Begin

Invested

Your Essential Guide to Investing

By Bernard Walsh
Head of Pensions and Investments
Bank of Ireland

Bank of Ireland

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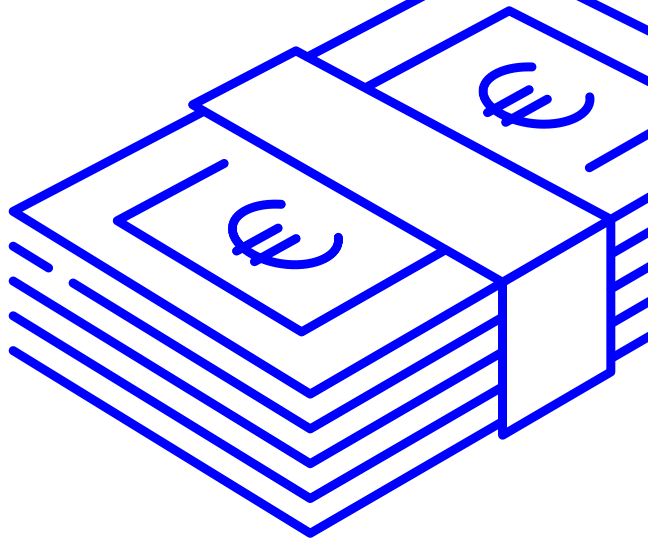
While great care has been taken in its preparation, this document is of a general nature and should not be relied on in relation to specific issues without appropriate financial, insurance, investment or other professional advice. The content of this document is for information purposes only and does not constitute an offer or recommendation to buy or sell any investment/pensions or to subscribe to any investment management advisory service.



Introduction

This guide is designed to help people who have never invested before, to understand what investing is all about. It's also a great support for anyone who is attending the ***Invested Series***, our guide to investing webinars, beginning on 6 May 2021.

Are you a regular saver, or have you accumulated a sum of money on deposit? Do you want to see all or part of your savings growing into the future? Then this guide will help you decide whether investing is an option for you.

At Bank of Ireland, we are committed to your Financial Wellbeing. Part of that is helping to educate you about how you can manage your money better, feel more confident about your finances and make better money decisions.

Interest rates are at record low levels for money being held on deposit and they're not expected to rise any time soon. This means that your money on deposit is not making any money. But if the cost of living goes up (inflation), and rises faster than what you're earning in interest, your savings are actually going down in value.

Do you want to make your money work harder for you? If you do, there are other options than simply holding all of your savings in a deposit account. Not all of these options involve taking big risks, particularly if you can be a bit flexible and have time on your side.

So, what will you learn?

Most of us don't have any formal education to help us manage our money. So it's vital that we properly understand the essentials of good money management, to help plan for our future financial needs. This guide aims to be a starting point for you to master the foundations of investing, introducing you to the main concepts in a straightforward way.

In today's world, most of us are likely to live longer, healthier lives than previous generations. Jobs for life are likely to be a thing of the past. More and more of us will have to make our own provision for retirement, education, health care and more comfortable lifestyles. Key to this is financial forward-planning and investing is one way that we can grow our money to support our future needs.

What do people in Ireland think about investing?

We know from national research[1] that we carried out in February 2021, that investing is an area that people are not confident talking about. Only 23% of the population rated their knowledge of investing as good. So, if you're afraid of investing because you feel you don't know enough about it, you're not alone.

When we also asked people why they wouldn't consider investing as an option for growing their money for the future, their main reasons included:

86%	**Afraid of losing some or all of their money**
52%	**Not knowing enough about investments/lack of knowledge**
47%	**Afraid of their money being tied up for a long time**
41%	**Don't feel they have enough money to really invest**

We see lack of knowledge as being the main driver of people's fears and concerns about investing. This guide and the accompanying Invested webinar series, have been created to address this. We invite you to start a learning journey with us, so that you can build up your knowledge about investments and learn how to use them in a way that provides for both you and your family's future financial security.

This is an introductory guide to investing and is not intended to replace getting personalised financial advice that considers the full breadth of your financial needs. There is an infinite amount of information on investing, and it changes almost every minute of every day. By doing your homework and investing with well-known and reputable firms, they will keep up to date on current trends for you.

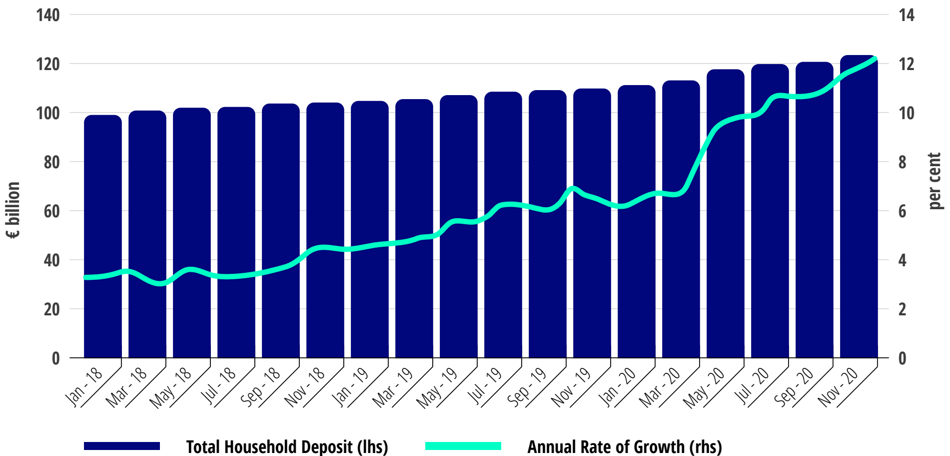
[1] Bank of Ireland National Survey with Behaviour & Attitudes Feb 2021

The Investment Landscape

So, what is the landscape like for investors?

Irish people have a long tradition of being good savers. Since the start of the COVID crisis, there has been strong growth in deposit account balances. Perhaps it's because the series of lockdown restrictions has limited our opportunities to spend money? Or because people are being cautious with their money in these uncertain times?

Irish Household Deposits



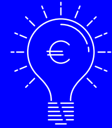
Source: Central Bank of Ireland

It's very reasonable to assume that most savers would be very happy with their lot if they could get an interest rate of 2% or 3% on a conventional deposit account from a financially stable institution. However, that is not something that we expect to see for quite some time.

