countries or for why Singaporeans are disproportionately wealthy compared to us, but they've certainly had a significant role to play. I for one believe that we really do need our politicians to start joining these sorts of dots. A huge reason the UK is struggling is because we've destroyed our investment culture over several decades (under both Labour and the Conservatives for what it is worth).

This has been positive for U.S. Shares

This phenomenon has also then been one of the key drivers of the exceptional performance of the S&P 500 in recent years – as counter-intuitive as this might sound. This is because millions of baby-boomers now at or near retirement are keeping a higher proportion of their wealth in the stock market rather than in bonds given these various considerations.

Millions of Americans and the financial advisers that serve them have been forced to chase higher returns by investing more in the stock market. This, combined with the rise of inexpensive ETF products, has created an incredibly powerful and long-sustained upward spiral in the world's largest and most liquid stock-markets - and the S&P 500 in particular as the “big-Daddy” of them all.

In many ways – this has been what has been driving the huge increase in value of the big tech companies in recent years. Whether the result of all of this is a “bubble” or not and what has come up must (eventually) come down, remains to be seen, but it is certainly something to be careful about.

Happily, the idea of “100 minus your age” can help you do just that, as does investing every month over many years and ignoring the news too of course.

“100 Minus your age” vs the “60/40 portfolio”

Before we go on to look in more detail at how you might implement a “100 minus your age” approach for your investments, it is worth looking at a couple of other broad approaches to investing: Something called the “60/40” portfolio and what I would describe as the “market purist” approach of investing *only* in shares.

“100 minus your age” is arguably a more advanced and nuanced version of something called the “60/40” portfolio which has been around since the 1950s. “60/40” refers to a portfolio holding 60% in shares and 40% in bonds. Rather than have to bother to change your allocation every five to ten years or so based on “100 minus your age”, the idea was that you could just keep a 60/40 allocation for your entire investing life.

The idea came primarily from Harry Markowitz and William Sharpe, both of whom received the Nobel Prize for Economics for their work on “Modern Portfolio Theory”.

The 60/40 mix was a solid “set and forget” approach to investment for roughly six decades from the 1960s onwards. A 60% exposure to the stock market provided good returns and the 40% in bonds protected the downside and reduced losses overall when the stock market crashed. From 1961 to 2021 this approach averaged about 9.3% returns per year but with lower volatility and risk of loss than just investing in the stock market – a great outcome for those who used the strategy.

The reason 60/40 worked so well was because for much of that time bonds and shares were what is called “negatively correlated”. When shares fell, bonds went up. This meant that the bond component of the 60/40 portfolio could protect an investor during stock market crashes.

In recent years, however, bonds and shares have become “positively

correlated”, which means that the strategy has stopped working and there are concerns that it may not be as successful in future.

Usually if the stock market crashes, there is a phenomenon known as the “flight to quality” which means that worried investors sell “aggressive” shares to buy “defensive” bonds. This bids up the price of bonds and is why the two assets can often be negatively correlated.

This stops working, however, when investors expect interest rates to rise. Bond prices fall when interest rates rise. With the higher inflation that we’ve seen in recent years, investors have expected higher interest rates which has caused many bond prices to fall a long way.

This is why many market commentators fear that the 60/40 portfolio is unlikely to work as well in future as it has in the past and you may be better served by the more nuanced idea of “100 minus your age” and by using a variety of aggressive and defensive investments, not just shares and bonds.

100% Shares – the “market purist” approach

Another approach we should at least mention in passing is the idea that all you need to do is buy shares. There are many sensible financial market commentators who have suggested that you may only need to own “the market” (by which they usually mean the US market – essentially the S&P). That is to say that you don’t need to think about aggressive versus defensive at all. You can just buy “aggressive” *shares* throughout your investing life.

One such individual is Warren Buffett, arguably the most famous investor in the world for the last many decades. Buffett and others like him are often on record suggesting that all someone need do when it comes to investment is simply buy the market each month, every month for many years. This stance is particularly popular at the moment given how long and strong the run in the S&P has been.

A key point to make about this stance is that it works well if you are

very wealthy. As we saw previously, a 50% market correction for a 60 year old with £1 million will be far more consequential than it will be for a 30 year old with £10,000 and a lifetime of investment ahead of them. For the 60 year old that sort of “draw-down” could be catastrophic and certainly entirely horrible and stressful to live through.

Another person to consider, however, is someone worth £10 million. If you are lucky enough to be very wealthy, you would still have £5 million in your investment account after a 50% market correction if you were 100% allocated to the stock market. As should be more or less obvious, this will be less catastrophic than a 50% correction for someone with “only” £1 million.

Very wealthy people can take the risk of being almost entirely exposed to the stock market given they will still have more than enough to live on even through a large financial crash or crisis, and can “ride out” the volatility until the market goes back up again without it having much of an impact on their lives (if they’re psychologically strong at least!). This is why very wealthy folks like Warren Buffett can tend to be such “market purists”.

If you are a very high earner, start to invest early enough and make strong returns, you have a good chance of ending up with several million pounds.

If you manage to achieve this, you can then afford to continue to take more risk with your portfolio, because a big stock market correction is unlikely to affect you in terms of your ability to cover the key costs of living your life. This is clearly a wonderful position to be in.

We would argue that most people, however, will want to keep a weather eye on “sequence risk” and ensure they have the right mix of aggressive and defensive investments over time, given the effect of a big stock market crash could be far more problematic. I hope this makes sense.

What to do?

So, we have just covered the challenges associated with the traditional “60/40 portfolio”. We’ve also looked at the fact that a “market purist” approach of owning only shares will expose you to a good deal of volatility and is, therefore, probably only a good idea if you’re very wealthy and pretty psychologically strong too!

You might argue, therefore, that some kind of “100 minus your age” approach is a “goldilocks” option which may suit the majority of people.

In plain English – what this means, now we have come this far, is that you will split whatever you can afford to invest each month into “aggressive” vs “defensive” investments based roughly on your age (after you’ve paid down expensive debt and saved up your rainy day pot of course)! If you are already retired, “100 minus your age” will help you work out roughly how to allocate your existing pot to those two categories of investment (“aggressive” and “defensive”).

You therefore have two broad decisions to make: First, whether to use 100, 110 or 120 to calculate how to split your investments each month. Secondly, (obviously) *which* “aggressive” and “defensive” investments you might use having made that calculation. Let’s look at each of these in turn:

Which number to use

Deciding whether to use “100, 110 or 120-minus your age” to calculate your split will depend on your own personal circumstances. These would include:

- 1. How comfortable with risk versus how risk averse you are overall:** If you are inherently conservative then you might use 100 to make your calculation. If you have the mental strength to endure periods where your investments could be deeply under-water, then you might use 120 as the

basis for your calculation. Be warned however, relatively few people have this mental strength as we have seen.

2. **How much you earn:** This tends to be related to the last point. Although this is by no means always the case, people who earn more or who have significant wealth tend to be more comfortable with risk – because they can afford to be. The more surplus you have, over and above funding life’s essentials, the more ambitious you can afford to be with your investments. If you are a high earner, you might be more inclined to use the 120 number as against the 100 number. That having been said, this will be a matter of personal choice. There are plenty of wealthy people who are inherently conservative when it comes to their wealth – a decent number of whom will tell you that this is why they became wealthy!

3. **How old you think you will work to until you wish to retire:** I know people who made enough money to “retire” in their thirties and I know people who are so passionate about what they do, that they’re still loving their work (and invariably highly paid) in their late seventies and beyond. The longer you are gainfully employed and earning a decent income, the longer it will be before you need to rely on your investments to sustain you. This means, all other things being equal, that you can afford to invest in more aggressive assets for longer and might, therefore, use 120 rather than 100 in your calculations here. That having been said, if you use the 120 number, bear in mind that this implies you could still have no less than 50% of your money in higher risk assets at the age of 70. That is perhaps quite a big call unless you’re fairly wealthy and comfortable with risk.

There is no one-size-fits-all “right” answer here but the whole concept of “100 minus your age” can give you a solid big-picture idea of how you might get the right balance of investments to increase your chances of making solid investment returns over time and minimise the risk of a

large loss. Whichever number you choose to use (e.g. "100, 110 or 120-minus your age"), opposite we have provided a simple "ready-reckoner" table to help you work out how you might think about allocating your investments based on your age and attitude to risk:

LIVE ON LESS, INVEST THE REST

Figure 7 - "100/110/120 Minus Your Age" Ready-Reckoner

Your Age	100 minus rule		110 minus rule		120 minus rule	
	Aggres.	Defen.	Aggres.	Defen.	Aggres.	Defen.
	%	%	%	%	%	%
100	0	100	10	90	20	80
95	5	95	15	85	25	75
90	10	90	20	80	30	70
85	15	85	25	75	35	65
80	20	80	30	70	40	60
75	25	75	35	65	45	55
70	30	70	40	60	50	50
65	35	65	45	55	55	45
60	40	60	50	50	60	40
55	45	55	55	45	65	35
50	50	50	60	40	70	30
45	55	45	65	35	75	25
40	60	40	70	30	80	20
35	65	35	75	25	85	15
30	70	30	80	20	90	10
25	75	25	85	15	95	5
20	80	20	90	10	100	0
15	85	15	95	5	100	0
10	90	10	100	0	100	0
5	95	5	100	0	100	0
0	100	0	100	0	100	0

Source: Plain English Finance

Five-year reviews

If you take this approach - you probably need only review your investing plan every five years or so – perhaps on the occasion of your 30th, 35th, 40th, 45th etc... birthdays, as I suggested earlier.

Every five years or so you might sit down and spend an hour or three ensuring that your financial arrangements are sensible and, preferably, on autopilot and then forget about it for another five years.

This whole approach can give you real peace of mind and makes things a great deal less burdensome in terms of admin' than the approach so many people take chopping and changing all the time. Five years is also a period of time which will give your investments the best chance to be making you a positive return. Another rookie mistake I see all too often is people investing in a fund which then has a negative few months (or even a few weeks!), and who then start wanting to sell out of that fund and move into another one that is doing “better”.

This goes back to the point I made earlier in the section on human psychology where I said that financial products are one of the few things that people tend to buy when they're expensive and sell when they're cheap. Giving up on an investment fund after a few months or even, frankly, after a few years and switching to a fund that has been doing “better” is one of the many reasons most investors return less than the market does. Sticking to your guns for long periods of time is really important – particularly if you're buying every month and pound cost averaging anyway – which means that you will be buying any of your investments which are down more cheaply each month whilst they are down of course.

As John Stepek, Bloomberg journalist and former editor of MoneyWeek magazine, put it rather brilliantly in one of his articles:

“There are many roads to ruin in the markets – some of them longer than others – but one sure-fire way is to set out as a buy-and-hold investor and then

attempt to turn into a market timer during a bout of market panic. This will do more damage to your portfolio than following one approach or the other..."

Or, as the great and late Charlie Munger, Warren Buffett's right hand man for many decades has put it:

"If you're not willing to react with equanimity to a market price decline of 50%... you are not fit to be a common shareholder and you deserve the mediocre result you're going to get."

It is crucial to do this for the very long-run and stick to your guns. Some version of "100 minus your age" applied to how you invest can help you work out whether you are broadly in the right mix of things and on the right track. This approach will make you far less likely to make the mistakes that so many people make that are born of panic and silly headlines from a press that focuses 99.99% of its attention on the bad things that only happen 0.01% of the time.

Which "aggressive" & "defensive" investments?

So - if you have now worked out how much you can afford to invest each month and roughly how to allocate that money to "aggressive" versus "defensive" assets, the "final" piece of the jigsaw puzzle is specifically which investments you might consider.

I think a key first point to make here is the value of *keeping things simple*, particularly as you start out. There are obviously many, many thousands of things out there that you could invest in. Given how many options there are here, there is a serious risk of "paralysis by analysis". I have seen so many people fall foul of this during my career in the city of London and in the time since I founded Plain English Finance.

One of the biggest enemies of investment success is *inertia*, and the fact that this prevents so many people from actually doing anything at

all. Having far too many things to choose from so often causes people to give up and do nothing – with disastrous results for their ability to become wealthy over time. Millions of people have fallen foul of this, actually probably tens of millions in the UK alone.

Another mistake people make is to massively over-complicate matters. I have lost count of the number of inexperienced investors I've interacted with in the last many years who have not yet set up a regular savings plan or put any money in a plain vanilla stocks and shares ISA account or got to grips with their pension, yet who have spent untold hours trying to learn incredibly complicated trading strategies and who have lists of dozens or even hundreds of investments that they're following and / or that they might invest in one day, many of which will so often tend to be incredibly high risk things.

A quick note on crypto...

In recent years this might have included, for example, a vast number of weird and whacky “altcoins” (often called “sh1t-coins”) in the crypto space. More often than not, these people have been egged on, more or less cynically, by a bunch of self-proclaimed financial educators selling them get rich quick dreams of what trading or crypto might bring them – (none of whom are regulated by the UK financial regulator, the Financial Conduct Authority (FCA), by the way – something that it is worth considering before you take any kind of advice from anyone).

I alluded to this problem earlier in the book in the section on “investing versus trading”, but I think it bears repeating given what an important point it is: Paying a significant chunk of your savings to someone to teach you what to do with those savings is often likely to be a bad idea.

I have seen far too many people fall into this trap in recent years – particularly in the bitcoin and crypto world. I really would suggest that it probably isn't the best idea to be a white belt in the black belt world of crypto and trading. You might get lucky, but in the long-run the balance

of probability is that the tortoise will beat the hare and you would be better off focusing on the more plain vanilla building blocks of pensions and ISAs – at least to begin with.

In the crypto space in particular there is a huge element of “you only sing when you’re winning” which can be alluring for inexperienced investors. It is worth stressing that a particularly corrosive element of human psychology is that so many of the people who may indeed have made incredible returns in crypto will more than likely give a great deal, or possibly even all, of those returns back in time for two fundamental reasons:

First, psychology. Making incredible returns and lots of money in a short period of time is very addictive. It also gives people a false sense of how money and investment work in the real world and over many decades. All too often, people who have had this experience tend to have a very different attitude to risk than those who have not. If you have turned hundreds or thousands of pounds into hundreds of thousands or even, in some cases, millions, this will very likely affect your investing personality. It is likely that you will be far more inclined to take risk.

Rather than celebrate their good fortune by taking profits and investing in more conservative and less risky assets, all too many people who have had this experience continue to “swing for the fences”, which increases the chance that the ultimate end result will be that they eventually lose much of what they’ve gained in time.

As an example of how this kind of psychology can work: Many readers will be familiar with the famous American author and life coach, Tony Robbins. In an excellent 2018 interview with leading business podcaster, Tim Ferriss, he gives an example of a property investor friend of his who was worth no less than \$750 million in 2008. That person failed to rebalance his wealth into more conservative investments and “put everything on black”, ironically enough in the Las Vegas property market. Within a few months in 2008 he ended up losing everything, owing the banks more than \$400 million and going bankrupt.

All too often you can see the same kind of psychology at play in the crypto world. People in the crypto world have a tendency to cite point to point price moves as performance numbers, as in:

“Look. If you’d bought bitcoin (or ether, or cardano or some other “hot” altcoin) on date ‘y’ when it was trading at price ‘£z’ you would have made ten (or twenty or fifty or one hundred) times your money. You could be a millionaire by now, etc...”

The trouble is that investment returns just don’t actually work like this in the real world – i.e. in the world of trying to grow your actual wealth over time. The reason for this is in large part due to something called “volatility” - the extent to which a given financial asset moves up and down in price over time - and how this interacts with human psychology at a fundamental level.

The “fact” that any asset price has moved from point ‘x’ to point ‘y’ over a certain amount of time is only of relevance to your ability to make money if you bought that asset at point ‘x’ and, crucially, *sold it at point ‘y’*.

If a certain financial asset travels from £1 to £100 over a period of time, say a few years – and does so *slowly and surely in a straight line* then you have quite a high chance of making significant positive returns. Perhaps you missed it at £1 but then bought it at, say, £20, £30, £40 or £50. If it is now at £100 – those are all great results for you as an investor.

But what if during the journey from £1 to £100 that asset has been massively volatile? What if it has often gone up and down by tens of percent – sometimes even just during the course of one day? What if it peaked at £200 before coming back down to £100?

When this is the case – there is a very high chance, statistically, that you will lose money in that asset. You might have bought it at £190 for example – and now be down nearly 50% on your investment. Or perhaps you bought it at £80 a few months ago, but sold it at £20 when it cratered

because you were worried at that point it might be on its way back to £1.

Even though the asset is up rather wonderfully from £1 to £100 (which is of course “a fact”), back in the real world there is a fairly high chance that you will actually have lost money along the way. Even worse: You might have to endure the horrible experience of that asset zooming all the way back up from the level at which you sold it in panic. Volatility makes it all too easy to lock in a large loss and then sit miserably on the side-lines as you watch the thing you sold in panic go up massively afterwards.

I’ve seen this reality so many times in my career. Most particularly in the dot.com boom of the late 1990s and the same thing again although arguably even more turbo-charged in the crypto space in recent years.

The more volatile an asset or asset class is, the more likely you will fall foul of all the points I’ve made already in this book about how imperfect human psychology is.

The fact that an asset has gone from price “x” to price “y” tells one story but it doesn’t tell you anything about the thousands of other stories that have happened to real people in the real world on that journey. It is perhaps also worth mentioning that it is only in the crypto world where it is legally permissible for people to talk about and post about these sorts of point to point price moves to encourage you to invest. Because that sort of information is so fundamentally misleading, this is actually illegal in the world of regulated products such as funds and shares where there are very strict rules about how performance numbers are shown.

You can see the impact of volatility and the role played by human psychology in the crypto market from just how heavily correlated the volume of crypto commentary on social media is with price performance of the asset class.

When the price is at historically high levels, you see vast quantities of people talking about it on social media and even crowing about how much money they’ve “made”. But crypto investors go amazingly quiet when the sector is down. This is the precise opposite of what would be ideal

of course – if you want to make money from crypto at least.

This is a classic example of the points I made earlier in the workbook about how the way our brains work increases the likelihood that we will *buy high and sell low*. All that crypto noise when prices are high increase the risk that we buy at those levels, yet there are far fewer voices to reassure us when prices have plummeted, increasing the risk that we sell out in a panic. The clear record of history is that, in the long-run, it is hard to make money in very volatile assets purely because of how our brains work.

The second fundamental reason that crypto profits may prove elusive in the long-run for many people is the extent to which these returns tend not to be based on any kind of *real* underlying economic activity. Most of the money made in crypto is “zero-sum”. If you have “won” it is likely to be because other people have lost.

By contrast, as I’ve said in public many times before and written elsewhere in this workbook, the great thing about *investment* is that you can benefit from human progress and *real* economic growth. The ultimate reason stock markets go up over time is not because you’re “ripping someone else’s face off”, but because of the development of the economy in terms of real, tangible things. We create economic value as a species by building buildings and factories, launching ships, selling tickets to concerts and football matches, developing new software, curing disease, and thousands of other similar things which generate a real, tangible, economic outcome and *real* wealth as a result.

This is completely different to making thousands of percent in some kind of crypto investment – because more often than not there is unlikely to be any *real* economic progress that underpins that return. You will only have made thousands of percent because lots of other people have lost money.

A few of the leading crypto projects may have real value. Bitcoin may have a real role to play in the fullness of time as an alternative to the fiat currency system, to a certain extent it already does, and there are plenty

of other projects which may have viable use cases. It seems highly likely, however, that most won't.

