



FOR FINANCIAL ADVISERS AND THEIR RETAIL CLIENTS

GUIDE TO INVESTING

ABACUS FINANCIAL OPTIONS

Contents

Understanding Investing	3
Why should I invest?	4
Understanding Risk	5
Long-term benefits of investing	7
Should I just invest in cash	7
Risk and perspective	8
Investment Process	9

Understanding investing

Investing involves allocating money into assets such as shares, bonds, property, or commodities with the aim of generating a return over time. Unlike simply saving, i.e. cash deposits, investing carries both potential rewards and risks. It is a strategy designed for long-term financial growth, but the value of investments can fluctuate.

How does investing work?

When an individual invests, capital is used to purchase financial assets, either directly or via professionally managed funds. These assets can include:



Equities

Shares in companies that offer potential for growth but can also fluctuate greatly in value.



Bonds

Loans to governments or businesses that typically provide more stable returns.



Property

Investment in real estate, either directly or through property funds.



Commodities

Physical assets such as gold, oil, or agricultural products, often used to diversify a portfolio.

Investment managers, such as FE Investments, construct and manage portfolios that blend different assets to match an investor's goals and risk tolerance.

The value of a medium to long-term approach

Investing is generally most effective when viewed as a medium and long-term commitment – typically five to ten years or more. Markets naturally experience short-term ups and downs, but history shows that maintaining a long-term perspective can help investors ride out periods of volatility. While no returns are guaranteed, a well-diversified investment approach aims to balance risk and reward over time.

Investing vs. holding cash

Keeping money in a savings account offers stability and easy access, making it suitable for short-term needs or emergency funds. However, inflation can erode the purchasing power of cash over time, potentially making investing a more effective way to grow wealth in the long run. A carefully managed investment strategy can help mitigate risk while aiming to achieve real returns above inflation.

FE Investments provide discretionary investment management, building and overseeing portfolios that align with investors' financial objectives while managing risk effectively.

Why should I invest?

Investing is a powerful tool for building financial security, achieving medium and long-term goals, and creating opportunities for the future. While it involves risks, a well-constructed investment strategy can support long-term wealth growth and enhance financial stability over time.

Build Wealth Investing allows capital to work over time. By strategically allocating funds into a well-diversified portfolio, it is possible to benefit from market growth, compounding returns, and long-term appreciation—supporting the goal of financial independence and stability.

Plan for a Comfortable Retirement Starting early with investing allows more time for capital to grow. A disciplined investment approach harnesses the power of compounding – generating returns on both the initial investment and accumulated gains – which can support the goal of a comfortable retirement.

Generate an Additional Income Stream Beyond capital growth, investments can provide a source of income through dividends from shares, interest payments, or rental yields. This income can supplement earnings, support lifestyle needs, and serve as a financial cushion during economic downturns or unforeseen life events.

Achieve Personal Financial Goals Whether the goal is to save for a home, fund a child's education, or work towards financial independence, investing can accelerate progress toward key milestones. A well-managed portfolio helps ensure that capital is working efficiently in support of future objectives.

Make a Positive Impact Investing is not solely focused on financial returns – it also presents an opportunity to align capital with personal values. Sustainable and responsible investing enables support for companies and initiatives that advance environmental sustainability, social progress, and ethical governance, contributing to a lasting positive impact.

Create a Lasting Legacy Long-term investing can help build generational wealth, providing future financial support for loved ones. A carefully structured investment strategy can assist in preserving and transferring wealth across generations.

Time and investment Successful investing requires a defined time horizon. Over this period, markets will naturally experience both strong and weak years. Risk is two-sided: while there is potential for growth, there will also be periods of negative returns. Acknowledging this variability is central to long-term investment planning.

Understanding risk

For many investors, 'risk' is associated with uncertainty and the potential for loss. However, investment risk is also a key driver of returns – generally, greater risk is linked to higher potential for long-term growth. The important consideration is managing risk effectively in line with the broader financial plan and objectives. While investment risk is a central factor, other types of risk also influence the suitability of different investments in meeting long-term goals.

- **Investment risk** – The risk that the value of investments may decline.
- **Goal risk** – The risk that financial objectives may not be achieved.
- **Longevity risk** – The risk of outliving available savings and income.
- **Event risk** – The risk that unforeseen events could disrupt financial plans.
- **Savings risk** – The risk that insufficient saving may limit the ability to build an effective investment portfolio.
- **Inflation risk** – The risk that rising prices erode the real value of savings and investments over time.
- **Interest rate risk** – The risk that fluctuations in interest rates affect financial outcomes, such as increasing borrowing costs or lowering returns on cash savings.