The Silent Thief – Inflation

We call in The Silent Thief as it metaphorically climbs into your house and steals money from your wallet or your purse. It can impact on how much your money can buy as well as how much money you need.

> "Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man."
>
> ***President Reagan***



Inflation lives in the heart of the economy, it is often the beat of the bond market, can upset the stock market and hangs over the property market. Inflation at its most basic is the sustained rise in the average price level over a period of time. It tells us that the buying power of our money can deteriorate over time. This means one of two things: either you can buy less goods with your money or that you will have to pay more for them.

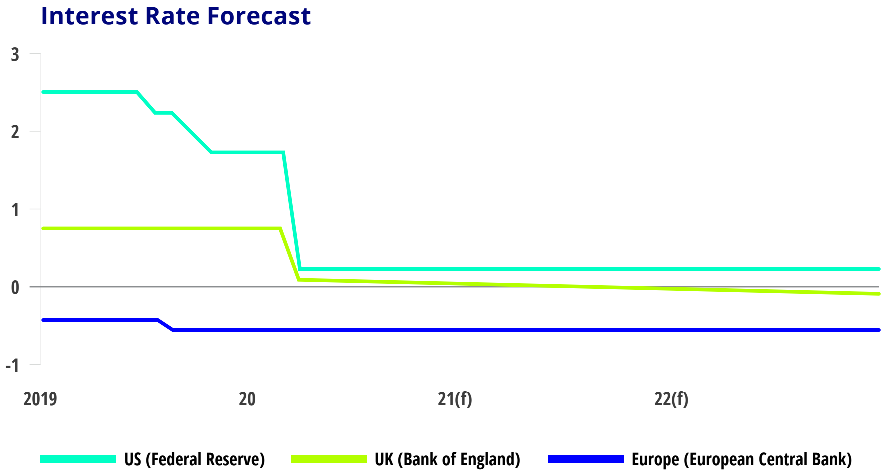
There are winners and losers when it comes to inflation. For those who live on a fixed income, let's say from a pension, rising inflation erodes the value of what they receive. This can be quite damaging for those who can do little to influence their earnings. On the other hand, for those carrying a lot of debt, inflation can be quite welcome, particularly if that rate of interest on the debt is fixed. The borrower would hope to earn more as inflation rises but the level of debt and its interest rate would remain fixed.

We often talk about the real rate. What we mean by this is the interest rate less inflation. So if you are receiving an interest rate of 3% and inflation is 2%, then your real rate of interest is merely 1%. Many depositors today are experiencing negative real rates i.e. the rate of inflation is higher than the rate of interest.

If you want, at a minimum, to be able to buy the same shopping basket in the future as you need today, you have to ensure that your pot of money is growing at least faster than the cost of living or inflation.

Low interest rates are set to continue for the foreseeable future

The chart below shows the expectations for interest rates in Europe. Unfortunately, there is nothing on the horizon that we can see to suggest a change to this picture of interest rates being lower for longer.



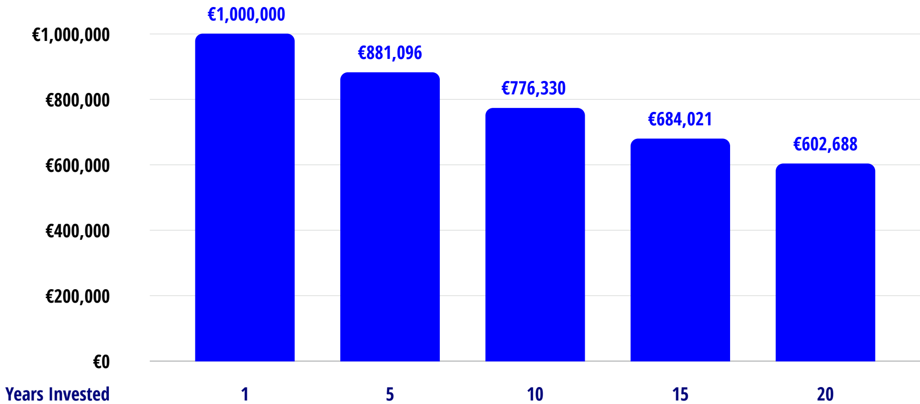
Source: BoE, Fed, ECB, Bloomberg

WARNING: These figures are estimates only.

If you keep your savings in cash deposits, you are very unlikely to see it achieve any growth. So, where should you look for a return on your money? One option is that you could start to put different sums of money to work, to meet your range of different goals. The return that you may earn on your money over time, should reflect the priorities for each goal. We'll discuss more of this in the 3 Steps Program later.

Savers with larger sums now face a new challenge – negative interest rates. This means that instead of receiving interest on your money on deposit, you may now have to pay an interest charge on your deposit amount. This reflects the significant costs facing banks who themselves place deposits with the European Central Bank (ECB).

If you consider that both inflation and negative interest rates are eating into the value of deposits, the buying power of your money over time is steadily declining. The chart below shows how the real value of a €1m deposit would decline at a negative interest rate of 0.5% and an inflation rate of 2%.



Source: Bank of Ireland

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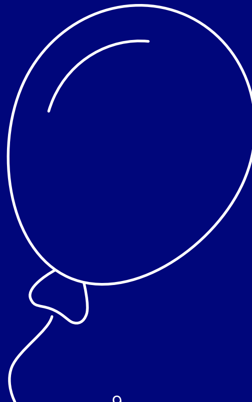


Are you a Saver or an Investor?

Saver or Investor – which are you?

Saving involves putting aside some of what you earn and own over and above what you need to consume today. Under this heading, we also include holding some money aside for planned spending and building-up that all-important 'Emergency Fund'.

Investing is all about putting money aside for spending later. While it is most common to hold an investment for five to seven years, some people do not spend their invested assets until they retire.

So, are you a saver or an investor? In this guide, we suggest that you may need to be both. We may also have plenty of what we call 'accidental investors'. If you are a member of a company pension scheme, often your money is held in shares, property and bonds. While these holdings may go up and down in value, members of company pension schemes are often quite laid back about the value of these holdings. They are not front and centre, decisions about them are often made by company pension scheme trustees and many scheme members only see an annual statement, which we believe many ignore. They may not feel it, but these people are investors.