I wrote about this at some length in "[How to Own the World](#)" (pages 195 to 212) (A7). I hope you'll forgive my reproducing a few paragraphs in full, particularly for those readers who may not own a copy of my first book:

"Crypto advocates argue that blockchain will be just as big as the Internet and, as a result, will create vast amounts of economic value, produce the next wave of success stories like Apple, Amazon, Facebook, Google and so on, and make many people very wealthy in the process as a result.

I don't necessarily disagree with this contention, but what I would say is that hindsight is 20/20. It is easy to point to the handful of companies that now have valuations of several hundred billion dollars but it would have been vastly harder to have picked that handful of companies in 1999.

People investing in the dot-com boom in the late 1990s had a far higher chance mathematically of investing in companies that then went bust or fell to a tiny shadow of their former selves than in the tiny minority of companies that are now enormous household names, for the simple reason that there were considerably more of the former than the latter and this is what happens in investment.

How would you have known in 1999 that Google was the one to own rather than Excite, Lycos, America Online or Yahoo? Or that Apple, which was not yet in the mobile phone business, would end up dominating that market and destroying the incumbent and seemingly indestructible giants of the day: Nokia, Ericsson, Motorola, Siemens and so on?

Facebook was five years away from even existing in 1999. My point here is that even Bitcoin or Ethereum – the best-known assets in the space and arguably the 'safest' and most 'blue chip' as a result – could very well be the AOL and Nokia of crypto investment and disappear entirely in the reasonably near future. The overriding winner in the crypto space might not even exist for another decade for all we know."

To be clear, I have nothing fundamental against crypto philosophically. I just feel that it is a sufficiently volatile asset class and there is still a fair bit of uncertainty about who the winners and survivors will be.

Given these considerations, I just think it is something you should do only *after* you've put the more fundamental building blocks in place first.

So with that topic out of the way, let's turn our attention to those more fundamental building blocks.

8
How you might approach
“aggressive” assets

Using a Big Stock Market Index

There are a vast number of things you could invest in which can be described as “aggressive” – i.e. higher risk and higher reward as a result (theoretically at least).

Two other points I made were the importance of keeping things simple and my contention that long-run investment success is probably something like 90% admin' and 10% fund selection.

So, let's start by looking at a really simple approach you might take with the “aggressive” bit of your portfolio:

Arguably the very simplest thing you might do with the “aggressive” proportion of your “100 minus your age” allocation would be to own a large equity market of some kind. You will hopefully recall that the original idea of “100 minus your age” was to put “x%” in “aggressive” *equities* (shares) and the rest in “defensive” *bonds* based on your age.

Part of the reason for this rather simplistic approach had to do with the financial products that existed when this idea first came about. Go back a few decades and financial services weren't very sophisticated – certainly as compared to today.

There weren't that many financial products available for the ordinary investor. If you were a “normal” investor based in the US, your financial adviser was just about able to get you positioned in the Dow Jones and US Treasuries (bonds) or, for people on this side of the Atlantic, the FTSE 30 (as it was before 1984) and UK Gilts (UK government bonds).

The situation today is night and day different. Today it is possible to invest in pretty much anything that you might think of using something called an ETF – Exchange Traded Fund (if you want a reminder of what these are, please check out page 185 of “[How to Own the World](#)” (A7)).

To give you an idea of the insane choice out there nowadays, in an article from August of 2019, James Mackintosh of the Wall Street Journal wrote that:

“There are indexes (ETFs) for everything; no one knows exactly how many, but it is certainly in the millions....”

On the one hand – this is actually quite amazing. It has literally never been easier in the whole of human history for you to implement any investment idea you might have. This is hugely powerful, and yet another example of that human progress I have talked about throughout this workbook.

Set against this, however, is something called “the paradox of choice.” This is the basic idea that the more choice you have, the more likely you are to suffer indecision and not actually get the results you want in life – whether you’re talking about choosing a song on Spotify, a movie on Netflix or, arguably rather more importantly, what to do about your investments!

The S&P 500?

One way to combat this reality is to look to keep things really simple. Arguably the easiest thing to do with that in mind would be to allocate the “aggressive” proportion of your hard-earned savings to a big, liquid stock market ETF. One of the biggest and most liquid of these is America’s S&P 500 which includes no fewer than *five hundred* of the biggest companies in America.

As we have seen, the S&P has delivered exceptional returns since the last financial crisis, rising more than 800% between March 2009 and today as I write this in 2024. This is clearly pretty remarkable, but it is also almost certainly quite a misleading time frame to consider (something too many commentators are doing at the moment).

First, because it is highly unlikely that you would have started investing in March 2009 at the low. Secondly, because the last ten years or so have been highly unusual for a raft of structural reasons that I have written about in the past (iv↗).

Going back to 1957 – when it was first created in its current form – the S&P 500 has returned about 10.4% a year – and about the same in the century since 1923 as we have already seen elsewhere in this workbook. I would argue that this gives us a better sense of the very long-run returns you might expect from owning the S&P – *if* you have the patience to invest in it every month for many years at least, given that this is how you will ride out those market crashes that come along every now and then.

The performance of the main US stock market indices in the last decade is not far off unprecedented. I would argue that this has been driven by a number of factors that are unlikely to be around forever. I am not a fan of letting the news drive your investment decisions as we have explained in some detail already. That having been said - it is perhaps worth at least giving consideration to certain longer-term themes.

In the last several years, the S&P 500 and the other main US indices have been driven in the main by the success of a handful of companies that have been the beneficiaries of one massive structural theme - namely technology.

This is most obvious when you consider the fact that seven of the biggest companies in the US (and in the world and in history) are Apple, Microsoft, Amazon, Alphabet (Google), Nvidia, Tesla and Meta (Facebook). But it is also the reason why companies like JP Morgan, VISA, Mastercard, AT&T and Intel are all also in the top few and are each huge companies too (at the time of writing).

The top 50 companies in the S&P 500 (i.e. only the top 10% of those 500 companies by *number*) account for nearly half of the *value* of the index and the top 10 stocks for more than a third of it! The last ten years have been characterised by a long and strong period of American exceptionalism and *concentration* in equity market success. This has been a function of how much our lives and our companies have been changed by the internet, cloud computing and the widespread use of smart phones.

There has also been something of a self-fulfilling upward spiral in these

huge companies and the US stock market by extension for all sorts of structural reasons, many of which are quite technical. To try and summarise why this has happened in plain English - at a basic level investment funds all over the world have chosen to have more and more of their money invested in big US companies. In fact, many of them have almost been forced to.

This is because such investment funds very often have to allocate the money they run based on the relative size of various stock markets throughout the world. If the S&P 500 is about a quarter of the value of the world's stock markets, there will be a strong drive for investment funds in places like Europe, the Middle East and Asia to allocate about a quarter of their relevant investment capital to the S&P 500 overall.

When the US stock market is doing very well, it is a very bold call for someone running a large pot of money in London, Frankfurt, Tokyo or Singapore to ignore that fact and choose not to own American shares. The bigger the market gets, the more capital everyone allocates to it - creating that self-fulfilling upward spiral.

There are a number of other structural reasons why this has happened. One of these is huge growth in the use of "passive" index funds and ETFs all over the world, which has driven billions of investment capital into the largest companies in the world, largely without regard for whether those companies are expensive or cheap.

Yet another factor related to all of the above is growth in something called "algorithmic trading". This is where computers automatically execute trades based on pre-programmed instructions. There is now a huge amount of capital in financial markets all over the world invested this way. "Momentum" is one of the key strategies these computers use, which means that when shares are generally rising, many of these algorithms will generate yet more buy signals, driving markets up even further.

Taken together, passive and algorithmic trading account for the significant majority of all trades on the US stock market nowadays, so these have been really important themes underpinning the increase in

the level of American shares over the last several years.

For what it is worth, I think this American exceptionalism and the concentration of stock market performance in the hands of a few mega-cap tech stocks could well continue for some time to come, but I would also argue that the rest of the world might eventually catch up.

There are already a good number of companies from places like Asia and Europe that are in the top few largest companies in the world today. These include: Taiwan Semiconductor Manufacturing Company (TSMC) in Taiwan, Novo Nordisk in Denmark, Tencent in China, LVMH in France, Samsung in Korea, ASML in the Netherlands and quite a few more elsewhere, for example.

There is no guarantee that all the best and biggest companies in the world will come almost entirely from America in the decades ahead. America has certainly dominated in this respect, roughly since the end of the Second World War for all sorts of reasons, but many of these may not persist in future. At some point, some of the factors that have driven the disproportionate success of US shares I've given above may even go into reverse.

As an example, “research and development” (R&D) is a lead indicator of where future economic value is likely to be found. The US has led the world in this respect for not far off a century – one of the key reasons they have also led the world in creating massively valuable companies. It is quite clear that this is changing, however, particularly when you consider what is going on in China.

As Alec Ross wrote in his excellent book “The Industries of the Future” (vii ↗):

“While the portion of global research and development (R&D) in the United States fell from 37 percent to 30 percent in the last decade, China’s share... increased from about 2 percent to 14.5 percent.”

Total Chinese patent applications eclipsed the US in 2014 and are

now miles ahead of the rest of the world. There are questions about the quality of many of those patents, but it seems clear that this is still a key theme.

Long-time readers of my articles may know that I think the biotech industry is going to be one of the biggest drivers of equity value in the next few decades (if you want to know about this in more detail please check out my other book “[Our Future is Biotech](#)” (O↗) by the way). The companies that find effective cures for things like cancer, dementia, obesity and diabetes will quite likely be the Apples and Googles of the future in terms of size and value.

The Chinese government has made this a massive strategic focus for some time now. This is something I can attest to personally as I spent ten days in China in December 2019 visiting Chinese biotech companies, industrial parks and medical facilities, including one of the biggest hospitals in Beijing - an absolutely extraordinary place.

Much of the work that is done by biotech companies in a bid to find such cures is done with something called a gene sequencer. To quote Alec Ross again:

“The Beijing Genomics Institute (BGI) is now the largest genomics center [sic] in the world, with more sequencing machines than the entire United States.”

This quote comes from a book published in 2015 and I’m not sure the statistic is correct any more at the time of writing but this is still one of many such data-points that I would argue mean the next decade or two could very well look quite different to the last couple – in terms of equity value-creation at least.

The US stock market has led the charge for some time and particularly in the last ten years, but, as any smart ten-year-old will tell you, what goes up must eventually come down. Given how dominant the US has been for the last decade and given the direction of travel in places like China

(and lots of other places such as Europe, India, Latin America, the Middle East and Africa too for that matter), might it be better to hedge our bets a bit?

The MSCI World / FTSE All World

One way of doing this, would be to use a broader and more global equity index than the S&P 500. Returning to our “keeping things simple” theme – we might then look for some of the biggest and most liquid global equity indices in the world. In doing so, we need look no further than two companies with large global equity indices: MSCI and FTSE.

MSCI (Morgan Stanley Capital International) is a company which makes indices (if you would like a reminder of what indices are in a bit more detail, please have a look at page 178 of “[How to Own the World](#)” (A7)).

Their “MSCI World” Index is made up of around 1,500 of the biggest companies in the world – from all over the *developed* world. The “MSCI All Country World Index” includes not far off 3,000 companies, including ones from the *developing* world as well.

There is also the FTSE All-World index, which includes even more companies from all around the world – developed and developing - with more than 4,000 at the time of writing.

You can see more detail about how this works and what they include on MSCI’s website [here](#) (xxxvii7). And you can learn more about the difference between the MSCI and FTSE All World indices from [this article](#) (xxxviii7).

It is possible to buy Exchange Traded Funds that track these various indices. At the time of writing, over the last five to ten years or so, these big global indices have returned around 8-13% a year on average. (xxxix7)

So – one idea for the “aggressive” bit of your money would be to just buy the S&P 500 or one of these big global indices and have done with it. My own view is that one of the MSCI World or FTSE All World

indices might be a better option in the years ahead for the reasons I've given above. I think there is a good chance that at least some of the success stories of the next ten or twenty years might come from places other than the US, and I think there is some decent evidence for this position. This does not mean I will be right of course! You will have to form your own view.

For what it is worth, US shares make up a significant chunk of all of the various global indices anyway so, to a certain extent, you can “have your cake and eat it” here given that you'll still have exposure to the US should large American companies continue to dominate.

Why not the FTSE?

Some readers may wonder why I haven't suggested the FTSE index of British shares as an index you might consider here, not least given that this workbook is aimed squarely at the UK market. I would answer that I have nothing in particular against our domestic stock market. There are plenty of great companies based in the UK and it is also worth noting that something like 70% of the earnings of the top 100 of those companies (in the FTSE 100) come from outside of the UK – so owning the FTSE 100 is actually one way to “own the world” when you think of it like that.

What I would say, however, is that the long-run returns from the UK stock market have tended to be slightly lower than those of the US stock market – and of the world as a whole - for the last couple of decades at least. There are a number of reasons for this, one of which is because the value of the biggest UK companies comes disproportionately from “old economy” sectors like financials, energy and industrials. Together these three alone make up around 50% of the value of the FTSE 100.

It is for this reason that if I am only looking to choose one index (to keep things simple as we are aiming to do), I'd prefer to start with the biggest US index or a world index rather than the FTSE, or indeed any

of the other main world indices such as the DAX in Germany, CAC in France, Nikkei in Japan and so on. The S&P 500, MSCI and FTSE global indices have so many more companies in them than any single country does after all, and the global ones include the biggest British shares too of course.

Don't forget what "aggressive" means

All of the above having been said – as a reminder of why these sorts of investments should only sit in the “aggressive” proportion of your portfolio: In 2008, the MSCI All World Index and S&P 500 both fell around 40%. They also crashed a long way early in 2020 at the beginning of the coronavirus crisis (before bouncing strongly through the rest of the year at least – great for people who were buying monthly of course).

It is very important to remember that whilst these sorts of investments could give you roughly 10% returns on average *over long periods of time*, and even 20-30% years now and then, they can and will have big down years every now and then.

This needn't be a problem for your ability to grow wealth over the long term *if* you are properly and appropriately diversified (by using something like “100 minus your age” of course), if you are buying regularly every month over many years and if you have a plan, stick to your guns and ignore the news – but you *must* have just such a plan and you must stick to it.

I would remind you again of the excellent John Stepek quote I used earlier:

“There are many roads to ruin in the markets – some of them longer than others – but one sure-fire way is to set out as a buy-and-hold investor and then attempt to turn into a market timer during a bout of market panic. This will do more damage to your portfolio than following one approach or the other...”

It is really important to remember this which is why I've included this quote twice over the course of not that many pages!

In Conclusion

When it comes to how you might get the “aggressive” proportion of your investment capital to work, I would argue that one of these large index funds will do a perfectly good job for the majority of people. Each of them will give you exposure to many hundreds of companies and to global growth and human progress by extension. They are large and liquid, cheap to buy and can be purchased in stocks and shares ISA and pension accounts.

Choosing an ETF that tracks one or other of these indices keeps things nice and simple, which more than likely increases the probability that you will actually do something and get going.

This having been said, there are other “aggressive” investments which may give you a chance of making slightly higher long-run returns than the 8-10% you're likely to get from these big indices. In order to keep this section as simple as possible and give you a “fastest route from A to B” – we will look at a few of those sorts of "aggressive" investment ideas a bit later in this workbook.

9

How you might approach “defensive” assets

As we have just seen in the last section, you might argue that choosing a fund to get the “aggressive” bit of your investment capital to work each month and over time is relatively simple. You need only own a big stock market index to cover that off pretty well and get most of the result you’re looking for.

I would argue that this approach is a good example of the idea that “done is better than perfect” and of the application of something called “the Pareto principle” – the idea that you can get 80% or more of your results from 20% of your actions.

If you buy a big equity index each month, you don’t have to spend hours puzzling over complicated considerations about what to do with your money and you will very likely get a perfectly solid result over time. As we have seen, this is the view of a lot of very smart, wealthy and successful investors, including folks like Warren Buffett and plenty of others, successful entrepreneurs and captains of industry, and smarter than average celebrities too.

I don’t think it is particularly controversial to suggest that the “defensive” bit is much harder, however, particularly in recent years with real interest rates (after inflation) having been so low or even negative for a long time.

As we saw earlier, traditionally the “defensive” bit of someone’s “100 minus your age” portfolio would have been allocated to *bonds*. In the UK, many financial advisers would have used UK government bonds or “gilts”. In the US, someone would likely have used US government bonds.

In recent years, this would have been problematic. With interest rates and, by extension, bond returns being as low as they have been since the financial crisis in 2007 / 2008, returns on bonds have been very low historically.

Arguably even more important, as interest rates have risen in recent years, this has also caused the price of many bonds to fall a long way (bond prices fall when interest rates rise), which has been hugely damaging to plenty of portfolios and particularly to many British pension funds

who have been increasingly pushed into buying bonds by ill-considered British government policies in recent decades.

This is the reason the “60/40 portfolio” has stopped working for some years as we saw on page 86. Given all of the above, bonds have proven to be a poor place to have your “defensive” investment capital for quite some time now.

This is one of the reasons we built and launched our own investment fund – the VT PEF Global Multi-Asset Fund. The fund uses two investment techniques to seek to protect against the risk of loss and, as a result, aim to serve as a potential alternative to bonds for the “defensive” proportion of someone’s investments.

True Diversification

The first of these techniques is what we call “true diversification” - that is to say, diversification by *asset class* and by *geography* rather than by owning a large number of just one asset class (for example just shares or just bonds), or country or region as most funds do.

Many of the smartest (and wealthiest) investors in history have shown how effective owning all asset classes in all major regions of the world can be. The main asset classes: Shares, bonds, cash, property and commodities, respond differently to the various stages of an economic cycle: Growth, deflation, inflation, stagnation and so on.

This is why we believe that a good approach is to look to own all or, at the very least, most major assets in most major regions of the world. This should include cash, bonds, property, stocks (shares), commodities (including precious metals) and a good split between the US, Asia and Europe (where I include Switzerland and the UK).

As you may know by now, we call this “owning the world” and this was the subject of my first book. (For those that haven’t yet read “How to Own the World” (A7), it is a great starting point).

Anyone who has followed us for any length of time will be familiar

with this idea already. The wealthiest and most financially literate people in the world have invested like this for more than a century. This includes folks like the Rothschild family, Oxford and Cambridge Universities and places like Harvard and Yale in the US. In fact, I would go as far as to argue that investing like this is one of the main reasons such people became disproportionately wealthy in the first place, especially given they have all done this over very long periods of time.

It should intuitively make sense to you why this works. In 2007- 2009, the stock market more than halved but oil hit an all-time high in 2008 and gold went up more than 23% in 2009 (priced in dollars).

Sometimes Asia is on fire and Europe stagnates and sometimes America is the place to be. The easiest thing to do is just do your best to have exposure to all areas of the world. You will never work out where the next “hot” area or asset is going to be. More often than not, not even the “experts” get this right.

You might think that this approach will mean you end up with indifferent performance, but the evidence of history is that this is not the case, over long enough periods of time at least. In the early 1980s, US investment writer, Harry Browne, said about this approach:

“Over broad periods of time, the winning investments add more value to the portfolio than the losing investments take away...”

Award-winning British investor, Tim Price, has called this kind of diversification “the only free lunch in investment” and Jack Meyer, who used to run the Harvard University endowment fund and achieved an average return of 15.9% a year under his tenure (910% compounded!), has said:

“The most powerful tool an investor has working for him or her is diversification. True diversification allows you to build portfolios with higher returns for the same risk. Most investors are far less diversified than they should be.”

This is why our fund owns a wide range of assets from all over the world.

Formula-Based Trend Following

The second primary investment technique we use is known as “formula-based trend following”. Looking at financial data as far back as practicably possible and across essentially all markets, academic research and real experience has shown that the positive or negative direction of any market is statistically more likely to continue than to reverse.