Understanding how these risks may affect a financial plan is essential when determining an appropriate investment approach. To help shape an effective strategy, it is important to consider specific financial objectives – whether saving for a house deposit in five years or building a retirement fund over a 20-year period – in the context of the four key elements outlined below.

Capacity

How much risk can you afford to take without affecting your financial security?

Tolerance

How comfortable are you with market ups and downs, and can you stay invested during tough times?

Experience

Are you new to investing, or have you navigated market fluctuations before?

Goals

Do you need to take risks to achieve your financial goals, or can you reach them with lower risk options?

Is cash suitable for long-term objectives?

Holding cash can help manage short-term market risks, but it may not align with long-term financial plans. The appropriate investment strategy will depend on factors such as risk tolerance, return expectations, and investment time horizon.

Don't Let Inflation Erode Long-Term Value

Cash is useful for meeting short-term needs and providing a buffer for emergencies. However, over longer periods, investments in bonds and equities have historically delivered higher returns – particularly during times of elevated inflation. While these assets involve greater risk, they also offer stronger potential for long-term growth.

Long-term impact

Although holding cash can help reduce short-term volatility, avoiding growth-oriented investments entirely may limit the potential to build wealth and achieve long-term financial objectives.

Timing risk

Cash can appear attractive over short periods, particularly during times of market uncertainty. However, holding too much in cash over the long term can limit growth potential, especially as market conditions evolve. In contrast, assets like bonds and equities have historically delivered stronger returns over time and can benefit as economic conditions improve.

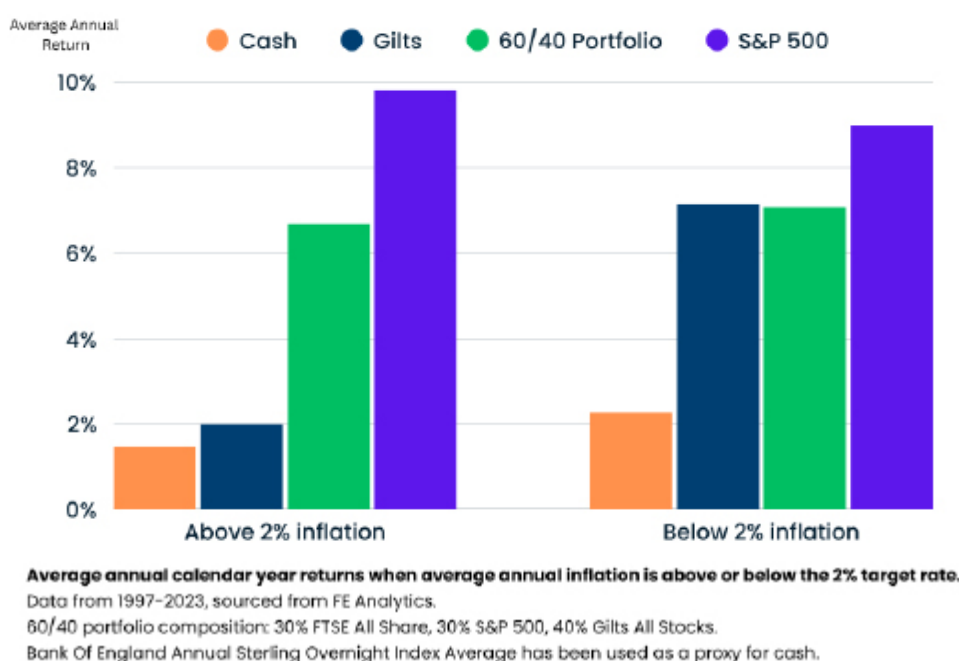
The role of cash in a portfolio

Cash remains an important component of a well-structured investment plan. For capital expected to be needed in the short-term, cash can offer stability and protection from short-term market fluctuations.

Short-term protection vs long-term gains

Over the long term, cash has consistently lagged behind both lower- and higher-risk investments, with inflation steadily diminishing its real value.

The chart below highlights why relying on cash alone can hinder long-term progress, and reinforces the importance of maintaining a diversified investment approach.



Source: FE Analytics

Long-term benefits of investing

Time in the Market Matters

Investing with a long-term horizon increases the likelihood of success. Staying invested, even through short-term noise, supports the compounding of returns over time.

Patience Pays Off

Disciplined investors are often rewarded. Bull markets have historically been longer and stronger than bear markets, delivering more sustained growth.

History Is on the Side of Long-Term Investors

Over time, markets have spent significantly more time rising than falling. Growth periods have tended to be longer and more powerful than downturns, supporting those who remain invested.