What is the difference between saving and investing?

Well, it all depends on how you prioritise between three main aspects – security, access and growth. In an ideal world, your preferred route would be to tick all three boxes. However, some trade-offs are inevitable. Saving prioritises high security and ease of access, while sacrificing growth. Investing prioritises achieving growth over time but ready access may be sacrificed and security may be limited.

Saving and Investing Compared

Saving	Investing
Ready access to cash. A savings/deposit account gives you access to your cash when you need it. Some deposit accounts have restrictions on the amount, frequency or notice required to make withdrawals.	**Longer to access invested funds.** When you invest your money, it can take a few more days or weeks to access your money compared to a savings account.
Involves minimal risk. Your funds are covered, subject to limits by the Government-backed deposit guarantee scheme.	**Always involves risk.** Investing does not guarantee a return, and it is possible to lose some or all of the funds invested. However, you can pick the investment that suits your approach to risk.
Earn interest. You can earn interest by putting money in a savings account, but savings accounts generally earn a lower return than investments.	**Usually used for long-term goals.** Investing can help you reach long-term goals, such as paying for a child's education or planning for retirement.
Low returns. Interest rates are particularly low at present. But even over long periods of time, the returns from deposits are lower than other investment options.	**Earnings potential.** Investments have the potential for higher returns than a savings account.

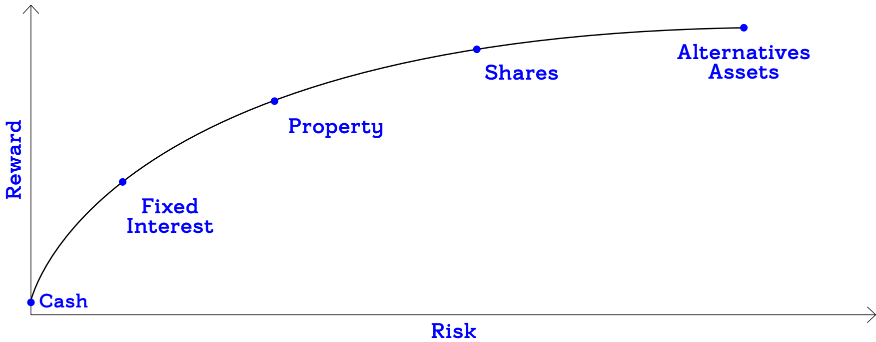
Source: Bank of ireland

Risk and reward – The big trade-off

If your goal is to grow your money and if cash deposits are unlikely to achieve that, you should look at investing. We know that cash has a high degree of certainty – you can see your money and access it readily. If you are to get your money to grow, you typically have to concede some certainty. In other words, you have to accept some level of risk.

We know that uncertainty can lead to values going up and down, but that over time, well-planned investing can deliver better returns. If we look at the next chart, we can see that the further you move out on the risk axis, the likely higher return you could achieve, over time.

Risk and Reward



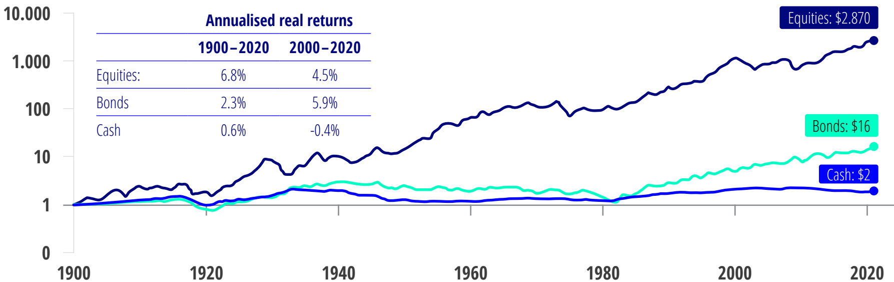
Source: Bank of Ireland

WARNING: These figures are estimates only. They are not a reliable guide to the future performance of your investment

If we look at some very long-term data from the US, we can see the long - term returns on a $1 investment in equities (or shares), bonds and cash. It's important to note that these are returns after deducting the impact of inflation. You can see that equites have the most ups and downs, also known as volatility. In return for this greater level of uncertainty or risk, a much higher reward can be achieved. There are shorter-term stretches when bonds or cash will beat shares, usually at a time of major crisis or recession.

Total return of $1 in real terms

USD, log scale, total returns



Annualised real returns		
	1900–2020	2000–2020
Equities:	6.8%	4.5%
Bonds	2.3%	5.9%
Cash	0.6%	-0.4%

Source: Bloomberg, Bloomberg Barclays, FactSet, Shiller, Siegel, Standard & Poor's, J.P. Morgan Assets Management. Pre-2010 returns: Shiller, Siegel: from 2010 Equities: S&P 500; Bonds: Bloomberg Barclays US Treasury 20+ year Total Return Index; Cash: Bloomberg Barclays US Treasury Bills Total Return Index. Latest point as of end of 2020. Past performance is not a reliable indicator of current and future results. *Guide to the Market* – Europe. Data as of 31 December 2020.

WARNING: Past performance is not a reliable guide to future performance

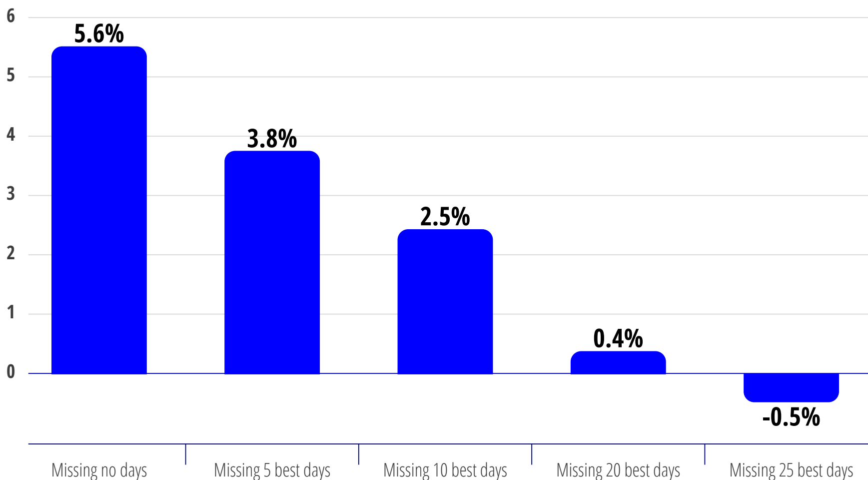
What we see is that equities deliver the best return over time, if you are patient enough to wait for the results to come through. What happens all too often is that investors see prices fall and fear they will lose some or all of their money, prompting them to look to exit out of the market. Their strategy (often referred to a 'market timing') may be to get back in when markets start to recover. But, making this work takes huge skill and often enormous luck. Generally, they miss the bounce when markets turn, which often generates the 'best days' for growth. This can really limit your long-term results.