This may seem a little strange, but it is actually a simple function of human nature. If a share or market has been going up steadily then, all other things being equal, there is a good chance it will continue to do so, if only because of the herd mentality of human beings. We already saw this at work a few pages back when we looked at the effect of momentum-driven algorithmic trading on the stock market in recent years and also earlier in this workbook in the section on human psychology.

Trends are a well-known and reasonably well understood psychological phenomenon and have been driving boom and bust cycles for centuries. As a result, over a long period of time, academics looking at financial markets have worked out a number of methods for predicting where prices in a market will likely go based on where they have come from.

This broad approach to investment is known as “technical analysis”. Such analysis generates strict rules which help investors buy and sell with a higher probability of success. None of them are 100% accurate but when applied with discipline they can really help.

Arguably one of the most effective of such techniques is called “trend following”. Trend following simply takes a current (or recent average) price of an asset and compares it to a historical average price. If the current (or recent average) price is above the chosen historical average price, then the investor remains invested in that asset. If the current price is found to be below the relevant historical average, then the investor sells out of

the asset and switches those funds into cash (or something similarly defensive to protect against further falls in the price of that asset).

As an example – the methodology might be to take the price that a stock market (or any other financial market for that matter) closed at yesterday and compare it to the average price that stock market has closed at over the last 50, 100 or 200 trading days. Or it might take the average price the stock market has closed at for the last 20 trading days and compare it to the average price over the last 200 days.

Some longer-term strategies even compare the average price over the last 30 weeks vs. the last 50 weeks and some incredibly short term currency traders might even compare the last ten minutes against the previous hour for example. There is no hard and fast rule, and many different methods can work.

The important idea here is that if an asset starts falling, at a certain point a trend following strategy will switch out of that asset and into cash to protect against the price falling still further. Preserving capital this way is extremely important for all the reasons we looked at earlier in the workbook, such as the role played by human psychology and the idea of the break-even fallacy.

The level at which such a strategy will sell out of an asset will be based on a strict, disciplined, consistent and rules-based process. Equally, when the price of an asset starts to rise again, the strategy will look to buy back in.

This methodology is proven in practice and tested over more than a century with different assets and in different countries, and can have a significant effect on protecting against big falls in all markets and improving returns over long periods of time given the importance of preserving capital. This is precisely what our fund seeks to do.

It is worth highlighting that the price such a strategy can pay for this downside protection can be relatively long periods where the strategy will trend sideways. It is very important to note that our fund is very much an investment “tortoise”, rather than a hare.

The other analogy that may be instructive here (and one I have used before) is to refer to our approach as the “Geoff Boycott” of strategies. Cricket fans will know that Geoff Boycott was one of the most statistically successful batsmen in history. He did this by *focusing on defence above all else*. He was happy to endure a fair number of zeros and then only “hit sixes” when he was sufficiently confident that he wouldn’t get bowled out. This is philosophically very similar to our approach.

Our fund tries above all else to avoid getting “bowled out” – which, in the investment world, would mean suffering a massive fall – with the result that you might then sell out of your position or, at the very least, would then need to make those huge returns to get back to square one because of the break-even fallacy as explained earlier in the workbook.

In many ways our fund’s strategy is more like a “savings plan” than many more conventional funds. If you save and invest a certain amount every month without fail – you will build a significant sum over time, even at times when the fund might “go nowhere” – just as you would by saving money in a conventional savings account.

The difference is, of course, that in the event that there is a long and durable upward trend, you will be making returns on all that capital, meaning that your long-run result could be some way ahead of what you might have achieved in a cash ISA, current account, mattress or bond fund.

We would like to think that it is therefore a solid potential option for the defensive proportion of someone’s “100 minus your age” portfolio or, indeed, for anyone who is particularly risk averse and is very focused on protecting against the risk of loss – as they approach retirement perhaps.

If you want to own a wide selection of assets in one place and avoid the stress and administrative hassle of figuring out how to do that, you may find it a good option, particularly for the defensive proportion of your portfolio. You can find out more about how it works by downloading the [Fund Overview document](#) (C7) from our website.

We obviously have a high level of commercial self interest in highlighting

our fund as an option here. That having been said, we do feel strongly that it “does what it says on the tin”.

For the more cynical folk reading this who might find it very off-putting that I’m suggesting our own investment fund product, I hope you might concede that in this workbook I’ve provided a holistic, evidence-based, big picture approach to investment which suggests to a 30- or 40-year old that they might only use our investment fund for 30% or 40% of their investment capital, by definition. My own view is that this is a fairly rare approach for a fund management group to take.

It is important to stress that past performance is not an indication of future performance, but in the several years since we launched the fund, it has significantly outperformed bonds. Anyone using “100 minus your age”, one of the big stock markets suggested previously, and our fund would have had a fairly good result over time, particularly on a risk-adjusted basis.

The other main asset we have advocated for the last many years, covered in more detail later in this workbook, has been gold which will also have helped in that time frame, particularly for UK-based investors who care about performance in British pounds.

In summary

Big picture, this combination of “aggressive” and “defensive” investments based on your age has a good chance of capturing upside and protecting your downside over long periods of time, and you can get relatively large sums to work taking this approach given how large and liquid such investments can be.

We would like to think that this approach should also give you real peace of mind along the way given you’re getting the mix of assets roughly right based on your age. The impact of a large stock market crash should therefore be limited and far less impactful as you approach retirement, for example, than the more “risk on” approaches to investment that so

many people are taking these days – such as putting everything in crypto or taking the “market purist” approach of investing only in the stock market.

I hope you’ve found the ideas and evidence given in this section of this workbook more or less compelling and, crucially, not particularly complicated.

10
A note on other
“aggressive” assets

As I wrote a few pages back, there are certain types of “aggressive” investment which may give you a chance of making higher returns than “just” owning the S&P or a big global index. Before we move on to the next section of the workbook, I thought it might be worth having a quick look at some of them.

It is important to stress that each of these are certainly higher risk investments. As I’ve already explained, you can get a really solid result from just using a big equity index, and it is almost certainly best to start with that approach and, arguably, stick to that for the first few years of your investment journey.

Over time, however, as you get more comfortable and, hopefully, get to a point where you have more capital to deploy, it can be worth casting the net a bit wider. As ever, these kinds of investments are best acquired and owned over *very long periods of time*, given how volatile they can be for all the reasons we have explained up to this point.

Smaller Companies (AKA “small caps”): 16.4% a year from 1955 to 2021!

One asset class that I have written about before and that has a long track record of producing average annual returns quite some way north of 10% is *smaller companies*. As we saw earlier in this document there was a famous London Business School study (viii ↗) published by Professors Elroy Dimson and Paul Marsh that showed how UK smaller companies achieved *no less than 15.3% average annual returns in the sixty years* from 1955 to 2015 (when the study was published).

Updated to the end of 2021, this number was actually slightly higher at 16.4%. Those are extraordinary returns. As we have already seen, if you max your stocks and shares ISA each year and make those sorts of returns you will have over £1 million in just over 15 years. A couple could get there in less than 12 years! Amazing stuff really.

When you think about it – it is quite logical that smaller companies might perform better than big companies over time. Growth is one of

the most important drivers of share prices. It should be intuitively obvious that it could be easier for a company with, say £10 million of sales to multiply their sales tenfold than it is for one with £10 billion of sales (although companies like Apple and Amazon have been doing their best to disprove this in recent years!).

For what it is worth – this isn't just the case in the UK. The London Business School study noted that:

"...during the period of 2000 to 2014, smaller companies outperformed larger ones in 85% of worldwide markets. Small is bountiful."

1,000 true fans and the joys of secular growth

One of my favourite ideas in investment (and, in life more generally) is to focus on *your* economy rather than *the* economy. I think people waste far too much time tying themselves up in knots worrying about what *the* economy may or may not do. Ultimately, it needn't have that much of an impact on your life if you run things the right way - big picture at least. Too few people think like this – much to their detriment if you ask me.

Business author, renowned futurologist and founder of Wired magazine, Kevin Kelly, captured the essence of this idea rather brilliantly in a 2008 article he called "1,000 True Fans" (ix↗).

The basic idea is that any individual or (small) business can make a perfectly decent living with only "1,000 true fans". That is, 1,000 customers who love what you do enough such that they will repeatedly buy something from you. As an individual - if you can get 1,000 customers to pay you, say, £100 a year each (net of the costs of delivering your product or service), this is obviously £100,000 a year of income. Or perhaps you can charge them a £20 a month subscription for something – that's actually £240,000 a year – and so on.

Different businesses have different price points, margins and dynamics but the broad idea behind "1,000 fans" is that anyone should be able to

reach enough of a market to make a living and this has never been easier to do than it is today, thanks to the power of the internet to access the “long tail”. (It is worth [reading the article \(ix↗\)](#) in full given what an extraordinarily uplifting and empowering idea this is by the way).

This phenomenon is broadly relevant for smaller companies too – in that they only need a tiny percentage of the world’s population as customers to make decent revenues and profits and grow their share prices.

This is something economists and professional investors call “secular growth”. Basically - if you are small enough – and have a great product, service and / or brand, and a strong enough following as a result, you can grow a great deal and be a great investment, essentially no matter what the economy is doing as a whole.

A small company that can achieve “secular growth” doesn’t need to care as much as a massive company does about what *the* economy is doing – they only need care about *their* economy. As with everything – this isn’t black and white and every company will be affected by the economy to some degree or other – but a small company with a really fantastic product may “only” grow 20-30% in a difficult year for the economy at large versus, say, 50% for the first few years of their existence and versus large companies who could well be going backwards at such times.

Quality companies will also ensure they have a strong enough balance sheet to cope when economic tailwinds might turn into headwinds for reasons outside of their control. By putting by in the good years and being very careful how they use debt in particular – they should be able to fund the more difficult ones when they arise.

Goblins, dragons, cocktails, fashion and property

As a percentage of the entire population, there are really very few people in the world who like painting little lead models of orcs, dragons and goblins. Such things are generally reserved for gauche 10-year-olds (I know, since I used to be one of them).

This hasn't stopped Games Workshop from becoming worth more than £3 billion – many times the value it was a decade ago. There are enough gauche 10-year-olds in the world for Games Workshop to have been able to achieve many years of “secular growth”.

Similarly - lots of people in the world prefer beer and wine to gin and tonic – but that didn't stop Fever-Tree finding enough people willing to buy a “trendy” tonic water to become valued at more than £1 billion (admittedly they used to be a lot bigger than that at peak – but lots of value has been created here, nevertheless). The same can be said about online fashion retailer – ASOS (As Seen On Screen). I met the management team in 2004 when they were valued at about £30 million (from memory).

Or look at leading takeaway app' business Just Eat. Founded in 2001 and acquired in 2019 for around £6 billion. That is a great deal of growth in under twenty years.

I've been working with smaller companies since the 1990s and have seen so many of these sorts of examples in that time. Of course, there are also plenty of companies that have failed spectacularly – but that hasn't stopped smaller companies from creating strong double digit returns for patient investors – on average - as evidenced by the London Business School piece I provided earlier.

If you are interested in finding out more about UK smaller company funds, you might have a look at the list of small company unit trusts from the Citywire [website](#) (x7). At the time of writing, the last couple of years have been challenging for smaller companies so the recent performance numbers don't look as compelling as they did when I wrote the first edition of this workbook.

This is an example of how volatility can affect this asset class. Nevertheless, it won't take much of a renaissance in the UK smaller company world for the long-run performance of smaller companies to trend back towards those very impressive annual returns.

Volatility!

As I said earlier – those sorts of long-run returns from smaller companies could make you an ISA millionaire in a few years. *But* (and it is a reasonably big *but*) – there is a problem with this type of investment: Volatility! As we saw earlier in this workbook, some years smaller companies powered ahead by 30% or even 40% or more. On several occasions between 1955 and the present day, however, they fell by more than 50%.

It is a very rare person indeed, psychologically, who can see their ISA or pension account 50% in the red, stick to their guns, ignore the noise and carry on investing regardless – confident that it will all be fine in the end. It is also crucial that this does not happen to a meaningful percentage of your investments if you are near retirement!

Again, as we said earlier, for many people, these sorts of falls will cause them to give up in fear, crystallise a big loss and then never invest in the space again. This is terrible for two reasons: First, it means that they have locked in that large loss and secondly, even worse, they will then not enjoy the amazing returns they could have achieved by sticking to their guns over many years, because having suffered that huge loss, they will almost certainly avoid the stock market from that point onwards.

This is why you need a plan and you need to stick to it! Small caps are great – but you need to be very clear about how and when you use them. “100 minus your age” can obviously help with that, in that you can work out a sensible allocation to them based on your age. It is also really important to buy and hold them for long periods of time if you decide to invest in them.

Active versus passive

In terms of the *specifics* of how someone might go about investing in small caps – there are broadly two ways to do it: First, to invest in an active fund of some kind (either a unit trust or investment trust). Alternatively,

you might buy a passive smaller companies ETF (Exchange Traded Fund) - that is to say a fund that automatically tracks a small cap index of some kind.

There is a great deal of debate these days about the relative merits of passive versus active investing. (If you want a reminder of what passive versus active means, please refer to page 177 of "[How to Own the World](#)" (A7)).

The fashionable opinion nowadays seems to be that active funds are invariably the work of the devil and an expensive con-trick and you should only ever use passive (tracker) funds unless you're a clueless moron. My own view here (after so many years working at the coal face with stock-market-listed smaller companies, for what it is worth) is that this is a rather unhelpful and simplistic stance, particularly when it comes to investing in small caps.

A full discussion of active versus passive is well beyond the scope of this workbook (but certainly a topic for one of my future emails). All I will say is that there are a number of structural (that is to say, inherent) reasons why passive ETFs don't work as well when it comes to smaller companies as they do for tracking massive companies like those in the FTSE 100 or S&P 500. For very small companies, passive ETFs can't actually work at all.

This is primarily to do with something called "liquidity". It is very easy to buy and sell many millions of pounds worth of a large FTSE 100 or S&P 500 company whenever you like (within reason). Such companies are said to be "liquid". The same cannot be said about small companies.

Very small companies (often called "micro-caps") – can be very hard indeed to transact in. It could take a skilled specialist smaller company trader several days to buy or sell a decent quantity of shares in a given small or micro-cap company and they will have to have a pretty clear idea of specific people to call in order to get the trade done. This means that it is essentially impossible to include such companies in a passive ETF product which needs to be able to automate such deals. At the small end

of the market, a computer just can't do the job of a human being.

As a result - those small cap ETFs that do exist simply can't capture the very smallest companies in a stock market - the ones where all that growth might come from perhaps. I would also argue that the role played by *qualitative* factors - such as the quality of a management team or board of directors, or an intuitive feel for whether or not a given product will be able to find a market - are far more important in small cap investment than for larger caps - which are more driven by *quantitative* factors (the financial numbers basically and, perhaps more importantly, what the rest of the market makes of those *quantitative* factors).

I'm all for using inexpensive passive tracker funds where appropriate - we use them in our fund after all - but you might consider an actively managed fund for small caps and particularly if you really want to "swing for the fences" and go for micro-caps for example.

You will understand by now that I can't make specific investment recommendations. What I can say, however, is that you might simply have a look at the Citywire page given on page 126, and do your own research. Small caps can provide exceptional returns for the patient investor as long as you are mindful that they can also have pretty aggressive down years along the way.

If you are confident in your allocation thanks to using an idea like "100 minus your age" perhaps, then they could be one potential candidate for the "aggressive" portion of your investments.

Biotech: Another "higher risk" asset class to consider?

Long-term followers of my output (on social media platforms like X / Twitter for example) may be aware that I was previously a partner at a boutique investment bank in London which specialises in biotech and life sciences.

I have had a particular focus on the biotech sector since the beginning of 2015. In the time since then, I have met with more than 100 life sciences

companies and a similar number of investment firms from all over the world focused on the sector. Taken together, those investment firms speak for more than £1 trillion of investment capital.

I have been espousing the structural merits of biotech as a sector to those investors for quite some time given the opportunity I perceive in life science investment. I'm obviously "talking my own book" here, but I do believe there are a number of compelling reasons that the industry will quite likely create the next handful of companies valued at the kind of levels currently enjoyed by the likes of Apple, Amazon, and Alphabet (Google). Tech could well be supplanted by biotech in the next couple of decades and this would suggest there could be significant upside in the sector.

In fact, my interest and belief in the sector is what led me to write my third book: "[Our Future is Biotech](#)" (O³), in the time since publishing the last edition of this one. Below I have included the arguments for the biotech industry I made in the last edition of this workbook again, but if you want a far more detailed explanation of why I believe the biotech sector is so interesting and world-changing, please do consider checking out my latest book (with apologies for the gratuitous plug!).

So - below are five of the drivers of potential upside in the biotech industry that I have highlighted over the years:

1: Equity market momentum

From 2009 to the end of 2023, the biotech sector, as measured by the NASDAQ Biotechnology index, has produced a return of more than 14% per annum, priced in pounds sterling.* Momentum is important in equity investment as we've seen over the last few pages when we think about those enormous technology stocks.

* Source: Nasdaq Biotech Index (NBI) from Jan 2009 to Dec 2023 +13.26% (+14.27% in GBP) annualised (Bloomberg).

Biotech has been one of the best performing stock market sectors over several years, yet I would argue still hasn't gone "mainstream" in the way companies like Apple, Amazon, Meta (Facebook) and Alphabet (Google) have. To a certain extent, the sector's stock market success has also been something of a US-only phenomenon so far.

I would suggest that the rest of the world has yet to really take the sector to heart – particularly the UK and Europe (China is a different story as I mentioned earlier). As more investors from around the world wake up to the sector's potential and more companies deliver real commercial value, this performance could well continue and even accelerate. (Although I must highlight that past performance is not a reliable indicator of future performance).

2: The science

The second driver for the sector is quite simply the fact that the science is getting to a point where reality increasingly looks like science fiction. This is my "human progress" point again.

To repeat one of my favourite quotes from earlier, Sir Arthur C. Clarke (the British author who wrote "2001: A Space Odyssey") said:

"Any sufficiently advanced technology is indistinguishable from magic."

...this isn't far off what is happening in the biotech industry at the moment. I see it every month. This exceptional technological progress is being driven by three related and complementary exponentials:

1. Fall in the cost of sequencing a human genome,
2. fall in the cost of processing power (Moore's Law) and, related to this...
3. ...increase in the ability of R&D scientists, clinicians and regulators all over the world to collaborate using technology.

Moore's Law and the cost of sequencing a human genome

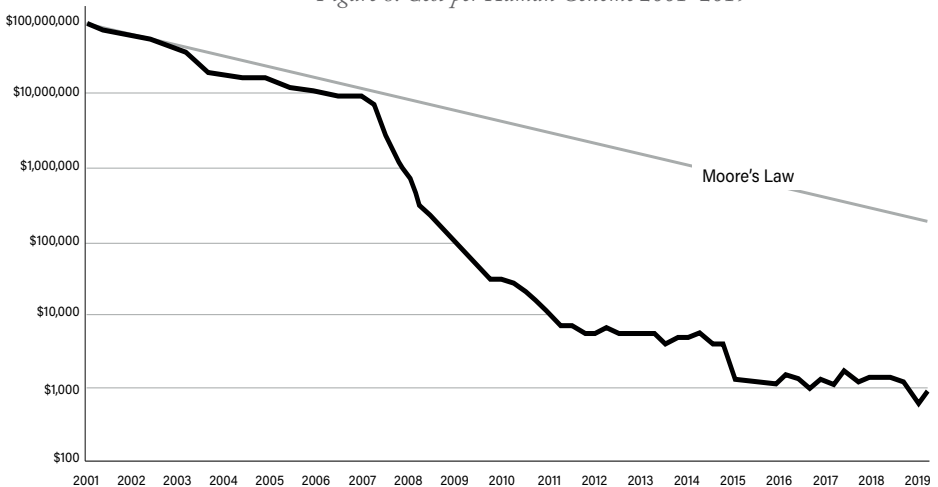
Moore's Law is the basic idea that processing power per dollar or pound spent doubles every 18-24 months. Although the idea was coined by Gordon Moore, one of the founders of the chip company Intel in the mid 1960s, research conducted in the time since then has shown that this phenomenon has been going all the way back to 1900!