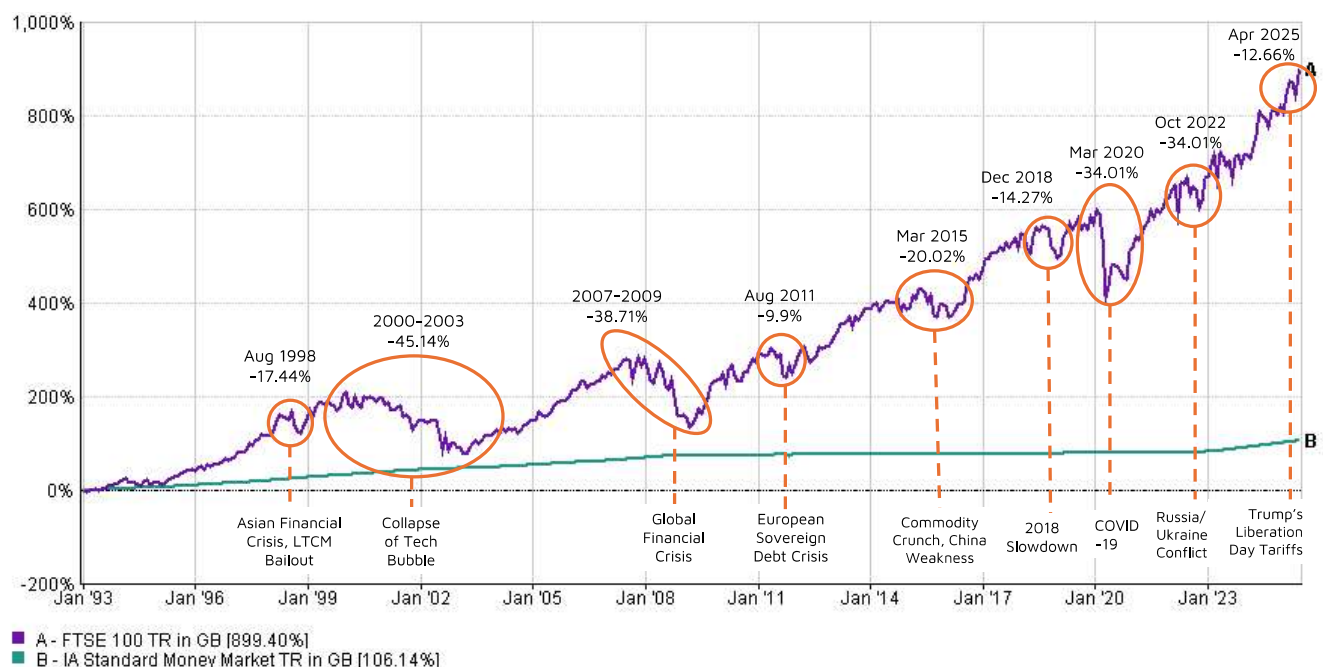
Riding Out Market Ups and Downs

Short-term setbacks are part of investing. Remaining committed through market fluctuations helps investors benefit from eventual recovery and growth.

Periods of market growth have historically lasted much longer than declines

The chart below shows how the stock market has moved through periods of growth and decline over time. Shock events can result in a decline in markets.

However, growth periods have historically lasted far longer and delivered stronger returns than the shorter periods of decline.



Source: FE Analytics and FE Investments. Total return in GBP, 31 Dec 92 to 31 Dec 26.

Market volatility is normal

Markets move in cycles — sometimes sharply. Accepting this volatility as a normal part of investing helps reduce the risk of emotional decision-making.

Timing the market is difficult

Even professionals often get it wrong. Sticking to a long-term plan tends to deliver better results than trying to predict short-term market moves.

Missing the best days can be costly

Strong market rebounds often follow downturns. Trying to time the market can mean missing these key days, which significantly impacts returns.

Even professionals struggle to time markets

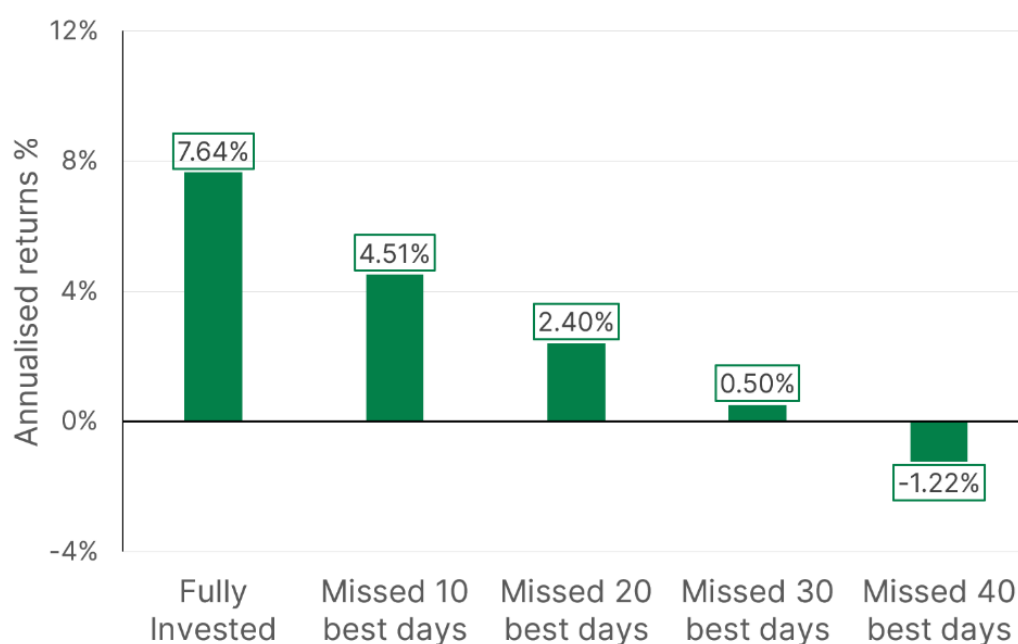
Large institutions with vast resources routinely fail to predict market moves accurately. This reinforces the importance of strategy over speculation.