The chart below shows the returns from putting your money in a global stock market basket over the last 20 years. The average annual growth rate of 5.6% p.a. is great. However, look what happens when you miss the "best" 25 days out of over 7,000 days – your gains become losses. The key lesson is that patient investing delivers the best results over time.

> "The stock market is a device for transferring money from the impatient to the patient."
>
> ***Warren Buffet***

Annual Return

MSCI AC World, Euro, 30/3/2001 to 31/3/2021



Source: Bank of Ireland Global Markets

WARNING: Past performance is not a reliable guide to future performance

Compound Interest

"Compound interest is the eighth wonder of the world.
Those who understand it are destined to collect it.
Those who don't, are doomed to pay it"

Albert Einstein

Quick question for you. Would you rather have:

1. €10,000 a day for 30 days or
2. A cent that doubled in value every day for 30 days?

Now, what if I told you that if you chose option 2 above, you'll have only earned €5.12 after 10 days?

However, after 30 days....

- €10,000 a day will give you a total of €300,000
- Whereas, the doubling cent will have given you only about €5.4m (€5,368,719)

Growth doesn't just come from your assets increasing in value, it also comes from reinvesting the income they earn. The chart below shows how a slightly higher growth rate, can have a really meaningful impact on your investments over time, e.g. €10,000 invested at a 2% return gives €12,189 after 10 years, but €17,908 at at 6% return over 10 years.

€10,000 invested for different periods at different annual returns

Annual Return	2%	4%	6%	8%	10%
10 years	12,189	14,802	17,908	21,589	25,937
20 years	14,859	21,911	32,071	46,610	67,274
30 years	18,113	32,434	57,434	100,627	174,494
40 years	22,080	48,010	102,857	217,245	452,592
50 years	26,915	71,067	184,201	469,016	1,173,908

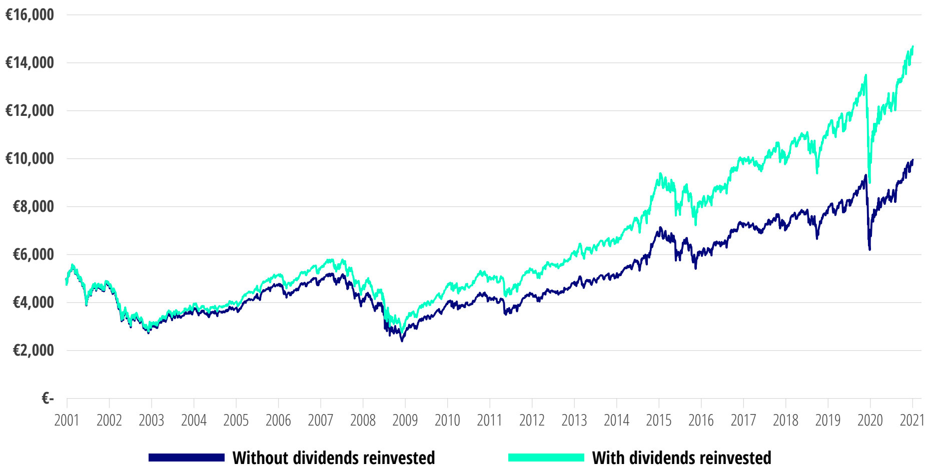
Source: Bank of Ireland

WARNING: These figures are estimates only. They are not a reliable guide to the future performance of your investment

Let's look at a real example from stock market investing. When we invest, we hope to benefit from the capital value rising but also that it earns income. When we hold property, it earns rental income. While bonds usually generate what are called coupons. Company shares can often pay healthy dividends, which is your portion of the profits the business earns. If you re-invest income in more assets, you can compound your growth. The chart below shows a real example where we compare the growth in an investment in European shares with and without dividend re-investment. The difference can be considerable. In this case, it is growing a €5,000 investment to over €14,000 when dividends are reinvested versus growing it to €10,000 without dividends reinvested.

Investment with or without dividends

MSCI AC World, Euro, €5,000 investment, 30/3/2001 to 31/3/2021



Source: Bank of Ireland

WARNING: Past performance is not a reliable guide to future performance

So, what we can see is that if you want your money to grow, you need to consider finding something other than deposits for a portion of what you own. This might feel uncomfortable and a bit alien to you but it is important to remember the words 'a portion'. In other words, it's giving some of what you have, a chance to deliver growth while the remainder remains static.

Time can decrease your risk while increasing your reward. Allowing plenty of time to get to a destination is always a good strategy. When it comes to investing, the more time you have, the more you can benefit from compounding - the snowball effect that happens when you receive returns on your original capital plus accumulated returns. In this way your money can grow faster and faster as the years go by.

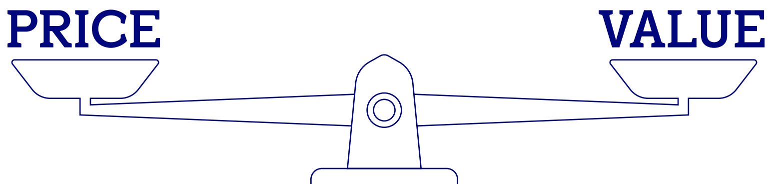
The longer you keep your money invested, the better your chance of overcoming the inevitable market wobbles. Based on past history, if you invested in the stock market for 1 year, your chance of losing money would be greater than 1 in 4. But if you invested for 10 years, that number would drop to about 1 in 25 and after 20 years the risk of suffering a loss falls to zero.

WARNING: These figures are estimates only.