Top US investor and former board member of Tesla, Steve Jurvetson, has described the trajectory of Moore's Law as:

"...the most important graph in human history."

I agree with him. As the underlying driver for essentially all of our technological progress, Moore's Law has been the single most important factor for human progress overall for more than a century. I believe that this will continue to be the case. At the most fundamental level, the continuation of Moore's Law will be vastly more influential on our day to day lives in the decades ahead than any of the noise that our media obsesses about most days.

Figure 8: Cost per Human Genome 2001–2019



Source: National Human Genome Research Institute, NIH

Moore's Law is an utterly extraordinary thing, a testament to the phenomenal ingenuity of our species and nothing less than a source of great hope for our future. Amazingly enough, however, there is a chart from the biotech industry that has been leaving it for dust for more than a decade: The fall in the cost of sequencing a human genome.

The chart above shows that the cost of sequencing a human genome has fallen from \$100 million to less than \$1,000 in fewer than twenty years. The real picture is even more astonishing. It is difficult to estimate the precise cost of sequencing the first ever human genome, but it was anywhere between \$3 billion and \$5 billion in today's terms and took about fifteen years to do. *Today there are companies who can do it in a few hours for as little as \$200.*

From fifteen years and \$5 billion to a few hours and \$200. Utterly incredible – and a stat that far too few people are aware of. This reality has far reaching implications for our ability to fight disease and find effective cures for things like cancer, diabetes, Alzheimer's and dementia and, indeed, any and every other disease known to our species (eventually).

As an aside – I would highlight that this kind of phenomenon can also be seen in places like the cost of solar power, quantum computing technology, engine efficiency, chip design and on and on. This reality will very likely have extraordinarily positive and powerful consequences for us all – and sooner than many people realise.

So - the science is amazing, and reality increasingly looks like science fiction. Innovation is developing exponentially. I would suggest that equity value creation will quite likely follow the same trajectory – certainly if the evidence of history is anything to go by – although I have to explicitly highlight again, that past performance is not a reliable indicator of future performance.

3: The demographics

At the same time as the science is developing at such a blistering pace, the need for and demand for healthcare is exploding for a number of very powerful structural reasons. All over the world, populations are ageing, getting dramatically more obese and getting wealthier.

Most diseases are diseases of age. More than 80% of cancer cases are diagnosed in people over the age of 55 and the risk increases steadily as we get older (xi↗). This is also true of many of the other major diseases, including coronavirus of course. As a result, as populations all over the world live longer, their demand for healthcare mushrooms.

The same is true of obesity. In most developed economies today, anywhere from half to two-thirds of the population are classified as obese. (The developing world is doing its best to catch up with us too sadly). Just as with age, obesity significantly increases rates of illness. Both of these factors have driven a massive increase in the demand for all kinds of healthcare products and services and these factors are getting stronger every year.

It is also the case that wealthier populations spend more money on healthcare than poorer ones – because they can afford to. It wasn't that long ago that most of the world's population had no access to healthcare whatsoever – it was the preserve of a privileged few in the developed world. This has been changing rapidly. Today, billions of people all over Asia and in Latin America and even some of the wealthier bits of Africa have access to decent healthcare services and drugs. This phenomenon is also developing exponentially.

4: “Equities 101” – valuation, cash generation and M&A

This is arguably a more “specialist” point than the three I've made so far and a bit less intuitively understandable for someone with no training in financial analysis, but – for what it is worth - biotech companies can be

cheaper than many investors think as they exhibit a number of attractive equity fundamentals: Significant pricing power, high margins, long product cycles and high barriers to entry thanks to their intellectual property (patent-protection).

Perhaps more important from a pure investment perspective, they're also sitting in a sector with unprecedented financial firepower. In 2019, leading accountancy firm, Ernst & Young, estimated that there is \$1.2 *trillion* of cash available to large pharma and biopharma companies for investment and M&A (Mergers & Acquisitions).

PricewaterhouseCoopers (PwC) has estimated that there is another \$1.5 *trillion* in the private equity sector which could go to work funding life science companies.

What this means, as far as I'm concerned, is that there is a great deal of money available to develop that science I mentioned above and, potentially, to bid up the prices of the companies involved. That is to say that there are likely to be lots of potential buyers for anyone who can demonstrate they have something. This reality is stronger in healthcare and biotech than in nearly any other economic sector given these financial firepower numbers.

5: An improving regulatory environment

On average, getting a drug to market costs nearly \$3 billion and takes about ten years (xii↗). This enormous cost and time requirement is primarily a function of the regulatory requirements of getting a drug approved on both sides of the Atlantic – by the FDA in the US and EMA in Europe. This is one of the biggest challenges for biotech companies – particularly small ones who are less able to deal with the enormous costs and time required before it is possible to actually make any money – for obvious reasons.

Anything that happens to speed up this process and / or reduce costs, is highly beneficial for the value of the sector. Happily, the direction of

travel in this respect in recent years has been positive. Regulators all over the world are better funded, politically empowered and increasingly comfortable with complicated “bleeding edge” science. This has meant that the world is approving steadily more drugs gradually over time. Coronavirus looks likely to have accelerated this phenomenon even further, given how incredibly motivated regulators all over the world were to find a cure.

Taken together I think the five arguments I have made above make a pretty compelling case for biotech investment in the years ahead. To be absolutely clear as I am bound to be by the Financial Conduct Authority (FCA) - this is just my opinion and should not be taken as personal investment advice!

Active versus passive again...

Just as was the case with smaller companies in the last section, if you do want to add some biotech exposure to the "aggressive" proportion of your investments, there are a number of active and passive funds available with which you can do just that.

As I hope I have made clear before, I can't provide specific investment recommendations – so you will have to do your own research - but I hope this section on biotech has been useful as an overview of some of the fundamentals that could well drive a great deal of value creation in this sector going forwards. If you want to have a look at this exciting theme in a great deal more detail, please do consider checking out [“Our Future is Biotech”](#) (O7).

What else?

So far, I have suggested that the “aggressive” proportion of your investments might be allocated to a big equity index and perhaps a smaller company or biotech fund in time. I have also made the point that there

are many thousands of options overall. Crucially, there is categorically no “right” answer here. I am simply giving examples of the sort of thing you might consider.

I would also highlight that, over time, as the amount of money you have to invest grows, you could look at owning a combination of several different kinds of fund or asset, as long as you remain sensible about the proportion of your money that is invested in low-risk versus higher-risk things.

Before we move on to the nuts and bolts and mechanics of precisely how you might implement this overall approach, I thought I would mention a handful of other “aggressive” investments, primarily because anyone who has followed me for any length of time will be aware that I have suggested some of these in the past, and it might seem odd that I would leave them out of this new, updated version of this workbook.

A good quality global equity fund

Long-time followers of all things Plain English Finance will have seen me mention two reasonably famous investment funds over the years: Fundsmith and Lindsell Train Global.

The only reason I have mentioned these two is that I think they both have a very common-sense approach to investing in quality companies all over the world and a strong long-run track record, both having made average annual returns in the low- to mid-teens for over a decade at the time of writing (although I am obliged to remind you that past performance is not necessarily indicative of future results).

Just as with any other of the “aggressive” assets we are looking at, these funds will fall when financial markets fall as a whole. It is crucial to keep this in mind. At the fundamental level, however, they are also both investing in human progress over time.

A tech investment of some kind

Another way to play that human progress theme is via a technology investment of some kind. Again, there are so many ways to do this. One of the biggest and most liquid in the UK is a fund called the Scottish Mortgage Investment Trust. ([J7](#)).

Don't be put off by the slightly confusing name. This is simply a quaint legacy of a bygone era.

The fund has existed since 1909 when it was set up "to lend to rubber plantations in the Far East". It is a very different animal nowadays.

The fund explicitly seeks to "invest in progress" (as you can see if you click the link to the landing page above). By doing this it has delivered strong long-run returns for its investors over many years. Just as with the two global funds I have mentioned above, it will tend to suffer through big equity market corrections but could continue to be a solid longer-term bet for patient investors with a bit of an appetite for risk. Again - you must remember that past performance is not necessarily indicative of future results!

Investment Trusts

An investment trust is an investment fund that is structured as a *company* that is listed on the stock market. Whereas other stock market-listed companies like Tesco or Shell, for example, will use the money they raise from being on the stock market to run supermarkets or an oil company, the money raised by an investment trust company is then used to invest in shares of other companies.

The Scottish Mortgage Investment Trust is just this kind of fund, as its name suggests. Investment trusts can quite often be a good investment option over time:

1. First: They can be a cost-effective way of owning lots of different

companies. Because they trade like shares, you buy and sell them for a small commission. If you set up a monthly automated investment with a platform like Hargreaves Lansdown or Interactive Investor (more about this shortly), you can even enjoy commission free trading.

2. Secondly: Many of them have a strong track record of long-term investment returns, often as a result of focusing on paying a growing dividend each year. Reinvesting dividends creates the lion's share of stock market returns over time, and there is arguably no vehicle in the UK market more focused on doing this than investment trusts.

If you have a look at this [link](#) (xiii↗) you can see how many of these trusts made people 10, 11, 12 or even 13 times their money over the 25 years up to the publication date of the article. Nine of them have grown their dividends for more than 30 years in a row too!

I acknowledge this article is a few years old, but I think it is still instructive in terms of showing just how strong the very long-run gains of these funds can be. I couldn't find any other articles which showed such a long-term track record.

I have already mentioned the Scottish Mortgage Investment Trust but there are plenty of others you might consider. You can find a wealth of information about investment trusts online. Here are two examples:

- [Interactive Investor](#) (xiv↗)
- [Hargreaves Lansdown](#) (xv↗)

Conclusion

As you can see from the last few pages, there are lots of options when it comes to how you might get your “aggressive” funds to work. Over the years I have looked at numerous other things: Water, uranium, developing world property and ETFs on their stock markets (in places like Vietnam for example), robotics, Artificial Intelligence the list goes on and on.

You might do the same – but I would remind you to be very careful about this. I would suggest that keeping things simple is very likely to be a better approach here than rushing out and buying two dozen different investments - particularly if you are just starting your investment journey and, arguably, for the first several years of that journey too.

Over time, as you get more experienced and as you have more money to invest, you might consider owning several things but you're probably better off starting with the most plain vanilla things out there and gradually getting more exotic over time as you have more money and more experience.

So that's the end of this section covering key investment tactics and various investment ideas.

To bring it all together: For most people, you will likely only need:

1. Cash - your rainy day pot
2. Something “aggressive”
3. Something “defensive”
4. ...potentially also some precious metals, ideally gold

If you invest regularly each month, automate, ignore the news and use the idea of “100 minus your age” to allocate across these four pots or silos, you have a good chance of securing a solid risk-adjusted outcome over a lifetime of investing.

In the next sections we will look at the nuts and bolts of how you might actually go about doing the admin' required to get this all set up.

PART THREE

Bringing it all together

So far, we have established that you need to pay off any expensive debt, save up a “rainy-day” pot of cash and then look to *invest*. We have also looked at how you might think about splitting any investments you do make across more “defensive” versus more “aggressive” assets based on how old you are and potentially using the idea of “100 minus your age”.

In this section, we are going to look at the nuts and bolts of how you might get your affairs set up.

- Regular monthly investment versus getting a lump sum to work.
- Choosing a stockbroker or investment platform and the accounts you will need.

11

Regular monthly investing versus getting a lump sum to work

Before we go on, there is a key distinction that needs to be made between two investing requirements you may have, each of which demand somewhat different approaches:

1. Regular monthly investment of a certain amount of your income.
2. Thinking about how to invest a lump sum you might already have.

Regular monthly investment

As we saw earlier in the workbook, for most people, regular investment is the foundational building block of building wealth. If you invest what you can afford every month without fail into something sensible and do that until such time as you want to live on the proceeds – there is a solid chance that you can get to a six or even seven figure sum over a lifetime of investing, almost no matter how little you begin with or how much you earn. You really can expect to become meaningfully wealthy over time.

You will hopefully recall that near the start of this workbook in the section entitled “Finding the Money”, I said:

“There is a simple formula for becoming wealthy that is well understood by the rich and unchanged since humans invented money: Live on less than you earn and invest the rest...”

I then went on to say that you are going to want to be saving and investing *at least 10%* of your monthly income if at all possible and we explored how you might make that happen.

We looked at some of the reasons why investing regularly every month is such a good approach in chapter 7.

Investing regularly by direct debit each month should remove a huge amount of stress and hassle and is a key factor in keeping things manageable and being successful in the long-run.

A great book about this kind of regular investing by the way is the classic “[Rich Dad Poor Dad](#)” by Robert Kiyosaki, (xvi↗) where he describes this process as “paying yourself first”.

Lump sums

This having been said, you may have a lump sum that you would like to get to work. Perhaps you have already saved up tens or even hundreds of thousands of pounds, or you are lucky enough to have inherited a significant sum recently, or sold a business or property.

If this describes you, then you will of course want to be very careful you don't end up investing all of that money in something which then crashes not long afterwards. Too many people have made that mistake over the years and it is a very painful one to make.

One relatively simple way to get around this concern is to divide the value of your lump sum into ten or twelve and pay 1/10th or 1/12th of it into your investments each month for the next ten to twelve months along with whatever else you intend to save and invest monthly.

This will achieve the “averaging in” or “smoothing” I described earlier in the workbook, and so will ensure that you don't fall foul of a crash shortly after putting a large amount of money into something.

This is a crucial approach when it comes to any “aggressive” investments you might decide to make. It is obviously less of a worry if you're putting that money into anything “defensive”.

As an example, as explained earlier, our fund uses a combination of wide diversification and a trend following overlay which moves assets into cash if they start to fall. All of which means that our fund should be sufficiently defensive in a crash (as it proved to be in 2018 and in 2020 for example).

You can understand more about why this should be the case by looking at the backtested monthly performance numbers all the way back to January 2001 in our [Fund Overview document](#) (C↗). The main point is

that the fund should be a good deal less volatile than the sorts of “aggressive” assets I have described in the last few pages and so there may be no need to divide a lump sum into ten or twelve.

Although again, this should in no way be considered a personal recommendation, and you must consider your own circumstances and seek advice if you are unsure.

If you are considering an investment in anything that might be considered “aggressive” however, you really should think about investing your lump sum over time when putting significant sums to work.

12

Choosing a stockbroker or investment platform and the accounts you will need

Whether you are setting up regular investment each month or looking to invest a lump sum in some shape or form, you are going to need an account with a top-quality stockbroking company or investment platform (these days, the two are basically interchangeable).

Nowadays there are many options here – something I wrote about in “[How to Own the World](#)” (A7), when I explained that today’s financial services are the best they have ever been.

There are a few key considerations here when thinking about which company to use for your investments:

1. First: You will want to ensure that whichever firm you choose offers you the option to invest in a wide range of funds and stock market investments. I would argue that this means that you should almost certainly avoid the high street banks. Too many of them offer a deeply unimpressive and limited selection of their own in-house investment products, rather than the fantastic depth and variety you will get from the quality investment platforms.
2. Secondly: You will want to use a firm or platform which offers a facility to invest automatically each month by direct debit.
3. Thirdly: You should ensure that whichever company you go for offers (stocks and shares) ISA, GIA and SIPP accounts.

A note on ISA, GIA and SIPP accounts

Earlier in the workbook, we looked at how you might think about balancing your use of pension and ISA accounts depending on things like whether you are employed or self-employed, how much you earn, how close you are to retirement and how comfortable you are locking up your money until retirement age.

In this section we are going to look in a little more detail at the various investment accounts. As I said earlier, one of the first things you will want

to do is work out how you allocate money each month to your pension as against an ISA account. If you are employed, don't forget to speak to someone at your company about your pension arrangements. If you are self-employed, you can either find a good financial adviser to help work such things out or do the best job you can as a DIY-investor.

When it comes to ISAs, I think it is important to dwell on the fact that you can use an ISA to save and invest up to £20,000 a year or even £40,000 a year for a married couple. (This is because "spousal transfers" (i.e. from husband to wife or wife to husband) are free of tax – which means that if one half of a couple (whether husband or wife) is particularly highly paid, that individual can effectively invest up to as much as £40,000 of their income a year by using their spouse's ISA allowance – assuming you trust each other enough of course!).

To be clear – I am talking about a *stocks and shares ISA* here, *not* a cash ISA. I have written elsewhere about why this is crucial: In a nut-shell – this is because cash ISAs only deliver very low or even negative real returns. Remember your real return is the interest rate minus inflation. Cash ISAs have guaranteed the destruction of your real wealth for many of the last few years. Even today, with interest rates a tiny bit higher than inflation (finally), if you use a cash ISA you will make little or no actual forward progress financially. (Please do read these two articles on our website if you want to understand this argument in more detail):

- [The “twelfth 12th” of your 2017/2018 ISA \(xvii ↗\)](#)
- [The UK's number one finance blind spot \(xviii ↗\)](#)

Whatever your opinion is of the relative merits of ISAs and pensions, £20,000 a year is a lot of money - this is £1,666 per month, after all, and using an ISA will give you a tax-free result too. The key point is that it is certainly worth arranging a stocks and shares ISA if at all possible.

General Investment Account (GIA)

If you are fortunate enough to have even more than £20,000 a year to invest, either because you are a very high earner, have been lucky enough to inherit some money or, perhaps, to have sold a business or property there is another investment account you should be aware of - the “GIA” – or General Investment Account.

All of the major stockbrokers / investment platforms offer this sort of account as well as ISA accounts (although please note that not all investment companies use the same nomenclature here. Hargreaves Lansdown call it a “Fund and Share account” rather than a GIA – but this is the same thing).

A GIA enables you to invest in a vast range of funds and stock market investments with the main difference to an ISA account being that any income or capital gain you make from the activity is fully taxable, unlike with an ISA where you need not worry about tax (the main point of an ISA).

This is certainly annoying, particularly given the administration required to keep on top of your tax obligations for capital gains and dividend income too, but if you have a large amount of money it is worth at least being aware of the existence of the GIA. Just ensure that you are putting your first £20,000 a year to work in an ISA account (or £40,000 if you are married of course).

A word on pensions and the Self Invested Personal Pension (SIPP)

As we’ve already suggested, figuring out what to do about your pension and balancing that with an ISA account is one of the more complicated topics in personal finance. Given this reality, I think it is worth digressing a moment to articulate some thoughts on the various investment accounts.

To begin with, there are several different categories of pension and it is important we say a few words about each in turn:

The state pension

The first one we can cover off quite quickly - is the state pension. This is the pension provided to you by the government. In order to qualify for one you will need to have paid National Insurance for at least 10 years and 35 years to receive a *full* state pension. The reason we can cover it reasonably quickly is because it is quite small. At the time of writing even the full pension (if you've contributed for 35 years) is just over £200 a week.

I might also note that there are real concerns about the government being able to afford the pension obligations of millions more retirees in future, given the state of the British economy, levels of government debt, our rapidly ageing population, and the fact that people are living longer.