The ups and downs of the investment universe

"Price is what you pay, value is what you get"

Warren Buffett



One of the challenges facing those who are new to investing, is understanding what value really means. When you hear ads about investing, they always have the disclaimer that they can go down as well as up. You might have heard it said of an individual that he/she "knows the price of everything but the value of nothing." Then there's one of the old maxims of investing - "buy low and sell high." So how do we understand if we have in fact bought low and when is it high enough for me to sell?

Well, there is a famous example of how this can go spectacularly wrong. Ronald Wayne is a retired American electronics industry businessman. He co-founded Apple Computer Company (now Apple Inc.) as a partnership with Steve Wozniak and Steve Jobs, providing administrative oversight and documentation for the new venture. Twelve days later, he sold his 10% share of the new company back to Jobs and Wozniak for US$800, and one year later accepted a final US$1,500 to forfeit any potential future claims against the newly incorporated Apple, totaling US$2,300. Based on the valuation of Apple (14/4/2021 Source NASDAAQ) of $2.22 trillion, the value of those shares today would be over $222 billion. Eeek.

We mentioned already that Irish people have an inherent fear of loss. A lot of the investment universe is actually revalued many times every hour of every day. This is what a market is all about. If we look at a share price on a stock market, we see that the price is a moment in time calculation that tells you what a buyer would be willing to pay to buy it at that very moment and what price a seller is willing to accept to sell it at the same time. On the other hand, when you value your own home, the only really accurate measure is when a very similar property in similar condition on the same street or close by is sold. Can you imagine how we might behave if we saw the value of our home changing every minute of every day?

So, if we apply this to what is happening in our world today, we can understand that following the outbreak of an unprecedented health crisis and global epidemic, owners of some shares in let's say an airline company, might be unsure of the future of the business and might be in a rush to sell. In such an environment, buyers might be thin on the ground and might only be willing to pay a much lower price than was the case prior to the crisis. So in this case, the market price will fall for the airline stock. Others might fear a similar fate for a hotel chain company and many share prices get marked down to reflect that buyers are less willing to pay much to buy those shares. On the other hand, a drug company that announces that its COVID treatment is effective, would probably have no shortage of buyers for its shares and their price would probably move sharply upwards.

All these decisions are being made all day and all night across the investment universe reflecting when buyers and sellers can match their orders and at what price they value these assets. So, if you want to understand value, look at how the investment is performing but even more so, how you expect it to perform. It's said of investment markets, that they are forward-focused. While investors

cannot predict the future, they can use data, good research and analysis to help them to make informed judgements.

A vital factor in valuing anything is the opportunity cost, something that is always worth factoring in to an investment conversation. If I invest in A and if I can't invest in B as well, what do I miss out on by doing so? If I used the same money to pay down debt or for another purpose, would I be better off. This is not an excuse to wallow in FOMO (which my kids tell me means Fear of Missing Out) but an important part of the decision-making process. So, decide what the actual value of what you are buying is and what the value of what you are choosing not to buy is?

"Investing should be more like watching paint dry or watching grass grow.

If you want excitement, take $800 and go to Las Vegas."

Paul Samuelson

Our 3 step approach

Our approach to investments has evolved over time. At its core, is optimising returns i.e. maximising returns on your money within the level of risk that you can accept. We recommend using a simple Three Step Approach to help you to navigate your way towards achieving the outcomes you desire.

Step 1: **Understand what you have and what you owe**

Step 2: **Understand your goals or what you want to have and want to spend in the future**

Step 3: **Agree a plan that aims to get you to where you want to be**

Step 1: What do you have and how will you use it

The first step is all about bringing together any cash, deposits or investments that you have and then dividing it into 3 broad categories. You can then see what each pot of money should be used for and what the right place is for that money or those assets. Before you can get your financial house in order, you have to lay solid foundations. Start at the bottom and build a short-term basement. Then, imagine what your medium-term ground floor will look like. When you have that designed, it's time to think about what top floor is going to suit your needs.

Short Term (0-1 years)	Medium Term (1-5 years)	Long Term (5 years+)
Examples of typical goals • Pay living expenses • Weekend away • Summer holidays	**Examples of typical goals** • Changing the car • Funding a wedding/new arrival • Emergency Fund • Saving for a deposit for a house	**Examples of typical goals** • Funding a comfortable retirement • Substantial purchase • Funding for children's education • General wealth build-up • Enhancing income
Priorities • Instant access • Capital security	**Priorities** • Capital security • Some access/growth	**Priorities** • Growth • Inflation protection
Solutions • Personal current account • Demand deposit account	**Solutions** • Medium term deposit • Notice deposit - e.g. 31 days	**Solutions** • Investing in funds • Tracker bonds • Direct holding in shares • Property purchase

Source: Bank of Ireland

Emergency Fund

Included under your 'Medium Term', an Emergency Fund is as significant as the name suggests. This is money that you set aside for the unexpected, substantial outlay such as a boiler breaking down and needing to be repaired. Some people also include savings in this fund to cover unexpected loss of income. A good rule of thumb for what you might need in an Emergency Fund, is three to six months income.

It's important that you separate your Emergency Fund from other money, so that is does not get accidentally spent. Maybe think about opening a deposit account specifically for this purpose.

Allocating your money

The previous chart gives you a simple way to allocate what you do or plan to do with your money. We suggest that you always fill it in from left to right, reflecting the priorities for your money. Only when the first two boxes are filled, can you start to look at the third, which focuses on getting some growth on your money. Unfortunately, given current ultra-low interest rates, boxes 1 and 2 are unlikely to generate any growth on your money. Therefore, we need to look to box 3 to deliver that. Let's illustrate this point with a hypothetical example:

Laura has €100,000. After her analysis, she allocates €30,000 to box 1, €30,000 to box 2 (including €15,000 to an Emergency Fund) and €40,000 to box 3. Her money in boxes 1 and 2 are put on deposit and earn less than 0.1%. However, she aims to generate a return of c. 3% from the €40,000 invested in box 3, thus keeping the overall return on the total pot of €100,000 rising.

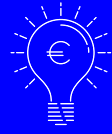
WARNING: These figures are estimates only. They are not a reliable guide to the future performance of your investment

Once you have identified that you have some money in box 3, let's take a look at what you might want from that money.

Step 2: Where do you want to get to? Articulating your goals.

The second step is all about understanding what you want from your money. You could have a number of goals in each category or you might just want to get your money working for you.

> "Setting goals is the first step in turning the invisible into the visible"
>
> ***Tony Robbins***



The chart in step 1 sets out some typical goals for each of the boxes but what are yours? This is a very individual and personal part of our conversation with you. If you have some specific goals for your box 3 money, that's great. You can have a number of goals for this money. Achieving growth is often at the heart of what you want for this money. We would like to add to that – achieving growth and beating inflation. So, let's look at both growth and inflation and why they are important.

Step 3: Where to put your money

There are many homes for your money but what's right for you is as individual as you are. Rarely is there one single solution that meets all of your needs, so we tend to offer you options. There are a number of building blocks that we recommend that you use. The proportion that goes into each, will reflect the ultimate outcomes you want to achieve and the journey you want while getting there.

The desired outcome from Step 3 is deciding where to put your money and for you to be confident that it should perform in a manner you are comfortable with. You might choose to use one investment type. Alternatively, you might want to spread your money across a few – this is known as a portfolio. Then again, you might be familiar with the phrase "Don't put all of your eggs in one basket". This relates to putting your money in a few different asset types to give you some diversification and protection against risk. That way, if one investment type falls, your remaining investment assets continue to perform and that your overall investment portfolio may continue to grow.

Your choice of asset types to invest in should reflect your attitude to risk and your need for growth. If you meet with an advisor, they will typically take you through a process that should help you understand your own attitude to risk and to narrow the asset choice down to what should be suitable to you.

When you decide where to put your money, it is important that you keep an eye on how it is doing. Most providers offer online access to help you in this regard. For instance, Bank of Ireland allows you to view many funds using your online banking facility.

Assets classes explained

What would I be investing in?

The main building blocks for investing are typically company shares, bonds, property and cash.

The four main types of assets all have different levels of risk and potential reward. You can mix them in order to lower your chance of losing money:

- Of the four main asset classes, cash is the safest, followed by bonds, shares and then property
- There are other, alternative, asset classes such as commodities, currencies, hedge funds, private equity etc. which have different risk and return characteristics
- Safer investments have historically delivered lower average returns
- By mixing investments (diversifying) you can get a balance of stability, income and growth potential.

Asset Class	Description	Main Role	Main Risk	Sources of Return
Cash	A savings or deposit account, paying interest. Can provide access on-demand, or limited access and a requirement to hold for a fixed term.	Security: Your capital is guaranteed. You won't lose money with these investments, but you won't gain much either.	The rate of interest paid on your deposit could be lower than the rate of inflation.	Returns come from the interest rate paid
Bonds (also called fixed interest)	A loan issued by a government or company with a guarantee (or commitment) to pay interest and repay the principal (capital) at a specific time in the future.	Stability and Income: Getting a moderate return in exchange for a moderate amount of risk; getting a stream of income (coupon); offsetting the larger risk of share investments.	Because bond prices and interest rates move in opposite directions, rising interest rates could push bond prices down. The issuer of the bond could stop making promised payments or be unable to repay the principal at maturity.	Returns come from the coupon paid and possible capital growth (or loss) as bond prices move.

Asset Class	Description	Main Role	Main Risk	Sources of Return
Shares (also called equities or stocks)	By owning a share you have part-ownership of a company. There are a huge range of shares, industries, sectors and countries to select from.	Growth and Income: To participate in the profits and share price growth of companies. Some profits are paid to shareholders as dividends. Potential for a higher return, in exchange for a larger amount of risk. Spread this risk by investing across a wide range of shares.	Shares prices are influenced by multiple factors; this makes them volatile and means that share prices can drop for a variety of reasons, including poor company performance and concern about the economy.	Returns come from the possible dividends paid and possible capital growth (or loss) as share prices move.
Property (also called Real Estate)	Commercial property – offices, retail, industrial, logistics, multi-tenanted residential.	Growth and Income: To participate in the rental income paid by tenants and possible future appreciation in the value of the property. Potential for a higher return as property is a relatively lumpy and illiquid asset. Reduce this risk by investing across a wide range of properties.	Property values are influenced by economic activity (particularly employment), the availability and cost of credit. The ability to buy and sell property can be impacted by factors – making it very illiquid at times.	Returns come from rental income and possible capital growth (or loss) as property values move .

Source: Bank of Ireland

Bonds

"I used to think that if there was reincarnation, I wanted to come back as The President or The Pope. But now I want to be the bond market: you can intimidate everybody."

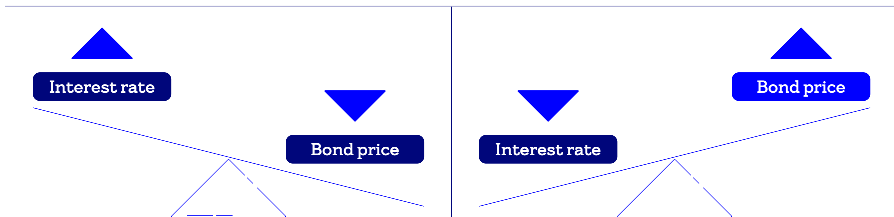
James Carville

While I'm calling them bonds, they're also known as fixed income, gilts and credit. Ever wonder how the Government borrows money? Or big companies

for that matter? The method they often use is the issuing of 'bonds'. When a bond is issued, an individual is lending money to the Government or to a company. In return, the Government or company generally guarantees to pay a fixed amount of interest and to repay the original amount after a pre-arranged period. The interest is known as 'a coupon'.

Once bonds are issued, most can then be bought and sold on the stock exchange - just like shares. Despite the fact that bonds like these usually pay a fixed amount of interest, the price of the bond will move up and down. It's not the rate of interest on the bond that will change, it is its attractiveness compared with other investments. So, for example, if interest rates rise and a person can get a higher rate of interest, then the value of the bond with the lower interest rate will fall (and vice versa)

The interest rate/bond price relationship



Historically, bonds have tended to be less risky investments than shares. However, that is not to say that they don't have risks of their own. There is always a risk (however small) that the issuer will default on the bond; this is especially true with bonds issued by certain companies (the so-called 'junk bonds'). There is also some risk that the demand for a certain bond may fall. More importantly however, because the bonds trade on the stock exchange and their price will vary, there is a risk of the return being less than expected if the bond is sold before maturity. The biggest factor affecting the price and therefore the return, is the prevailing rate of interest.