Much has been written about the extent to which we confront a pensions crisis in the UK. The younger you are today, the less likely you are to get a government pension you can actually live on for the 40+ years you may live after you retire. If you want to have enough to live a good life, you're going to want to ensure you make the most of your private pension arrangements and other investment accounts.

We must look instead, then, at the various kinds of personal or private pensions that exist in order to get to grips with the best course of action. Let's look at each in turn:

Final salary / defined benefit pensions

First, final salary, otherwise known as "defined benefit", pensions. These "do what they say on the tin" in that you are guaranteed a certain level of income in retirement. This kind of pension is relatively rare these days other than in the public sector. The reason for this is that they are basically too expensive for most private companies to provide.

Only the government, who are able to invent money out of thin air,

can attempt to guarantee a certain level of income to people for decades after they retire (or pretend to at least).

If you are lucky enough to have this kind of pension, be very grateful and don't tamper with it! That said, you should be aware that many of these schemes are currently in the red. If you have a final salary pension you might call the provider and establish where you stand in terms of what you might expect to get back. If the news isn't good, then you will want to ensure you are taking your own steps to make up for any short-fall.

Transfer values – do you have £500,000 without realising?!

You might also be interested in finding out what the transfer value of the scheme might be if you do have a defined benefit or final salary pension, given that it could be a surprisingly large number nowadays.

To explain: Back in the 1980s when interest rates were, say, 10%, if you had a defined benefit (final salary) pension that was paying you, say, £10,000 a year (to keep the maths easy) - this implied that the theoretical “pot” that was there to pay you that return was £100,000. Your employer (or the state) needed to have a notional £100,000 of pension pot earmarked for the purposes of paying you that annual income. With the interest rate at 10% they could therefore pay you out £10,000 a year of income without touching the pot.

Now imagine what happens with 2% interest rates perhaps. You should see that the implied pot required to pay you that £10,000 a year with interest rates at 2% is now £500,000! ($£10,000 / 0.02$).

All other things being equal - the “value” of an income stream (your guaranteed £10,000 p. annum of defined benefit / final salary pension) at 2% is five times what it was when interest rates were five times higher. ($£500,000 \times 2\% = £10,000$ as opposed to $£100,000 \times 10\% = £10,000$).

With low interest rates the transfer value of a defined benefit pension (i.e. swapping your guaranteed £10,000 p. annum of income for the

implied pension pot that supports it) - is very high because these two numbers are inversely related.

What this means is that if you felt you could make an investment return of more than 2% on your pot, you may be better off transferring your defined benefit pension into a self-managed pension (like a SIPP) before interest rates go back up again. It is important to stress that it is utterly crucial that you would only give consideration to doing this with great care and solid professional advice.

First - you must ensure that you don't end up making e.g. 1% on your pot or even losing money if you transfer out (thus being worse off than you were before, even with returns at 2%).

Secondly - you must ensure you are confident you are not at risk of becoming a "Lamborghini pensioner" - i.e. taking your big six or even seven figure transfer value to spend on said sports car, rather than investing prudently for your retirement!

In the time since writing the first edition of this workbook, interest rates have obviously gone back up a great deal so your ability to take advantage of this situation isn't what it was for the last few years when interest rates were at such historical lows.

Private pensions

Leaving aside the state pension and the increasingly rare animal that is a final salary pension, we should now turn our attention to the broad category of pension most people have: An occupational or private pension of some kind. If you work for a company, this will usually be provided by your employer and is then called something like a "workplace", "occupational" or "company" pension.

If you are self-employed, you may have your own private pension which will likely have been arranged for you by a financial adviser. This is likely to be a Self-Invested Personal Pension (or SIPP). If you have your own company, you may have something similar called a Small Self-Adminis-

tered Scheme (SSAS), which will probably also have been set up by a financial adviser.

SIPPs and SSASs are simply pension accounts that give you the same tax benefits as an occupational pension, but also allow you to invest in a wide variety of assets and make your own decisions about what to invest in.

SIPP and SSAS accounts can be quite flexible and may give you more choice than occupational pension schemes run by a company. Large companies tend to outsource their pension schemes to one pension provider. The result is that employees in a company scheme will tend to have a narrower range of options than a SIPP or SSAS. That said, there will still be a way to optimise what you do have in that scheme (see break out box over the page).

Whether you are employed or self-employed, most pensions these days will be what are called “defined contribution” pensions – that is to say that you put in a certain amount and what you get back at the end will be a function of how much you put in and, importantly, your investment performance.

A key point to make here again is that if you work for a company that will match any contributions you make to your occupational pension account, then it is highly likely to be a good idea that you maximise your contributions to this account. Investment is all about risk versus reward. It seems highly likely that the fact that you are getting an automatic 100% return (reward) from your employer (in matching your contributions) will be a good thing to do. As long as you are mindful of the various problems associated with pensions that I have already explained in this workbook such as not being able to access your money for many years to come.

If you have a defined contribution occupational pension and a generous employer, then by all means increase or even max out your pension contributions to max out their matched contribution. You will just want to ensure that all that money is going into sensible investments – some-

thing you should be better equipped to do having read this workbook.

To ensure that your company pension is invested in the right sort of assets, you need only contact your company's pension provider and ask to see a list of the investments that are available to you in that pension policy. You can then apply what you have learned from this document to help decide which of those investments might be best for you – based on your age and attitude to risk.

The only scenario I foresee in which those of you with the kind of generous employer that will match contributions should not follow this advice is where you intend to leave conventional employment any time soon – for example to start your own company perhaps.

As we have seen, one negative aspect of pensions generally is, of course, that you are basically not able to touch any money that goes into it until you're in your mid to late fifties – by law. If you are considering the entrepreneurial route, you will want to have as much money available to you as possible when you start your business. It probably goes without saying, therefore, that you will want to ensure you keep the maximum amount of your savings immediately accessible rather than locked up, even if your employer is willing to double your contributions for you.

So, unless you foresee a need to get your hands on as much cash as possible in the near future for these sorts of personal reasons, those of you with a generous employer should max out any pension contributions which will be matched by said employer.

A possible investing running order

You might therefore think about investment in this order:

1. Optimising your occupational or workplace pension if you are employed

- or arranging your own private pension if you are self-employed.
2. Maximising contributions to a good quality stocks and shares (*not* cash) ISA account.
 3. Buying some precious metals (more on this shortly).
 4. For those who still have any money left, investing in other financial investments using a GIA and / or using a spread betting account (see below).

I would stress that this running order is by no means a hard and fast rule. The above is just one way of thinking about such things and may not be right for your own personal circumstances. The combination of getting your pension roughly right and successful ISA investment will be more than enough for the vast majority of people to achieve suitably ambitious financial goals.

If you are a reasonably high earner and / or particularly interested in finance you might also consider buying some precious metals and using a General Investment Account. If you're particularly interested in financial markets, willing to do a fair bit of work and go carefully, you might also consider the educated use of a spread betting account.

Spread betting

Another account you might consider using, is a spread betting account. I explained about these in chapter six of "[How to Own the World](#)" (A7). This can be a powerful tool for making money from investing and any gains made are tax free. This having been said, it is fairly complicated, and if you don't know what you are doing it is possible to lose a large amount of money very quickly. Estimates vary but something like 70% of people lose money when spread betting, so please ensure you only give it consideration if you're willing to do sufficient work to really get to grips with it. (See the section about "INVESTING versus TRADING" earlier in this document for a reminder of what I'm talking about here).

Inheritance tax

Another consideration when it comes to pension and ISA investment is that following some changes made to the tax rules a few years ago you can now pass on certain assets in your pension account to your children without paying inheritance tax. For someone wealthy whose total assets exceed the current inheritance tax threshold of £325,000 (£650,000 per married couple) this is certainly worth bearing in mind when thinking about how to allocate your savings between pension and ISA investment.

That having been said, remember that anything you pass on to your children seven or more years before you die is free of inheritance tax anyway. As with all these things, the key here is to be organised. If you get to your fifties, you are a parent and you've built a good deal of wealth using non-pension accounts then you might consider making some large payments into a pension account at that point to gain the inheritance tax benefits this could deliver (assuming they still exist – which I think is a far from safe assumption).

Junior ISAs

Another account worth mentioning in this section is the Junior ISA. This is an account which enables you to save and invest on behalf of your children, or grandchildren perhaps – and is another pot of potentially tax-free money you might consider.

It was particularly topical when I wrote the first edition of this workbook in 2020, given that the newly appointed Chancellor, Rishi Sunak, had raised the annual Junior ISA allowance from £4,368 to £9,000 in his first budget in March.

With most decent providers, the Junior ISA gives a parent or grandparent access to the same powerful range of investments they can put in their own ISA. A key thing to note here is that you can pay money into a Junior ISA account and you can administrate it (i.e. – decide where the

money is invested) but *you can't ever take the money out*. The moment you put money into a Junior ISA, it effectively becomes the property of that child. They and only they will then have access to whatever is in the account the day they turn 18.

This has pros and cons: Some parents or grandparents may feel that never being able to access this money again is too restrictive with what could amount to a reasonable chunk of “their” money over time.

On the one hand, it significantly raises the chance that there will actually be money in the account for the benefit of the child when the day comes, since they will not be able to “raid the piggy bank” at some date in the future when their resolve breaks. For many families, this enforces what can often be much needed discipline and a real savings habit. It is also particularly good for grandparents who might want to ensure that any contributions they make for the benefit of their grandchild go to that child and not to the parents of that child.

Set against this, a lot can happen in the course of eighteen years. For an entrepreneurial parent, it could be heart-breaking to be facing a cash-crunch in your business in a big economic crash, have more than £100,000 in your child's ISA account – yet not be able to access it. Many commentators have also expressed what I think could be valid concerns about a policy that can give an eighteen-year-old unrestricted access to what could be a significant sum of money with no parental control on the day of their 18th birthday.

Whatever you decide to do here is a very personal choice. I would argue that it may be a better approach for a couple with children to focus on their *own* ISA accounts in the first instance. Doing a good job with as much as £40,000 a year whilst your children are growing should put you in a position to help them when the time comes anyway.

This having been said, the Junior ISA is almost certainly something to consider making use of if you are a high earner. It is also self-evidently an excellent and tax-efficient vehicle for grandparents to use should they wish to support their grandchildren directly. Just as long as you're confi-

dent that little Jack or Jill won't go on a ridiculous spending spree the day they turn 18!

One other point to make here is that a Junior ISA is almost certainly a good way to encourage a child to take some interest in all things financial.

I contributed to [this article \(xix↗\)](#) about Junior ISAs for the Daily Mirror in December 2015. You may find it interesting on the subject. "Give your child £200,000 on their 18th birthday - here's how."

Lifetime ISA (LISA)

Before we continue to the next section, I should just take a moment to mention something called the "Lifetime ISA" or "LISA".

The government introduced this new type of ISA in April 2017. It is only of relevance to people over the age of 18 and under the age of 40. If you are over the age of 40, you are not permitted to have one.

The main point of a Lifetime ISA is that the government will add 25% on top of whatever you invest in the account, up to a maximum of £1,000 per year. If you are under 40 years old and put £4,000, for example, into a Lifetime ISA account, they will then top it up with another £1,000.

At first glance this looks great. That is, in my view, until you read the small print and realise what a fiddle it all is. To explain: You are only able to keep the 25% bonus money when you withdraw money from the LISA:

1. To buy your first home using a mortgage, a conveyancer or a solicitor (as they will have to administrate the LISA for you to keep your bonus money), and only if that home will cost less than £450,000
2. If you are over 60 (i.e. 20 or more years away from now).

3. If you are terminally ill.

If you want to withdraw the money in any other scenario, you will have to pay back the government bonus.

My view, therefore, is that you should think quite seriously about whether or not you are actually going to buy a property worth less than £450,000 any time soon and whether all the faffing about having a separate LISA account and doing all that extra paperwork when you buy a house is worth it for two or three grand of extra money (or whatever it may be by the time you get there).

It may well be worth it in that scenario, but it may also be a total waste of time – e.g. if you're going to want to buy a more expensive property or if you're not going to buy a property for some years, by which time the government of the day may have changed the rules anyway.

I also think that there is every chance that a future government will change the Lifetime ISA terms or get rid of it altogether and, as a result, using one may be a whole load of extra hassle and admin' for a pretty marginal gain.

I would rather simply have a normal ISA account and do my best to maximise contributions to it every year, but this is clearly your personal choice.

To work out the best option for you, you can learn more about the Lifetime ISA here:

1. [Official Government site](#) – (xxiv↗)
2. [Money Helper](#) – (xxv↗)

Choosing which stockbroker / investment platform

So, you are going to want to open an account or accounts with an investment company that fulfils the criteria I listed a few pages ago (on page 147). There are a number of firms in the UK market you might consider.

One of my favourites is the multi-award-winning [Hargreaves Lansdown](#)* (D↗). I use them myself quite simply because in my experience they have had some of the best customer service of any company I use for anything in the UK (as against the likes of British Airways, EDF, O2, Apple – you name it – HL are in a league of their own).

Some people think they are a little expensive. My own view is that they are worth it. As with most things in finance – the “right” answer on which stockbroker or investment platform to use and on what to pay will be specific to the individual.

As I say - I really like [Hargreaves Lansdown](#) and they have served me well in the many years I have used them, even if some people think they are “expensive”. My view on this is that Range Rovers are more expensive than Fords. Some people like BMWs and some people love Audis. I have a very wealthy friend who is a big fan of Skodas, even though he could fill his garage with Aston Martins. It is horses for courses and each to their own with many of the products and services we choose in our lives.

The key thing is that there are plenty of good options nowadays. As well as [Hargreaves Lansdown](#), you might look at companies such as [AJ Bell](#) (E↗) or [Interactive Investor](#)† for example. (F↗)

For more information on such things, please do check out the ‘[Key Resources](#)’ page (xx↗) on the Plain English Finance website.

Understanding the costs of what you intend to buy...

A key thing here is that whichever stockbroking or investment company you’re planning to use, you will want to understand what it is you want to buy in order to work out the costs you are going to incur. This actually

* Please note, the Hargreaves Lansdown links on this page are affiliate links. We are obliged to point out your capital is at risk when you invest.

† Please note, this is an affiliate link to Interactive Investor. We are obliged to point out your capital is at risk when you invest.

isn't that complicated once you have the basic gist and I cover many of these various costs and how this works in chapter seven of "[How to Own the World](#)" (A7) if you want to refresh your memory.

If you want to go down the route of buying ETFs and / or Investment Trusts each month, for example, Hargreaves Lansdown have an option where you can set up a regular payment by direct debit into those sorts of investments and enjoy commission free trading when you do.

If you take this approach, Hargreaves Lansdown can be exceptionally good value. You could set up automatic monthly investment in two or three Investment Trusts or Exchange Traded Funds each month and get a very cost-effective result.

Interactive Investor also don't charge for regular investment trades – but you do have to pay a monthly flat fee for one of those accounts. This can be worth it if you have quite a lot of money to invest and want to invest in certain types of fund.

This is yet another great example of the sort of thing I was talking about in "[How to Own the World](#)" (A7) when I said that "today's financial products and services are the best they've ever been." As I have said before, investors in our parents' or grandparents' era would have been astonished that it would be possible to invest in certain funds each month and secure investment exposure to hundreds of companies for free.

This is night and day better than at any other time in history thanks to some fantastic innovation from financial services companies and I would contend that too few people in the general population have a clue that this is possible or are taking advantage of it – much to their detriment.

Whatever you decide to do - it is a relatively easy calculation to work out which investment platform is your best option in terms of cost. What I would say, however, is that I do believe that customer service is a key consideration in something as important as the company that you're intending to keep your money with.

Vanguard

This is another company that is worth mentioning, if only because so many people have asked about them in recent years, not least given they recently launched a SIPP (pension) account in the UK market. What I would say about Vanguard is that they are a very different animal to companies like Hargreaves Lansdown, AJ Bell and Interactive Investor.

The reason for this is that they only offer their *own in-house products*. Many of these are perfectly good, but if you use them you should be aware that:

1. You will not have access to the much broader universe of products offered by the other platforms.
2. Their funds do not embed the trend following overlay that we have in our fund to protect you in a crash year.

As with so many other things in life - sometimes buying the cheapest thing isn't necessarily the best decision. Certainly, in the long term.

A Note on Freetrade, Trading212, eToro, etc...

Over the years many people have asked me about some of the new "challenger" stockbroking companies which have entered the UK market. Such companies include the likes of Trading212, Freetrade, InvestEngine and eToro.

It is important to understand that these companies offer a fundamentally different range of products to firms like Interactive Investor and Hargreaves Lansdown.

To explain: In the main, such companies can only offer *stock market listed* products. That is to say single company shares, Exchange Traded Funds (ETFs) and Investment Trusts (ITs). They do not offer traditional investment funds such as Unit Trusts and Open Ended Investment

Companies.

This is because it is much cheaper from an IT and human-resource perspective only to offer the products they offer. There are only a few thousand main stock market listed investments but many more thousands of funds. It isn't practicable or economic for these companies to put the infrastructure in place to offer the full range of fund products.

To be clear, I have nothing against any of them if that is the way someone wants to go (i.e., to use ETFs or single stocks). It just means that their customers can't access a rather wider opportunity set of potential investments – which is one of the reasons I have never opened an account with any of them personally.

Many people have found them a good option in recent years, given their low costs and attractive and intuitive investment apps, which have appealed to younger and more tech-savvy investors in particular. They are certainly one way to go if you want to keep things very simple and invest primarily in entire stock markets such as the S&P 500 for example.

One other thing to remember about such companies, by the way, is that all brokers make a “spread” - between the price you can buy and the price you can sell. So - even though you're getting *commission-free* trading with such companies, you're actually not getting entirely free trading - else they wouldn't be able to make any money of course.

In conclusion

My own personal view about all of this is that I would suggest that you simply work out what is best for you. Once you have decided how you want to invest and what you want to invest in, it should be relatively easy to figure out the best way of doing that in terms of cost versus customer service levels.

For more sophisticated investors, with more money, using a very cheap provider may well be the way to go. For someone who has less confidence about exactly what to do - using a company that might cost a little bit

more but with solid customer service, who can give you a level of comfort about something as important as your savings and investments may be a better way to go, particularly when your total pot is smaller.

At the time of writing, if you hold unit trusts, Hargreaves Lansdown charge (xxi↗) 0.45% on the value of your holdings up to £250,000, 0.25% above that up to £1m, 0.1% on £1-2m and nothing on anything over £2m. AJ Bell has a slightly different set of charges (xxii↗) but are broadly comparable.

Interactive Investor offers various accounts with monthly charges that may save you money, depending on how you intend to use the account.

I've been investing for more than twenty years now. I have used eight different companies in that time. Today I have conventional investment accounts with Hargreaves Lansdown and Interactive Investor and a spread betting account with IG Group and am perfectly happy with that mix.

The Financial Services Compensation Scheme (FSCS)

One other point I would make is that the Financial Services Compensation Scheme (FSCS) - only covers you up to £85,000 in the event that your stockbroker or investment company goes bust. Given this fact - anyone with more than that sum might consider having £85,000 with each of these three companies or whomever else they wish to use as their wealth grows.

If I'm honest - this isn't something I worry about, however, for two main reasons:

First, the holdings in any fund are legally your property when you own that fund (i.e. not the property of the fund manager or investment platform). In the event of an insolvency of either (fund manager or platform), a liquidator would return the holdings to you (eventually) which implies holding even millions of pounds on one platform is likely not as risky as many people fear.

As an example - our fund's assets are actually legally held on behalf of

our investors across our Custodian and Depository companies – CACEIS Bank and NatWest Trustee and Depository services respectively. If anything ever happened to Plain English Finance, those assets would be sitting there to be returned to our investors.