Although some people do invest directly in Government bonds through stockbrokers, it is more common to invest in bonds as part of a managed fund. They are usually part of the mix of investments that underlie these funds, as they are seen as a way to diversify funds away from some of the ups and downs of equities. Along the way, bond values would certainly have seen some ups and downs, but nothing like the level of variation you would have seen in a share portfolio.

Shares

Let's look at one of the most important asset classes - equities. Some call them equities, some call them shares. Essentially, they mean the same thing. When you buy a share, you become part owner of a business and your investment participates in the success or failure of that business. Over time, a well-diversified mix of shares tends to generate a positive return for investors.

The reward for owning a share comes in the form of the income a company pays in dividends, the growth of the share price or a combination of both. As investors perceive better growth prospects for a company, its share price tends to respond in a positive manner.

Being in business always involves risk. Even if an economy is growing rapidly, some companies can still run into trouble. Although most company shares do well in the long run, there is always a possibility of making a loss.

When we refer to shares, we generally mean those of companies quoted on well-regulated stock exchanges. They are usually quite liquid, which is a fancy way to say they can be sold readily.

Property

While we call it property and the US call it real estate, they refer to the same thing. However, in Ireland we seem to have a particularly strong interest in and love for property.

> "Buy land, they're not making any more of it."
>
> ***Mark Twain***

Many people will be familiar with buying residential property themselves. However, buying commercial property can often be outside their reach. Some investment strategies can combine the money of many customers to buy office blocks or retail units, which can be let to major tenants on long-term leases. The investor aims to benefit from a reliable rental income as well as the appreciation in the value of the buildings over time.

We use the term 'bricks and mortar about property to reflect its tangible nature – you can touch and feel it. One drawback however, is that it is what is referred to as illiquid (no, that's not a typo) i.e. generally, you cannot sell or liquidate

a property-holding quickly, whereas shares can usually be sold in an instant. There may also be higher costs and stamp duties associated with buying and selling. What's more, property prices do not always move in the same direction as share and bond prices. This means that it can be a useful component in a diversification strategy.

Alternatives

Alternatives has emerged as an asset class. It covers a really broad spectrum of investment options and really refers to anything outside the traditional asset classes of equities, bonds, property and cash. Alternatives emerged as a way of investing that did not correlate with other ways of investing. In other words, if your equity holdings are falling in value, you may want your alternatives to react in a way that doesn't necessarily move in the same direction.

The universe of alternatives can include commodities such as gold, oil or agricultural produce. Investing in this field aims to find new sources of return. It can include more unusual areas of investment such as art, wine and vintage cars.

Sustainable investing

ESG

We have witnessed a major shift in emphasis towards accomplishing that goal of a better financial future, while at the same time, helping the world to be a better place. That is what ESG investing is all about.

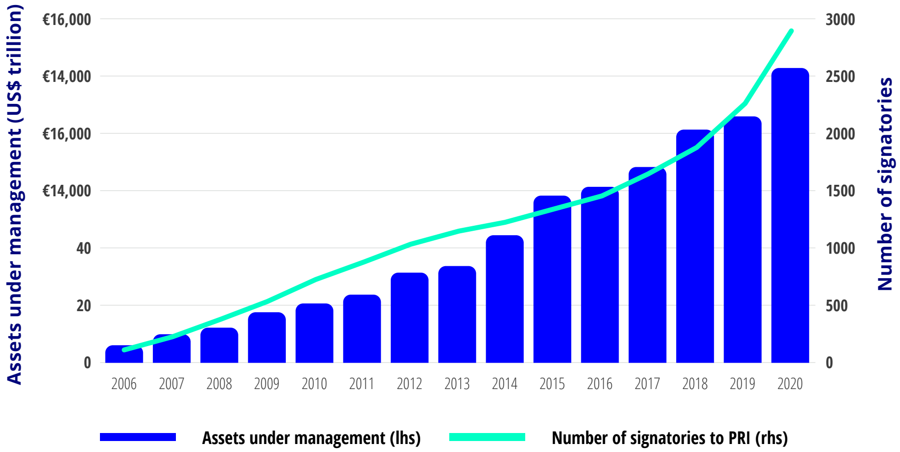
Environmental:	**Social:**	**Governance:**
How companies' activities impact on the living world and climate change.	How companies operate in their communities including matters such as treatment of employees, working conditions and health and safety.	How companies are run with reference to issues like board diversity, corruption, executive pay and relationships with regulators.

ESG is considered to be the fastest-growing theme in the investment universe and many consider it to have attracted increased focus through the COVID healthcare crisis. There is a greater public awareness of climate change. There is a keen focus on corporate behaviour following the last recession and performance is rarely measured solely on financial outcomes. The good news is that adopting a greater focus on ESG, is proving to enhance investor outcomes. We believe that maintaining a focus on environmental, social and governance concerns at the forefront of investment decision making, will endure and will act as key pillars of investing for the future.

The Standards of ESG

In 2005, the United Nations established a body that developed the Principles for Responsible Investing (PRI). It set out fundamental principles on how ESG could be incorporated into investment practice to develop a more sustainable financial system. It provided independent assessment and rating of fund managers against ESG benchmarks. Accountability lies at the core of this process.

ESG is not a fad that will disappear. It's an approach to investing that will endure. The pace of growth in assets that are in line with these principles, is emphasised in this chart:



Source: PRI https://www.unpri.org/pri.

How to invest

So how do you invest?

There are thousands of ways (and people) to invest your money or to help you to do it. This is where advice can really play a vital role.

The DIY approach

You can take a DIY approach if you have the knowledge and time. A stockbroker can arrange for you to buy a share or bond and there are many online providers who will help you to buy an investment. The big advantage of this approach is that you decide exactly what you want to buy, in what quantity at what price and when you want to sell. You might have a particular liking for a share, an industry or a product that you believe will do well. The choice is yours.

The tricky bit is deciding what to do. What insights do you have to identify what share or bond is priced at a level that offers value? If you are busy during the working day, how can you keep an eye on your investment and could you miss out on an opportunity to buy and sell when you are busy with your day job?

It is probably impractical for most people to buy and sell many different shares or bonds. Therefore, if you have your money in just a few, your strategy is very concentrated. However, don't forget that advice about not putting all of your eggs in one basket.