Our fund's holdings are also extremely liquid and realisable. At the time of writing, I could turn 100% of our fund into cash with one phone call, quite possibly in less than an hour. This is night and day different to some of the more “aggressive” investments we have looked at. For readers who may have followed the Neil Woodford debacle in 2019, this was his key problem. He had purchased far too many small, illiquid investments and was not able to sell them quickly enough to return money to investors in his fund who wanted their money back, causing a run on his fund.

Secondly, the other point I would make is that most of the big investment platforms are financially robust, to say the least. You might do your own homework here, but I am pretty relaxed about the balance sheet strength of Hargreaves Lansdown, Interactive Investor, or AJ Bell, particularly when you consider the first point I've made above – i.e. that most of the assets they manage are the legal property of the investor anyway.

Given these considerations, I would rather just have one or two accounts personally, but I know that other people are more concerned about such things. Again – this is a matter of personal choice.

PART FOUR

Pulling the trigger on regular investment

- Introduction to part four
- "Aggressive" and "defensive" assets to "Own the World"
- How many funds?
- Keeping things simple
- Setting up monthly investment

Introduction to Part Four

If you have read this far, you should have paid off any expensive debt, saved up a decent “rainy-day” pot of cash and worked out how much you can afford to save and invest each month – hopefully at least 10% of your monthly income.

Once you know what this number is, the next step is to work out how you split that across your various investment accounts and types of investment. The main focus for most people will be on dividing this between your pension and stocks and shares ISA accounts as we’ve seen.

As we explained earlier in the workbook, deciding how much to allocate to your pension versus your ISA will be a personal choice based on those key considerations around tax, access to your money and potential contributions from your employer.

Whatever you decide about what that split looks like across your *accounts* (in terms of pension versus ISA etc), obviously the other key consideration is getting your mix of “aggressive” versus “defensive” investments roughly right within those accounts based roughly on your age – and what to own.

As a reminder, please do check out the table on page 92 of this workbook where we provided a ready-reckoner for the rough percentage you might choose to allocate to “aggressive” vs “defensive” based on 100-, 110- or 120-minus your age.

Once you have a rough idea of how much of your monthly investments you want to allocate between “aggressive” and “defensive” things, you then need to work out how to do that across your accounts.

This *will* require a bit of work, but you should be able to get this done with an hour or three of effort and, as a reminder, once you have, you probably won’t need to make any changes for several years thereafter. Getting this done will also, hopefully, be an enormous relief and give you

real peace of mind.

In my experience, reasonably often people can even find getting this job taken care of actually quite exciting. You're significantly increasing your chances of doing a solid job with your finances, and of building up a decent chunk of wealth, after all. By asset-allocating appropriately across "aggressive" and "defensive" investments, you are also doing so in a way that should significantly reduce the chance that you lose money and increase your chance of making solid long-run returns.

To give a more or less tangible example of how this might work, it may be constructive to consider a couple of worked examples based on someone's income:

Let's take someone earning £36,000 a year, which is around the *median* average salary in the UK at the time of writing. Since auto-enrolment, such an individual, if employed, will be investing a minimum of 5% of their *qualifying* gross income into their workplace pension, with their employer then adding another 3%.

To keep the maths easy – this would imply about £125 a month from that individual (about £25 of which is the "free money" tax relief from the government by the way), and about £75 from the employer – for a total of around £200 a month.

Such an individual would have take home pay of around £2,400 a month. Again, to keep the maths easy, let's assume they choose to then invest £200 of that each month in a stocks and shares ISA – a little less than 10% of their take home pay.

This would imply that across their pension and ISA accounts, someone on £36,000 a year could be investing around £400 a month in total, even when choosing to invest less than 10% of their take home pay in a stocks and shares ISA over and above their occupational pension.

This is the number they could then use to work out an allocation to aggressive versus defensive things based on their age and attitude to risk. Then "all" that is left to do is ensure that they choose funds across their pension and ISA accounts which achieve that allocation.

Let's also look at someone who is lucky enough to be a higher earner. We will use £100,000 a year, as a round number that is a salary paid to senior people in a fair few professions.

In terms of auto-enrolment, someone on £100,000 would be contributing about £180 a month to their pension and their employer another £110 or so, for a total of around £290 a month. These numbers are calculated on their *qualifying earnings* which top out at around £50,000, not on their *full* salary by the way.*

Such an individual would then be netting about £5,700 a month after tax. Again, if they chose to invest a little less than 10% of this each month, we might assume they were in a position to add about £500 a month to a stocks and shares ISA.

Taken together, someone lucky enough to be earning around £100,000 a year would therefore be able to allocate about £790 a month or more across their pension and ISA accounts and use this number to work out how to divide that across "aggressive" and "defensive" investments overall, based roughly on their age and attitude to risk.

If you look at the compounding tables we provided on page 71, you can see that even if you are able to make "only" high single-digit real returns consistently over a lifetime of investing by implementing the ideas in this workbook, these numbers are enough to get you to a decent six or even seven figure sum.

By the way, two really useful websites to help you calculate such things are:

- Money Helper's [pension contribution calculator](#) (xli↗)
- The Salary Calculator [website](#) (xlii↗) to give you an accurate handle on your take home pay.

* Please note that these numbers are roughly right at the time of writing but could change in future under a different government that might change the rules.

Once you have your numbers worked out, and you have decided on your allocation to "aggressive" versus "defensive" assets, you need only ensure that your monthly pension payments are going into the right fund or funds with your pension provider, and that you have a direct debit set up with your stocks and shares ISA provider to make regular automated payments each month into an appropriate fund or funds in that account too.

13
**"Aggressive" and "defensive"
assets to “own the world”**

As a quick reminder of the sort of things you then might consider for your “aggressive” and “defensive” investments, below I’ve given you a quick recap of what we went through earlier in the workbook:

“Aggressive” (keeping it simple):

- A big stock market index such as the S&P 500, MSCI World or FTSE All-World.

“Aggressive” (further down the line, or if you have more money potentially):

- Smaller companies.
- Biotech or healthcare.
- A big global equity fund.
- A tech fund of some kind.
- Lots else besides!

“Defensive”:

- A defensive bond fund of some kind.
- A global multi-asset fund such as our own fund.
- Gold.

Don’t forget what “aggressive” can mean! Buyer beware!

It is probably worth saying that if you are more risk averse by nature, you might consider being a little more "defensive" than “100 minus your age” would imply. “100 minus your age” would suggest that a fifty-year-old have as much as 50% of their money in “aggressive” investments, for example.

As I originally wrote towards the end of March 2020, that brutal coronavirus crash in financial markets suggested that the “aggressive”

proportion of that person's investments could have fallen as much as 30-35% in the course of just one month.

As we have covered throughout this workbook, if you automate, buy regularly and stick to your guns over many years, these sorts of corrections needn't necessarily be a problem over time, but I think that many fifty-year olds (and thirty-year olds for that matter), might find this situation hard to tolerate psychologically.

What you decide to do with your money is an intensely personal decision and entirely up to you. I would hope that having come this far in the document, you now have a framework with which to give consideration to your best plan of action.

Please do ensure that you are very careful that you don't take on more risk than you will be comfortable with in a big crash that evidence shows us happens every decade or so, particularly if you are approaching retirement and have quite a big pot of money to protect.

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How many funds?

However you decide to allocate your pension and ISA money, I would make one other point: I would suggest that you should probably only own more than one fund if you can afford to put a minimum of about £200 a month into each of them. If you have up to, say, £200 a month to invest in your ISA, you should probably choose only one fund and stick to it. If you have £400, then you might consider instructing your broker to put £200 into each of two funds each month. If you have £600, you might consider buying three different funds each month and so on.

To be clear, £200 isn't a particularly scientific number. I just feel that anything less than that begins to get a bit pointless and probably also a bit of a pain administratively.

I'm a big believer in keeping things simple. If you have, say, £1,000 a month to put to work and you're excited about five different funds, then by all means – go for it, but you might be better served by just going for a couple – one for “aggressive” and one for “defensive”, for example – particularly when you are just getting started.

As you get more and more into investment and watch your money grow in future, you might introduce a bit more complexity. In my experience, the more you invest, the more likely you are to get into investment – particularly when you start seeing your money grow. A sensible approach may be to keep things reasonably simple to begin with and then inject more complexity as you go along and as you learn more about investment.

You should be careful not to overengineer things. Simple is good, if only because it increases the likelihood that you will actually do something. As I have already written; to a certain extent it doesn't actually matter that much what you do as long as it is vaguely sensible and as long as you're investing regularly over sufficiently long periods of time.

This goes back to my point about investment success being as much as 90% admin' and 10% asset selection. Simply getting organised, setting up your pension and ISA accounts and arranging for regular payments to go into some decent investments should do a great job for you over time and is most of the battle won – as long as you keep a weather eye

on the “defensive” versus “aggressive” split, invest for the long term, automate, stick to your guns and don’t chop and change too often.

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Keeping things simple

In the debate about working out how many funds you might use, I think it is worth stressing that if you want to keep things as simple as possible, you probably only need two: One for your “aggressive” allocation and one for your “defensive” (again - see table on page 92 for a reminder of how you might think about the allocation based on your age).

For many people, you will be perfectly well served by keeping things that simple. Choosing something “aggressive” is relatively easy in that you might simply invest in a big equity index like the S&P 500 or MSCI World. As we have already seen, each of these will give you exposure to many hundreds of companies and to global growth more generally. It is easy to invest in them regularly each month in your pension, ISA and other accounts via a good investment platform or stockbroker. Many such providers even offering commission free trading for regular investors. If you do this over very long periods of time, you will have a good chance of trending toward those market returns which have averaged around 10% for more than a century.

As we have seen, choosing a “defensive” fund is more challenging, or certainly has been for the last several years with real interest rates being as low as they have been, and even negative for long periods of time. That said, there are still options including a good quality bond fund, a multi-asset fund such as ours and gold too.

A quick note on gold

If you want to keep things really simple, you may only need two funds to implement a perfectly sensible strategy as we’ve just seen. One final thing to at least mention, however, is the idea that you might consider gold for at least some of your “defensive” money.

We cover the merits of gold and how to go about investing in it in some detail in the final “Additional Information” section of the workbook. As you will see in that section, there are a number of ways you can get exposure to gold. Two of those ways include buying some gold in your

ISA account by using a gold “ETF” or “ETC” (Exchange Traded Commodity), or by using a specialist company such as one called BullionVault (J7) to invest in gold directly and in a separate account from your ISA or pension accounts. Please do check out that section if you’re at all interested in gold generally.

That said, I did want to make a suggestion in this section of the workbook whilst we are giving consideration to how best to allocate your investments each month; and that is to say that it may only be worth a *separate* allocation to precious metals once you have got to a point where you can save and invest around £500 or more per month.

This is quite simply because I don’t think there is much point in investing in them until you can invest at least £100 a month, given the costs involved in doing so, and I think that 20% of your monthly investments going into bullion is about the highest allocation you might consider – hence £500. This isn’t a particularly scientific number but is just aimed at helping to keep things simple as ever.

As you will see in the detailed section on precious metals in the Appendix, if you use a company like BullionVault to buy gold, they offer a facility to invest monthly by direct debit - but only with a minimum of \$100 a month (not far off £100 these days).

You might therefore avoid precious metals until you have £500 or more to invest each month. Again, what you decide to do here is a personal decision and a function of how much of a “gold bug” you are. I might also add that if you use our fund for some of your investments, we have an allocation to precious metals and commodities as part of the strategy, for what it is worth. As I say, there is a good deal more on the specifics of how you might go about owning precious metals in the relevant Appendix in a few pages time.

Investing more over time

Another point to make before we conclude this section of the workbook, is the idea that you might aspire to grow the amount you can save and invest as you get older. Throughout this document, I have suggested you might look to save and invest “at least 10%” of your monthly income. At the risk of “stating the bleeding obvious” it is worth highlighting that it should be easier to save and invest a higher percentage of your income than this, the more you earn.

Within reason, many of life’s costs can be relatively fixed. Unless you want to shower yourself in champagne every day and eat kilos of caviar for breakfast, the weekly food shop needn’t be that much more, in absolute terms, for someone on a very high income than for someone on far less.

Similarly, unless you decide to move into a ludicrous manor house or 4,000 square foot loft apartment, utility bills in a relatively nice middle class family home aren’t going to be several times what they were when you were younger and living in a small flat, even if you might be making significantly more income. The same can be said about holidays; I still spend roughly the same on flights and hotels when I go on holiday as I did twenty years ago, yet my earnings power is significantly higher.

My point here is that, even if you have a family, for example, which means your costs *will* be higher in absolute terms, you can still continue to choose cheaper flights and hotels, rather than deciding to upgrade to business class or aggressive, luxury, five star accommodation.

For someone who has made it a fair way up the “greasy pole” and is now lucky enough to enjoy the higher income that has come after many years of hard work and dedication – it should be possible to save and invest more than 10%, if you have the discipline to keep a lid on costs of course.

There is a certain school of thought that suggests that the “right” approach to life financially, once you get to a certain age at least, might

be to spend a third of your income on your primary residence, a third on living (food, car, clothing, holidays etc...) and save and invest a third. This rule of thumb can achieve extraordinary results.

In an era of such high rents and property prices, this might seem wildly unrealistic – particularly for younger readers - but I think it is actually eminently achievable for anyone a bit older who has made a reasonable success of their career without developing an addiction to designer clothes or expensive cars, politically incorrect as that might sound. Even if you can't get all the way to saving a third of your income – it is something to aim at and 15% or 20% will still be better than 10% - and have a significant positive impact on your ability to become wealthy over time.

And finally - a note on cash...

By the way – as an aside, if you have read a previous version of this workbook, you may notice that this section has something of a change of emphasis on what went before.

The main difference is that in the last edition we included the idea that you might continue to keep some of what you save and invest each month in cash, over and above your rainy day pot, and I suggested people do this by keeping a bit of cash by in their ISA accounts, alongside their fund investments.

I gave three reasons for this stance:

1. First: The fact that cash cannot fall in (notional) value. “Cash doesn't crash” - the only risk to cash is inflation eating it up. Any allocation to cash each month is inherently defensive of course.
2. Secondly: Because if you keep some cash by, you can potentially take advantage of investment opportunities that might arise in future by putting it to work.

3. Thirdly: Because cash is one of the key asset classes, when real interest rates are positive at least.

This is an excellent [article](#) (xxvi↗) from MoneyWeek magazine on this very subject.

In more than four years since we published the last edition of this workbook, however, I've had plenty of time to reflect on this stance. I've also been able to take onboard feedback and thoughts from many hundreds of individuals on their investment journey.

Having done so, I think that an additional allocation to cash in your pension and ISA accounts is likely to be unnecessary, as long as you have your rainy day pot taken care of at least.

Since cash has such low real returns, there is an "opportunity cost" to holding cash. A poorly understood risk in investment which all too many suffer from is sometimes called "underperformance risk". This is the idea that people can be too conservative with their investments with the result that they fail to build as much wealth over time as they need to.

This is something that the UK has been suffering from at a national level for the last few decades, by the way, largely as a result of a number of poor policy decisions made from former Prime Ministers, Tony Blair and Gordon Brown onwards.

If you are particularly risk averse then, by all means, consider keeping some of your "defensive" allocation in cash but you may be better served by being more fully invested. Ultimately if you want to free up cash to make other exciting investments over time, you can simply readjust your allocation to the funds that you own.

Again, this will be a personal decision but I did just want to address head on why this new, updated version of the workbook has treated this subject slightly differently to how we did in the past.

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Setting up monthly investment

So, having read the above, “all” you need to do is work with your company and pension provider and whichever investment company you have chosen for your stocks and shares ISA or other accounts, to set up regular payments into whichever funds you have decided you’re going to use.

Whichever investment company you have decided to open an account with, probably the easiest way to go about setting up regular payments is simply to call them and go through it with a human being. In my experience the staff at these firms are pretty good at helping with this - at least at Hargreaves Lansdown, AJ Bell and Interactive Investor - all of whom I have spoken to directly on just these sorts of tasks over the years. The HR department or pension person at your company should be able to help you get your pension arrangements squared away too.

A couple of remaining dull admin’ points:

A note on fund “classes”

When you go to set up your automated monthly investments you may notice that some funds have a number of different “classes” to them. This can be rather confusing (people have asked about this subject a fair bit over the last few years in the [“Plain English Finance Community”](#))(B7).

Where a fund has a number of different classes to choose from, this usually has to do with the old days when certain classes were more expensive because part of the charges embedded within the fund were designed to pay a financial adviser who was choosing it on your behalf.

All you need to do is avoid those ones. You simply need to speak to someone at your broker to ensure that you are purchasing the cheapest most “un-bundled” class available to you - i.e. one that doesn’t embed extra cost for a financial adviser. If you’re unsure here, then do ask a human being at your broker. They should be able to help you.

Accumulation versus income

As a rule, you should also be looking to make sure any investments you have are set to *accumulate* until you reach retirement, at which point you may wish to switch them to income so that any interest generated by the fund is paid out to you at regular intervals. Again – please don't hesitate to call your broker on these sorts of things if you are unsure.

Whatever you decide to do, I hope that you have found this document useful in getting you to a point where you start feeling confident about putting your money to work.

If you “own the world”, automate your investments and stick to it over sufficiently long periods of time, you could make high single-digit to low double-digit returns through the economic cycle, no matter what the latest headlines are or whether markets crash. Over a lifetime of investment, these sorts of returns really can make you a millionaire or get you close to being one at the very least, even if you're starting with relatively small amounts to invest.

If you take the time to set your finances up properly and learn enough about what you're doing, you can also expect to have a great deal more confidence in your financial affairs. For most people, this can be a huge relief and one of life's great problems solved. Big picture, taking care of this can also mean that you can get on with the far more important business of living your life. You may even find it easier to sleep at night given what an important thing getting this done can be for your peace of mind.

All that remains for me to do is to wish you the very best for your investments and, by extension, for your life.

PART FIVE

Additional information / appendices

In this final section of the document, we pick up a few final house-keeping bits and pieces that I thought were best left to the end...

- Precious metals – "owning inflation".
- Rebalancing - Annual housekeeping.
- Further resources.
- Links.

17
Precious metals
- “Owning inflation”

In the next few pages I cover the precious metals component that could be part of your approach. (I left it out of the main document given it is quite a long section and potentially not relevant for all readers).

In my opinion, there is a great deal of evidence that owning precious metals with some proportion of your savings is a good thing to do over time. If you want to remind yourself of the detail as to why this is, please look at the relevant parts of “[How to Own the World](#)” (A↗). There is also a series of articles on gold you can find in the [Opinion](#) (G↗) section of our website that I wrote in the first quarter of 2017, much of which is reproduced in what follows.

If you have a little more time, I can also highly recommend Jim Rickard’s book, “[The New Case for Gold](#)” (xxiii↗) as a great one stop shop to get a really deep understanding of precious metals.

The conclusion of this analysis (and remember this has worked well for more than 40 years for some of the smartest investors in the world), is that you might have at least some of your money in precious metals.

The question then becomes, what is the best way to do this? How do you own gold? This is a big subject and one that can become quite heated, even among gold fans.

As is so often the case in investment, there are lots of different ways of doing essentially the same thing – and the devil is in the detail. With precious metals, specifically, there are essentially four different ways you can get financial exposure:

1. Buying physical bullion and taking delivery – i.e. hiding gold and / or silver coins or bars in your own home (ideally doing this should involve a safe or, perhaps, a spade)!
2. Buying physical and paying a company that specialises in such things to store it for you.
3. Buying a precious metals ETF (Exchange Traded Fund).
4. “Going long” gold and / or silver with a spread-betting account.

A note on gold miners

It is perhaps worth mentioning in passing that if you believe in gold as an investment theme, you might also consider investing in companies that mine and produce gold or a fund which invests in such companies. Doing this can produce exceptional returns at the right stage of the gold cycle but – make no bones about it – this kind of investment is not for the faint-hearted. All other things being equal, investing in gold mining companies is inherently a far riskier and more volatile investment than buying bullion itself.

It is my belief that allocating a certain proportion of your overall wealth to bullion should be a fundamental building block of everyone’s long-term investment strategy. Investing in gold miners, however, is a totally different kind of investment and should only ever be part of any “higher risk” cash that you might want to get to work, and would be very much part of your “aggressive” allocation.

1. Buying physical and taking delivery

There are lots of different firms that specialise in selling you physical gold or silver and it is important to use a reputable one to ensure that you are actually buying the real thing. It is vital not to cut corners here as there are plenty of stories about unscrupulous companies selling fake bullion.

I have personally used a firm called “Silver To Go” to buy silver coins and there is a great company called Sharps Pixley (H7) who have been selling gold and silver bullion to British investors since 1778. They even have an actual shop in St. James’s, London which is all rather James Bond if you ask me (I love the idea of popping into a shop to buy some gold bullion on the weekend – in arguably the “poshest” part of London too).

Gold purists (or “gold bugs” as they are commonly known) will generally tell you that buying physical bullion in this way and actually taking delivery of it so you can look at it and touch it, is the only way to go when

buying gold. As far as they are concerned any other “synthetic” kind of gold ownership (e.g. through a fund or by taking a position in a spread betting account – methods that we will look at shortly) – is to be avoided.

I have a certain amount of sympathy for this stance. One of the problems with the precious metals market generally is that there is a vast amount more “theoretical” gold and silver in the world (i.e. trading as financial instruments that seek to represent gold or silver) than actual physical metal – if you look at estimates of how much gold and silver has ever actually been mined.

A generally accepted estimate is that there is about fifty times as much “theoretical” gold as real. Some reputable analysts think this number is even higher. At the macro level – there are lots of conspiracy theories about the fact that some governments do not actually possess the gold that they claim they have, particularly the Americans.

The counter-argument to this relatively alarmist / conspiracy theory-esque stance is that there can (and to some people, should perfectly naturally) be significantly more theoretical / “paper” gold in the world. This is similar to the reason that banks only hold a fraction of what they lend out in the economy – ultimately the global financial system works on what are called “fractional reserves”. If traders are making bets with each other long and short, the existence of physical metal only becomes relevant for the tiny minority of contracts where physical delivery actually takes place – i.e. most contracts are just a bet that something will move a certain way today or tomorrow and the participants close out these bets with each other without going anywhere near actually owning the underlying asset.

This is analogous to something called the “velocity of money” in the economy more generally. In other words - you pay £20 for a haircut, the hairdresser spends that £20 on a bottle of wine, the retailer, distributor and winegrower spends that same £20 on three other things and so on. One £20 note in this example has created hundreds of pounds worth of activity in the economy and no-one argues there was “only one £20 note”

so that “shouldn’t work”.

That said, this system does leave itself open to manipulation, and it isn’t difficult to demonstrate that even central banks don’t trust each other when it comes to real, physical gold holdings these days. That being the case, you as a private individual might be even more nervous. If there is a “run” on gold tomorrow and everyone owning a paper claim on the metal suddenly wanted physical delivery, potentially 49 out of 50 of those people wouldn’t get any, given the point I made above about there being about fifty times more “paper” gold than actual bullion. It is for this reason that gold bugs insist on being able to see and touch their gold and silver.

The only problem with taking physical delivery is, pretty obviously, that there is a certain security risk in doing so. Unless you have an expensive safe that is built into your property (i.e. so it can’t be picked up and carried away by thieves), or you are willing to dig a pretty large hole in your garden somewhere and keep a treasure island kind of “x marks the spot” map, there is always a risk that physical bullion kept in your own property might be stolen – not ideal if it constitutes a meaningful proportion of your net worth. It is for this reason that many people opt for the second of our methods:

2. Buying physical and paying a company to store it for you

For those who are a little less paranoid than the ultimate purist gold bugs, there are plenty of companies who will let you buy physical gold and store it with them for a fee.

One of these is a company called BullionVault ([I7](#)). If you want to own gold and / or silver, BullionVault is a web-based service that enables you to do so without taking possession. At the time of writing, they are the world’s largest company of this kind, with more than 100,000 clients who own more than £3 billion worth of gold between them.

The bullion is held legally in your name and you can elect to keep it stored in places like Switzerland or Singapore (i.e. so the US or British

government won't be able to confiscate it if it ever comes to that. Remember, if this sounds like a crazy conspiracy theory to you – this has happened before – and in living memory for people alive today. As I have written elsewhere, the Americans made holding gold illegal for private citizens in 1933 and this remained the law until 1974! It is entirely possible that this kind of thing may happen again, in which case you will be glad that you are in physical possession of your bullion or, failing that, that you have it stored in Switzerland or Singapore out of the reach of confiscatory governments).

I have had an account with [BullionVault](#) myself for some time and have found them to be first class. By all means check out the reviews of the site. Setting up an account with them is easy. You register as you would with a site like Amazon or Facebook and you get an email immediately. You can then just transfer money from your current account as you would with paying any bill or transferring money to a friend.

As you will have seen earlier in this document, I am a big believer in regular investing as a general rule so it is perhaps worth highlighting that if you are in a position to invest more than \$100 a month in gold, then you can set up a direct debit with [BullionVault](#) to automatically invest in gold every month.

If you don't have \$100 a month, then I would suggest you might consider investing every three months or so. Let some cash build up from your monthly savings habit and then put a reminder in your diary to transfer some funds into gold or gold and silver every few months. Very soon you will get used to doing this. In the long-run, it doesn't really matter what price you are buying in at if this is something you just do reasonably regularly as a matter of habit. Over time you should average in at a good price and end up with a sensible allocation to precious metals.

It should be noted that the minimum monthly charge for storing gold with [BullionVault](#) is \$4 – which means that this is obviously quite a high percentage if you only have a relatively small amount to invest. I don't think this is really that problematic, however, given that as you add more

and more to your BullionVault account these percentages will come down pretty quickly (to 0.12% for storage). There are two more general points that I would make on this subject:

First, that buying precious metals is a bit like buying insurance. You buy your car insurance every month for however much it costs because if you are unlucky enough to have an accident – you will get a pay-out. You buy precious metals regularly because if there is a monetary crisis or other serious market volatility you should be glad you have them. The thought process, therefore, is a little different to other investments.

Secondly, and related to this – although I would argue that it is fantastic that gold has averaged around 10% for us Brits going back nearly twenty years now, what I really expect from gold and even more from silver is that there is going to come a time where they explode – just as they did in the late 1970s. Gold went up 24-fold from 1971 to 1980! This is why you're buying exposure to them – as an insurance policy of sorts. I think it is entirely feasible that gold might hit \$3,000 or even \$5,000 an ounce and silver could get to \$100 or even more. Silver 'should' theoretically be about 1/15th the price of gold as there is fifteen times the amount of it in existence in the world – so if gold hits \$3,000 – it could go as high as \$200 (from about \$13 at the time of writing the first edition of this workbook. The price is now closer to \$30 as I write this 2025 updated version by the way).

Assuming this happens (and there is plenty of evidence from history that these levels are entirely possible), you aren't going to be that worried about paying fees for commission and storage as you build your position to take advantage of this scenario.

3. Buying a precious metals ETF (Exchange Traded Fund)

As we have seen, one of the problems with the precious metals market generally is that there is a vast amount more “theoretical” gold and silver in the world (i.e. trading as financial instruments that seek to represent

gold or silver) as there is actual bullion in existence in the world and – for this reason – real gold and silver “purists” insist on taking physical delivery of their precious metals.

The trouble with this – taking physical delivery that is – is that you are then faced with a choice between two potentially slightly annoying alternatives:

1. Take delivery of your highly valuable metal and worry about where to store it and how to secure it.
2. Pay someone else to store and secure it for you.

The first option comes with the inherent risk that someone might one day stumble upon your stash and steal it – or with the cost of having a half decent safe installed in your house. The second obviously adds another layer of cost of ownership (although I would argue these costs are not prohibitively high if you have at least £1,000 or more worth of gold and use a company like [BullionVault](#)).

One way to get exposure to precious metals which neatly side-steps these two problems – to a certain extent at least – is to invest in them by using what’s called an ETF (Exchange Traded Fund). By now you should already be familiar with ETFs.

Physical versus swap-based ETFs

An ETF is simply a financial vehicle that trades like a share on the stock market and gives you exposure to any number of different underlying investments – in this case gold or silver. There are two broad types of ETF – “swap-based” and “physical”. The first uses futures or options contracts to replicate the performance of the underlying asset (in this case, physical bullion). If that sounds rather complicated, all you need to know is that this is essentially a “synthetic” way of replicating the underlying asset. Unless you are a shorter-term trader and understand these things, you

should almost certainly use *physically* backed ETFs (rather than synthetic or swap-based). A physically backed ETF will actually own the same amount of physical bullion as there is invested in the fund.

This means that if you buy £10,000 worth of gold, then the provider will add £10,000 worth of gold to their bullion holdings within a certain time period (usually reasonably soon after you trade). Theoretically, you shouldn't then have a problem monetising your gold ownership if there is some sort of huge global crisis – a physically-backed ETF will always own the actual physical gold or silver that you are entitled to and have enough “value” in the fund to pay out. *But* – many purists argue that even this isn't good enough for a couple of reasons:

First, *in extremis*, the government, could legislate to confiscate gold “in the system” like this (this has happened before, as I have already said, in many countries, including in “free market” America) so an ETF may not be as safe and reliable as having physical bullion hidden in the bottom of your cat's litter box.

Secondly, your ability to get your hands on your precious metals or benefit from owning an ETF will also rely to a certain degree on the ETF provider's continued existence and ability to function. As anyone who had an account with companies like Northern Rock in 2007/8 or MF Global in 2011 will confirm, you should always be a little careful of relying too much on the continued existence of any financial service provider, even relatively big ones.

I think in the short and medium term, neither of these risks is particularly likely to happen but if you have quite a lot to invest in precious metals overall, I would suggest that, longer term, you should probably own physical bullion in some shape or form and consider using ETFs as an option for any additional short or medium-term exposure you'd like to have when you get a bit more expert at such things. Please note that precious metals and commodities ETFs are sometimes called “ETCs” - Exchange Traded Commodities.

What about currency?

A final point to make about ETFs – if only because several people have asked me about it in recent years – is to highlight the fact that you can buy physical gold ETFs that are denominated in different currencies. People have asked if they should buy in pounds or dollars for example. My feeling on this is that, frankly, it doesn't actually matter that much. Whatever currency the product is quoted in, it will reflect the relative value of gold in that currency and I think any small differences in cost due to fluctuating exchange rates are not worth worrying about.

I would repeat what I have already said - that buying precious metals is a bit like buying insurance. You buy your car insurance every month for however much it costs because if you are unlucky enough to have an accident – you will get a large pay out.

You buy precious metals regularly because if there is a monetary crisis or other serious market volatility you could get a big pay out and be glad you have them. The thought process, therefore, is a little different to other investments. This is why I wouldn't worry too much about relatively minor frictional issues like which currency ETF you choose to own.

4. “Going long” gold and / or silver with a spread betting account

Please note - some of what follows I have gratuitously cannibalised from “[How to Own the World](#)” (A7), to save me writing the same thing again.

The other way you might look to secure exposure to precious metals, particularly in the short term, is by using a spread betting account. Many people have not heard of spread betting but, for an individual who is prepared to put the time in, it can be a powerful way to make money from investing, and I would argue we are lucky that we have access to it in the UK. There are relatively few countries in the world with a developed spread betting industry. It is illegal in the US, for example.

So – what is spread betting, and how does it work? The first thing to say is that it is, without doubt, a method of investing that is only worth considering if you are prepared to put in a decent amount of work.

It is complicated, and if you don't know what you are doing it is possible to lose a large amount of money very quickly. If you have a spread betting account you are, quite simply, able to bet on the movement of a massive range of assets. Rather than betting on horses, dogs or the cricket score, you can bet on a vast range of shares, commodities and other investments. You do this by betting a certain monetary value “per point” on whatever asset you have a view on. Let us say you thought the gold price was going to go up in this instance. You would “go long” (i.e. “buy” gold).

At the time of writing the first edition of this workbook, gold was trading at around \$1,200 (today it is trading at around \$2,300). If you wanted to go long, you would have to decide how many pounds to bet per point. If you bet £1, you would end up theoretically owning £1,200 worth of gold. This would mean that if gold went back up to, say, \$1,500 you would make £300 ($\$1,500 - \$1,200 \times \text{£}1$). If you had bet £10 a point you would have made £3,000, and so on.

Two great aspects of spread betting are:

1. First, that you can end up with a theoretical exposure to whatever you are betting on that is worth far more than you have in your trading account. If you wanted to own £1,200 worth of gold by buying physical or investing in an ETF, you would need to buy £1,200's worth.

If, instead, you make a bet through your spread-betting account, you would only need a fraction of £1,200 in your account as a deposit to make the bet and you would end up with the same theoretical exposure. It sounds rather complicated (to be fair, it probably is) but if you understand what you are doing this can be powerful. You can end up effectively “owning” thousands (or even millions) of pounds worth of an asset using a much smaller deposit.

2. Secondly, you can bet on things going down as well as up. If that thing

falls in price, you make money. This is called “shorting”.

For those with the time and willingness to learn, spread betting is another powerful way you might get exposure to precious metals (and pretty much any other investment theme you might think of for that matter).

If you are going to use a spread betting account, however, you *must* ensure you learn enough about it before you start. Depending on who you ask, between 70% and 90% of people who spread bet lose money. As with so many things, I would say that this is because between 70% and 90% of people don't learn enough about it before they do it. If people went out on public roads in a car before learning how to drive, what percentage of them would crash for example? It is crucial that you learn enough to put yourself in the top percentage who can use spread betting prudently if you're going to use it as a way of getting exposure to gold, silver or, indeed, anything else.

We have some precious metals in our fund

One final point to make vis-à-vis investing in precious metals which people have asked me about, is what to do about them if you are also an investor in our fund, given it does have a potential allocation to gold.

What I would say to this is that the idea of the VT PEF Global Multi-Asset Fund is basically to cover as much as people would like to invest in *conventional* UK accounts such as ISAs and pensions. If you then chose to own some extra gold outside of those accounts, then that is perfectly sensible to do in physical form of some kind (e.g. outside of and in addition to your ISA / SIPP or other accounts - this is how I've invested myself over the years). This can be done by buying and taking delivery of physical or by using a company like BullionVault - as explained earlier.

In terms of overall allocation to precious metals - what percentage

someone chooses to allocate is their own personal decision.

The VT PEF Global Multi-Asset Fund has *up to* 10% allocated to commodities overall including gold. (You can find more detail about this in our [Fund Overview document](#))(C↗). This commodity exposure notwithstanding, I will personally always have a certain percentage of my liquid net worth in precious metals specifically (both silver and gold) which I own both physically in terms of actual coins and via [BullionVault](#).

18

Rebalancing - Annual housekeeping

One other final consideration is something called “rebalancing”. This is the idea that you need to return your investments to the right percentage allocation every now and then as they move around.

Imagine if you had £10,000 in your ISA to invest, and that you invested £3,000 in something “aggressive” at the beginning of the year, paid £6,000 into something “defensive” and kept £1,000 in cash.

This would imply that you had allocated 30% of your money to something “aggressive”, 60% to something “defensive”, and 10% to cash of course.

Now imagine that your “aggressive” investments go up by 20% over the course of that year, your “defensive” investments increase by 10% and cash by 0% (as real interest rates are basically 0%). This would mean that one year later you would have £3,600 in your “aggressive” investments, £6,600 in your “defensive” investments and £1,000 in cash. The crucial thing to understand here is that your percentage allocation to each asset will have changed slightly. You will now have £11,200 in total and it will be split as follows: 32.1% “aggressive”, 58.9% “defensive” and 9% in cash compared to your target split of 30% / 60% / 10%.

Obviously, the percentages have not changed by a huge amount, but over time if you did nothing to deal with this situation you could end up with a split that is some way away from the 30 / 60 / 10 that you are looking for.

The solution to this is what we call “rebalancing”. Once a year or so, you would look at the proportion of assets you hold and sell the ones that have gone up most to buy the ones that have gone up least (or fallen).

Five year reviews

As a final reminder, if you are using the idea of “100 minus your age” you might also change your overall allocation to “aggressive” versus “defensive” every five years or so – as we looked at earlier in the workbook. You might find the ready-reckoner table on page 92 useful for helping you get this

roughly right over time.

19

Further Resources

Although I am confident that the method outlined in this document is a solid and logical big-picture way of thinking about investment, there really is no substitute for taking a proactive interest in looking after your money.

There are some serious and frankly rather frightening structural changes going on in the world today, not least the possibility of rampant real inflation.

If you don't have the inclination to spend a bit more time learning about finance, then I would hope that the ideas in both of my books should be helpful.

In order to give yourself the very best chance of surviving and thriving, however, I would strongly recommend that you take further steps to improve your understanding of finance. Once you open the Pandora's box of learning about money there is a good chance you might even find it fun, or interesting at the very least.

Whatever happens, you will certainly give yourself the best chance of spotting a big trend or change in the way the world economy is working and this will maximise your chances of avoiding being caught out in a crash on the one hand and of doing the best with your wealth over time.

Taking responsibility for your own financial affairs can also save you a great deal of money in fees and costs, which can have a significant impact on your finances as a whole over a lifetime of investing.

I would suggest three specific things that you might consider doing in a bid to increase your knowledge about finance and, by extension, your confidence as an investor:

1. Subscribe to MoneyWeek magazine and try to read it every week if at all possible.
2. Sign up to some relevant email newsletters - I've included a few suggestions below.
3. Read some quality books on finance in the years ahead. I think it is worth making this a life-long habit given the enormous dividends it can pay for

every other area of your life – and, by extension, for your peace of mind.

1. MoneyWeek magazine

You may recall that in the last chapter of “How to Own the World” (A↗), I recommended a key resource that I know can have a huge positive impact on your ability to succeed financially (because it has had that impact on me and on plenty of other people I know in the last twenty years or so).

I have said it before, but it bears repeating: If you only take one “further reading” action after finishing my books, I think you should consider subscribing to MoneyWeek magazine (K↗) and doing your best to read it as often as possible.

It is my belief that if you live in the UK, it is the single best weekly financial publication out there. I have been reading it since it was first published - usually over breakfast on a Saturday morning.

I believe that the price of a subscription is very likely one of the most cost-effective investments you can make in your financial future. By reading MoneyWeek, you will ensure that you have a basic grasp of what is going on in the world and enjoy a constant stream of investment ideas and invaluable information on specific funds and shares. Many people are also surprised at what an easy read it is – it even has sections on wine, cars, and property to lighten the tone. I can’t recommend it highly enough.

2. Email newsletters and our YouTube channel

Nowadays, one of the best things about investment is how much information you can get entirely free of charge. All you need is an internet connection and an email address. Below I have listed a handful of free services which I think are a decent starting point.

One thing to note here is that many free services will inevitably try to

sell you their paid subscription products after you've signed up. These folks are running businesses after all.

Many people find this annoying (particularly us cynical Brits who hate such things) but my view is that this is a small price to pay to receive a great deal of good quality information for free.