One approach that might help is to invest in an index of shares or bonds such as the well-known FTSE 100 or the US S&P 500. An index is a measure of the performance of what is usually a large number of shares or bonds. In other words, by investing in an index, you are putting your faith in the performance of an overall market, rather than a small number of its constituents. You still have to decide when to buy and sell and in what quantity.

Getting help from a professional

The alternative to using your own skill and ingenuity is to put your money in the hands of professionals. This is the typical approach taken by most people as you can benefit from the often huge scale of these groups and the knowledge and experience they can bring to bear. We use the term of a "fund" to describe a collection of assets held on behalf of a group of investors.

A fund can hold just one type of asset such as shares or bonds or property, or a mix of a number of them. Instead of holding a few shares, it can buy and sell thousands of them, across many industries and countries. Those charged with making the decisions are called fund managers and they are often supported by teams of researchers and economic analysts. Together, they aim to blend the right mix of assets for optimal growth. As with most businesses, knowing what and when to sell is as important as what and when to buy.

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Taxation of investments

We could devote an entire guide to the taxation of investments. It is important to note that we are not tax advisors and you may want or need to avail of professional advice in relation to these matters. However, here are some of the basic rules:

For deposit and saving accounts, you pay DIRT (Deposit Interest Retention Tax) on any gains (deducted at source) and you may be liable to PRSI as well. If you buy shares directly, you pay 1% stamp duty. Capital Gains Tax (CGT, currently 33%) applies to any gains and any income from dividends, may be subject to income tax, PRSI and USC. However, you may be able to take advantage of allowances to reduce your CGT liabilities. Further information in relation to the Revenue and their powers etc. can be obtained from revenue.ie.

If you buy Irish government bonds, the good news is that as an individual, you are exempt from CGT on any gains but you are subject to income tax on any income. For unit-linked / unitised funds, you may face a 1% government levy on investing, exit tax on any gains at 41% and this tax will be applied every 8 years if the holding is not encashed.

Fees and charges

If you buy shares or bonds directly yourself, you may be charged commission by the broker you deal with or their income may be factored into the price you pay for the asset. For tracker bonds, the fees are usually factored into the structure of the product and is usually generated upfront by the provider. For unit funds, you may face some or all of the following:

- **Annual management fee:** A fixed percentage of the value of your investment fund that is taken by the provider each year to pay for managing the fund and other running costs.
- **Bid/offer spread:** The difference between the buying price and the selling units in a fund.
- **Allocation rate:** The percentage of your investment that is used to buy units in a fund. A 98% allocation rate means that for every €100 you invest, €98 is invested and €2 is taken as a charge.
- **Early encashment penalties:** Most of these funds are designed to run your investment for five years or more. This is a fee you may be charged for any money you encash in the first few years. Typically, it reduces from 5% in year one to 1% in year five.

Investing trivia (how to sound like an expert!)

Facts to impress your friends

- Blue Chip: This is a term that describes the better quality companies but its name comes straight from Vegas – when betting on poker, they typically use red, white and blue chips, with the blue being most valuable.
- Bulls & Bears: These are names for certain types of markets. Generally 'bulls' were seen as investors who were looking for stock markets to rise and 'bears' wanting them to fall. This came from the way both attack their prey. A bull will throw its opponent up in the air while a bear will swipe it down. Generally a bull or bear market is a rise or fall of 20% or more.
- World stock markets are recorded as being worth $43.7 trillion (Source: Statista March 2021) with the US, where over 56% of the total is held, being the largest. The World Bond market is estimated at c.$106 trillion (Source: SIFMA Sept 2020).
- The NYSE (New York Stock Exchange) is the oldest exchange in the US, created when 24 gentlemen met under a buttonwood tree in 1792 in a part of New York City that later became Wall Street.
- Stock markets can be traced back to the 11th Century in France, while bond markets have a much deeper history, with evidence going back to Nippur in Mesopotamia in 2400 BC.
- Do brains guarantee investment success? It's not all about being an academic genius – Just look at the track record of MENSA's investment club in the US. MENSA's members have IQs in the top 2% of the global population. In the 15 years up to 2001, the S&P 500 (US stock market) gained over 15% per year, while MENSA's US investment club returned just 2.5% per year. (Source: Larry Swedroe The Quest for Alpha: The Holy Grail of Investing).
- It doesn't always help to follow the herd. This was a feature of some investing in the Celtic Tiger era. Intentionally going against the crowd is known as 'contrarian investing'. In The Little Book of Behavioural Investing, James Montier wrote "doing something different from the crowd is the investment equivalent of seeking out social pain."
- Watch out for pirates. If you think that pirates need investments, well The Wall Street Journal gave us an interesting insight in 2011, saying: "The world's first pirate stock exchange was established in 2009 in Harardheere, some 250 miles northeast of Mogadishu, Somalia. Open 24 hours a day, the exchange allows investors to profit from ransoms collected on the high seas, which can approach $10 million for successful attacks against Western commercial vessels."

In conclusion

I always liked the quote from Craig D. Lounsbrough who said “an end is only a beginning in disguise.”

We have come to the end of this guide but it will hopefully help you to begin on your investing journey. Our next stage is to welcome you to our Invested Webinar Series starting on 6 May 2021. Over 4 webinars, we would love to take you from learning what investing is really all about through to the Great Debate between shares and property and on to how and why people should invest in this current economic environment.

This guide forms part of Bank of Ireland’s commitment to helping improve your Financial Wellbeing. You may have seen Baz recently in the “F-Word” ads. Financial Wellbeing is about having the confidence to manage your money, to plan your future and to be as prepared as possible for the unexpected. To find out more or to take the Financial Wellbeing Healthcheck, **click here**.

The Invested series aims to inform you and give you some insights into the world of investing. There is a lot that you can do yourself, but for most people, getting professional advice is a vital part of the mix.

Going back to the research we discussed on page 5, one of the biggest factors that holds people back from investing is lack of knowledge about the subject. By sitting down with a financial advisor, at a minimum, you get to make an informed decision about what is right for you and what is likely to deliver to you the outcomes you deserve.

Bernard Walsh

Head of Pensions and Investments,
Bank of Ireland

WARNING: Past performance is not a reliable guide to future performance.

WARNING: The value of your investment can go down as well as up.

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