As an example of just this sort of thing: I regularly listen to one of the top business podcasts in the world – the [Tim Ferris Show](#) (L7). It is absolutely first class and has had an enormous positive impact on my health, happiness, and wealth over the years.

That said, every episode carries a really “cheesy” / American-style commercial in the first few minutes of the podcast for whichever company is sponsoring the episode. My view is that the fact that the first (and last) few minutes of a two hour-plus podcast are a commercial heavy sell is a tiny price to pay set against getting to listen to the exceptionally valuable content, not least given that you can just fast forward past the adverts anyway (on Spotify at least).

Many Brits aren't able to make it past those first few minutes because we are programmed culturally to just hate stuff like that. I believe that this is a terrible shame, and a clear case of “throwing the baby out with the bathwater”.

I think this is analogous to free email services more or less regularly trying to upsell you to their paid services. As I say – I think it is worth putting up with such things to access a bunch of quality content for free. It takes less than a second to hit “delete” after all.

...so having taken these points on board, here are a handful of services you might consider:

The Plain English Finance free email service

Many people reading this book will already have registered for our free email service but if you haven't yet, then please do think about doing so.

I only write something about once every 2-6 weeks when I feel like I

have something vaguely interesting and topical to say.

If you want to get an idea of the sorts of things I write about, please do have a look at the [Opinion section](#) (M↗) of our website which archives all of my emails going all the way back several years. [Subscribe here](#) (N↗).

The Plain English Finance YouTube Channel

In the last quarter of 2023 we also relaunched our YouTube channel and aim to post around two videos a month for the foreseeable future. [Please do subscribe](#) (xxx↗), particularly if you prefer video to the written word.

Money Morning

This is MoneyWeek's free daily email and I think it is a really good place for many people to start. In their own words:

“Money Morning is the fastest route to understanding the markets. In just a few minutes reading you will have access to the performance of global exchanges, along with daily access to the biggest financial stories, plus opinions from leading professionals revealing what lies in store for your investments.”

[Subscribe here](#) (xxxi↗).

Other Stuff

There are literally thousands of other options here. Many of the biggest financial publications offer free daily and / or weekly emails as do some of the big global investment banks and investment and research houses.

That said, as ever I think keeping it simple is probably the way to go. I'm always interested in the fastest route from A to B, and there is a risk that if you engage with too much of this sort of content, you might suffer from “paralysis by analysis” and feel quite overwhelmed by it all.

If you're new to all of this sort of stuff, then I'd like to think that our email plus MoneyWeek's "Money Morning" could be more than enough to begin with. As time goes on you might then consider adding more to your email inbox if you find you're getting more interested and "expert".

I would also make the observation that people in retirement are likely to get the most out of more expert content or even paid services here. First, they often have more money than someone of working age – and more complicated financial affairs and, secondly, they are likely to have more optionality over how they might wish to spend their time.

3. The best investment books...

Some years ago, I wrote a blog post titled "Why Read Finance Books." Below, I have updated what I said in that article given that the points made are as relevant today as they were back then.

As I said at the time: We believe that the information required to make useful and lasting change in our lives can very often be found in the right book. We often hear people say something along the lines of "you can't learn everything from a book" – they probably have a point.

That said, I do believe that we live in an era where books are severely under-rated.

The UK charity the [Reading Agency](#) has estimated (x17) that 31% of British adults "don't read in their free time" and this rises to 46% of people aged 16 to 24.

Research shows that reading in general is highly correlated to career success, levels of household income, feelings of empowerment and even better sleep patterns, mental health, happiness, and contentment.

I would argue that reading finance books, specifically, almost certainly increases that correlation, for obvious reasons. A few minutes on Amazon and a few hours reading what is then delivered can and will make a truly massive difference to our lives, particularly over long periods of time.

As such, I thought it might be worth including a few suggestions of

some of the best finance books out there in this “Further Resources” section. Over the years, I have been lucky enough to have had the time to read a great deal. Below, I share my thoughts on a handful of the very best of the hundreds of titles I have worked my way through.

I hope you find them as inspirational and useful as I have. Many of these titles are nothing less than life changing. Each of the books in the list below has the potential to have a significant impact on your financial future. Making the decision to buy and read just one of them can have a huge impact on your wealth. If you take that step, I am confident you will discover a new world of possibility and will not stop at one book. I cannot recommend strongly enough that you do at least start the journey.

Remember, if you have a basic grasp of what you are doing, making money from money can actually be somewhat easier in the long-run than making money from work. The faster you do this, the better.

“The Psychology Of Money” by Morgan Housel (xxxii ↗).

Morgan Housel’s fantastic first book was published only a few weeks after the first edition of this workbook was published (annoyingly). I wanted to make sure we included it in this update given just how important and helpful it is and also how aligned it is with our own worldview.

From the Amazon page of the book:

“Doing well with money isn’t necessarily about what you know. It’s about how you behave. And behaviour is hard to teach, even to really smart people.

Money ... is typically taught as a math-based field, where data and formulas tell us exactly what to do. But in the real world people don’t make financial decisions on a spreadsheet. They make them at the dinner table, or in a meeting room, where personal history, your own unique view of the world, ego, pride, marketing, and odd incentives are scrambled together.

In The Psychology of Money, award-winning author Morgan Housel shares 19 short stories exploring the strange ways people think about money and teaches you how to make better sense of one of life’s most important topics.”

The book has been a runaway bestseller in the past few years for good reason. It is a key foundational text if you want to do the very best with your money.

“The Ascent of Money” by Niall Ferguson (xxxiii ↗).

Professor Niall Ferguson has been named one of 100 most influential people in the world by Time magazine and has held senior positions at Oxford, Harvard, and Stanford. This book is a superb summary of the history of money. It takes you all the way from ancient history to the 2007-2009 financial crisis.

It is of practical importance for your development as an investor that you have a basic grasp of the history of money and the various financial products. This is one of the best books for this purpose that I have read to date. There is also an accompanying television series which you should be able to find on one of the streaming services.

“Rich Dad, Poor Dad” by Robert Kiyosaki (xvi ↗).

This book is not specifically about investment or trading. It is a more general book about personal finance. A key message in the book is that “the poor and the middle-class work for money ... the rich have money work for them.”

Another point Kiyosaki makes is how poorly education systems around the world prepare people to look after their personal financial situation. You will know by now that these are views I share. “Rich Dad, Poor Dad” has changed the lives of a vast number of people since it was first published, and it is one of the bestselling books on general finance ever written.

“Think and Grow Rich” by Napoleon Hill (xxxiv ↗).

This is another book on how important a person’s attitude to money is. People who believe that money is scarce and hard to come by are the least likely to succeed in getting hold of any. Those who believe that it is within their power to become wealthy have a much better chance of doing so.

Napoleon Hill's classic book on this subject was originally published in the 1930s and has sold many millions of copies since then. I would argue that this book has the power to improve more than just your financial situation. Some of the content in this book is a little "out there" but I think this is a small price to pay for the attitude to money and wealth it can instil – which I think makes it an incredibly valuable read.

“Trade Your Way to Financial Freedom” by Dr. Van K Tharp (xxxv↗).

“Trade Your Way to Financial Freedom” should appear in any list of the best investment books of all time. One of the key reasons for this is the excellent job Dr. Tharp does in explaining how crucial your psychology and your preconceptions about money are for financial success. The title of the first section of the book is: “The Most Important Factor in Your Success: You!” We all have different personalities, different attitudes to risk, different work ethics, different commitments. It is important as you get to know more about investing that you choose strategies that fit you personally.

If you have the wrong attitude and preconceptions about money you are unlikely to get ahead financially. This isn't new-age psycho-babble; it is just that if you believe that “the stock market is a casino” or “investment is very risky”, you will never bother to take the time to learn what you need to learn. You will not equip yourself with the knowledge or a plan to get ahead, and like most people, you will never save or invest any money. On the other hand, if you see the incredible things that are possible through investment then you will start learning, saving, and investing.

“Way of the Turtle” by Curtis Faith (xxxvi↗).

In 1983 two of Chicago's most famous traders made a bet with each other (a bet rumoured to have been part of the inspiration for the 1983 film “Trading Places”). Richard Dennis bet his friend William Eckhardt that he could show anyone how to be a successful trader in only two weeks. They were on holiday at the time and, rather randomly, happened to be

visiting a turtle farm in Singapore. Dennis was convinced he could “raise” traders like the farm-raised turtles, hence the rather strange name they gave the group.

After returning from their holiday, Dennis and Eckhardt put an advert in one of the Chicago papers inviting people to apply to be taught about trading. Within a few weeks they had chosen two small groups of individuals with no previous trading experience. They taught the first group about basic technical analysis and human psychology for two weeks and taught the second group the same lessons in only one week, after honing their message.

What then happened is legendary in trading circles. The “Turtles” each earned an average return of over 80% per year over the next five years. And the best-performing member of the group, Curtis Faith, who was just nineteen years old when he started as a Turtle, made over 100% per year! As a result, Faith turned \$2 million into \$31 million in just over four years (remember that, at 100%, \$2 million becomes \$4 million, then \$8 million, then \$16 million, then \$32 million).

This book is a fascinating study of what is possible, though I confess there are some sections on specific trading methodology that some people might find a bit off-putting and dry – which is why I’ve made it the fifth book in this list.

There are obviously hundreds more options here. If you need any further inspiration, please do consider having a look at the detailed Bibliography from page 325 of “How to Own the World” (A7), (page number is correct for the third edition).

So that’s it for a selection of Further Resources which I would hope you should find very helpful on your journey to financial freedom...

Andrew Craig, January 2025

20 Links

Please note: Some of the links in this workbook are affiliate-links. This means that if you use them we will be paid a small commission by the relevant company. To be clear – there will be no additional charge for you if you do this.

General Links

- A. "How to Own the World" - <https://www.amazon.co.uk/How-Own-World-life-changing-bestseller/dp/1473695309>
- B. Plain English Finance / Our Community - <https://plainenglishfinance.co.uk/community-support>
- C. VT PEF Global Multi-Asset Fund - <https://plainenglishfinance.co.uk/funds>
- D. Hargreaves Lansdown - https://hl.7eer.net/JKkMae*
- E. AJ Bell - <https://www.ajbell.co.uk/>
- F. Interactive Investor - https://prf.hn/click/camref:1101I3RTLMPubref:PEF_ebook/ar:PEF†
- G. Plain English Finance Opinion on Gold - <https://plainenglishfinance.co.uk/opinion/which-investment-has-averaged-12-percent-sixteen-years>
- H. Sharps Pixley - <https://www.sharpspixley.com/>
- I. BullionVault - <https://www.bullionvaultaffiliate.com/pefbullion/en>
- J. Scottish Mortgage Trust - <https://www.bailliegifford.com/en/uk/individual-investors/funds/scottish-mortgage-investment-trust/>
- K. MoneyWeek subs - <https://subscription.moneyweek.co.uk/plainenglish>
- L. Tim Ferris Show - <https://tim.blog/podcast>
- M. Plain English Finance Opinion - <https://plainenglishfinance.co.uk/opinion/>
- N. Plain English Finance / Email archive - <https://plainenglishfinance.co.uk/email-archive>
- O. "Our Future Is Biotech" - <https://www.amazon.co.uk/Our-Future-Biotech-English-Revolution/dp/1399800175>

* Please note, this is an affiliate link to Hargreaves Lansdown. We are obliged to point out your capital is at risk when you invest.

† Please note, this is an affiliate link to Interactive Investor. We are obliged to point out your capital is at risk when you invest.

Page/section specific links

- i. <https://www.moneymarketing.co.uk/news/graham-bentley-fca-work-on-advice-gap-cannot-come-soon-enough/>
- ii. <https://www.amazon.co.uk/Richest-Man-Babylon-George-Clason/dp/0451205367>
- iii. <https://www.amazon.co.uk/Harrimans-New-Book-Investing-Rules/dp/0857196847>
- iv. <https://plainenglishfinance.co.uk/opinion/zirp-inflation-qe>
- v. <https://ourworldindata.org/life-expectancy>
- vi. <https://www.thebalancemoney.com/why-average-investors-earn-below-average-market-returns-2388519>
- vii. <https://www.amazon.co.uk/Industries-Future-Alec-Ross/dp/1471135268>
- viii. <https://www.london.edu/think/small-is-bountiful>
- ix. <https://kk.org/thetechnium/1000-true-fans/>
- x. <https://citywire.com/selector/sector/equity-uk-smaller-companies/i601?periodMonths=60&page=1>
- xi. <https://www.cancer.org/content/dam/cancer-org/research/cancer-facts-and-statistics/annual-cancer-facts-and-figures/2022/2022-cancer-facts-and-figures.pdf>
- xii. <https://www.forbes.com/sites/matthewherper/2017/10/16/the-cost-of-developing-drugs-is-insane-a-paper-that-argued-otherwise-was-insanely-bad/?sh=69dc53512d45>
- xiii. <https://www.thisismoney.co.uk/money/investing/article-2695778/How-did-26-investment-trusts-26-years.html>
- xiv. <https://www.ii.co.uk/investment-trusts>
- xv. <https://www.hl.co.uk/shares/investment-trusts>
- xvi. <https://www.amazon.co.uk/Rich-Dad-Poor-Teach-Middle/dp/1612681123>
- xvii. <https://plainenglishfinance.co.uk/opinion/twelfth-12th-your-2017-2018-ISA>

- xxviii. <https://plainenglishfinance.co.uk/opinion/UK-number-one-finance-blind-spot>
- xix. <https://www.mirror.co.uk/money/give-your-child-200000-18th-6940432>
- xx. <https://plainenglishfinance.co.uk/opinion/key-resources-pef>
- xxi. <https://www.hl.co.uk/investment-services/fund-and-share-account/charges-and-interest-rates>
- xxii. <https://www.ajbell.co.uk/charges-and-rates>
- xxiii. <https://www.amazon.co.uk/New-Case-Gold-James-Rickards/dp/0241444756>
- xxiv. <https://www.gov.uk/lifetime-isa>
- xxv. <https://www.moneyhelper.org.uk/en/savings/types-of-savings/a-guide-to-lifetime-isas>
- xxvi. <https://moneyweek.com/investments/investment-strategy/601252/why-cash-is-the-most-undervalued-asset-in-your-portfolio>
- xxvii. <https://moneytothemasses.com/quick-savings/tips/the-best-budgeting-apps-in-the-uk-how-to-budget-without-trying>
- xxviii. <https://www.thetimes.co.uk/money-mentor/article/best-budgeting-apps/>
- xxix. <https://www.clearscore.com/learn/managing-money/how-to-budget-and-stick-to-it>
- xxx. <https://www.youtube.com/@PlainEnglishFinance>
- xxxi. <https://moneyweek.com/sign-up-to-money-morning>
- xxxii. <https://www.amazon.co.uk/Psychology-Money-Timeless-lessons-happiness/dp/0857197681>
- xxxiii. <https://www.amazon.co.uk/Ascent-Money-Financial-History-World/dp/0141990260>
- xxxiv. <https://www.amazon.co.uk/Think-Grow-Rich-Napoleon-Hill/dp/0091900212>
- xxxv. <https://www.amazon.co.uk/Trade-Your-Way-Financial-Freedom/dp/007147871X>
- xxxvi. <https://www.amazon.co.uk/Way-Turtle-Methods-Ordinary->

Legendary/dp/007148664X

- xxxvii. <https://www.msci.com/our-solutions/indexes/developed-markets>
- xxxviii. <https://www.justetf.com/en/news/etf/msci-vs-ftse-which-etf-provider-is-the-best-index-provider.html>
- xxxix. <https://www.msci.com/documents/10199/a71b65b5-d0ea-4b5c-a709-24b1213bc3c5>
- xl. <https://www.worldbookday.com/2023/04/world-book-night-2023/>
- xli. <https://www.moneyhelper.org.uk/en/pensions-and-retirement/building-your-retirement-pot/workplace-pension-calculator>
- xlii. <https://www.thesalarycalculator.co.uk/salary.php>

Acknowledgements

This book is dedicated to Timothy James Peacock, the COO of Plain English Finance, and to David Graham and Rachel Craig, our tireless editors.

Tim brings the “alchemy” which turns my rough-cut ramblings in a series of horribly long word documents into the final product that you see on the page or on the screen.

Nothing “Plain English Finance” would exist without his phenomenal work ethic and unfailingly positive, “can-do” attitude to absolutely *everything*.

David has been an integral part of the PEF team for several years. His journey into personal finance began in 2014 when he read "How to Own the World", a pivotal moment that sparked a deep interest in financial literacy and improving his own financial affairs.

Inspired by the transformative impact Plain English Finance has had on his own financial affairs, David is dedicated to spreading its message far and wide.

To that end, he has led the charge on the enormous job of editing this edition of “Live on less...”

...and to Rachel Craig, the most eagle-eyed copy editor you could wish for...

...and Ella, and Oscar Craig – for having to put up with Daddy’s home-office door being closed all too often in recent years!

Our “Plain English Finance Community...”

Our stated ambition as a business is to improve the financial affairs of as many people as possible.

We created our Plain English Finance online Community with this goal in mind.

The Community is an ongoing source of financial education and inspiration, and the accountability that goes hand in hand with being part of a group of like-minded individuals on a similar journey.

It is hosted by Andrew Craig and the team on a platform called “Discourse”. Discourse is used by thousands of companies globally across numerous industry sectors to provide their customers with a well-structured and content-rich online Community experience. In the finance space this includes companies such as Monzo and Freetrade for example.

The group is designed to be an interactive support tool to help you get your financial house in order over time.

Our Community is open to anyone, from those who are just getting started on their financial journey, to seasoned investors - many of whom often share their knowledge with the rest of the community – giving you direct access to a powerful “brain-trust” of several hundred like-minded people.

Don’t just take our word for it. Below are some of the things members are saying:

“I can’t begin to tell you how grateful I am to be part of the community. It

has not only helped my knowledge on investing and planning for my future, but it has also completely changed my mindset towards finance, wealth management and my daily spending habits. Andrew and the guys will always come back and give wonderful advice on any question you may have no matter how silly they may seem.”

— Callum K

“The sheer depth of knowledge offered by other members is astounding. Then, the resources available on top. Truly excellent group.”

— Daniel H

“Any question you ask in the group is answered by many and everyone is always happy to help. I love that Andrew also answers most questions, on a lot of other groups, you hardly ever hear from the main man/woman.”

— Laura G

You can find out more by visiting our website at:

www.plainenglishfinance.co.uk in the “Our Community” section. We look forward to welcoming you...

Research shows that as many as 75% of people in the UK worry about their financial situation.

Source: The Independent

In America, 25% of people say they worry about money “all the time”.

Source: CNBC

It need not be like this! We created this plain English guide to address the problem head on.

Best-selling author Andrew Craig takes you through the steps needed to get your finances humming, including:

- Paying off any debt.
- Setting up the right investment accounts such as ISAs and pensions.
- Simple investment strategies you might consider.
- Annual housekeeping and Further Resources.

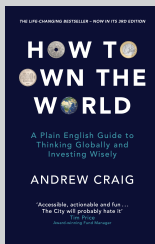
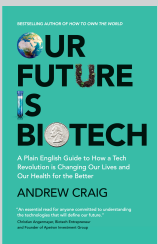
In this book, you will learn a common-sense approach to investment and the vital importance of ignoring the news.

If you “own the world”, automate your investments and stick to it, you could make high single-digit to low double-digit returns through the economic cycle.

Over a lifetime of investment, these returns can make you a millionaire.

Investment need not be that complicated – it is just that most people never learn anything about it.

This approach will give you the confidence to sort your finances out once and for all. For most people, this is a huge relief and one of life’s great problems solved...



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