Diversification helps cushion the blows

Combining asset classes, like equities and bonds, helps reduce risk. Diversified portfolios are better positioned to weather market volatility.

Returns of the FTSE All Share, annualised between 29 Jan 2010 and 31 Jan 2025

The chart below illustrates how missing just a few of the market's strongest days can significantly reduce your long-term investment returns. Staying consistently invested helps lower the risk of missing these crucial periods of growth.



Source: Fidelity, Refinitiv Datastream. FTSE All Share total return in GBP, 29 Jan 2010 to 31 Jan 2025.

Investment process

Portfolios are constructed by combining quantitative, data-driven analysis with qualitative research, including direct engagement with fund managers. While data-led models can miss certain nuanced risks, qualitative insights may be influenced by human bias. Blending both approaches creates a more balanced framework, supporting effective risk management across the portfolio.

Quantitative research

To determine the asset allocation – the balance between defensive and growth investments – a data-driven approach is used, drawing on extensive market data spanning multiple decades and cycles. Sophisticated software tests a wide range of asset allocation combinations across historical and forward-looking scenarios to establish an appropriate investment mix.

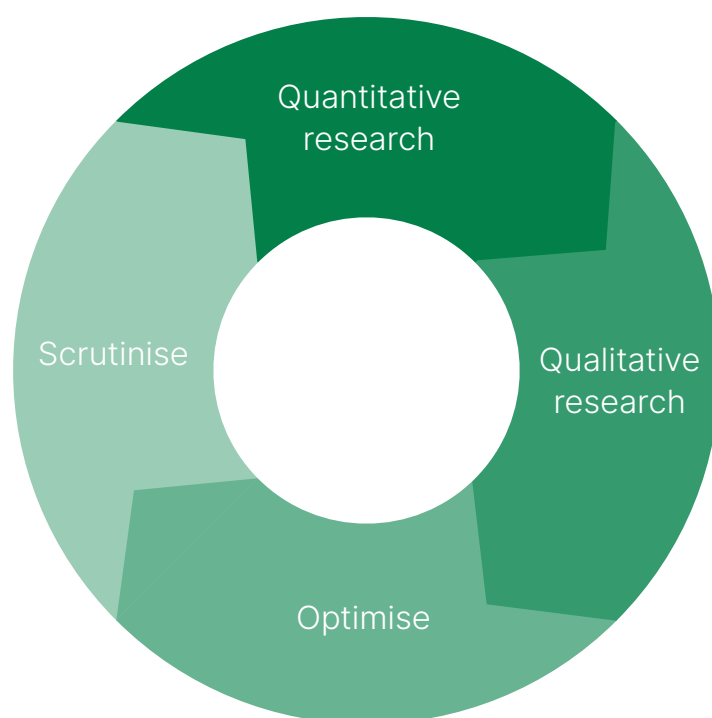
A combined quantitative and qualitative process is then applied to assess the quality of selected funds. This analysis aims to identify a diversified set of holdings, reducing overexposure to any single asset class and enhancing the portfolio's overall resilience.

Qualitative research

Qualitative analysis relies on a team of highly skilled, highly qualified analysts who aim to uncover the information that a quantitative methodology cannot recognise.

The researched funds are shortlisted following the quantitative ratings process, and the team of analysts work through the top ranked funds to consider reasons why they shouldn't be included in the portfolio. This process aims to avoid funds that contain unnecessary risks, and ultimately this produces a screened list of investments.

Each fund receives over 30 hours of scrutiny per year. Typically, the analysts will read available literature, dig deeper into fund holdings and interview the fund managers and their teams. With this method we conduct over 4,000 hours of fund research annually.

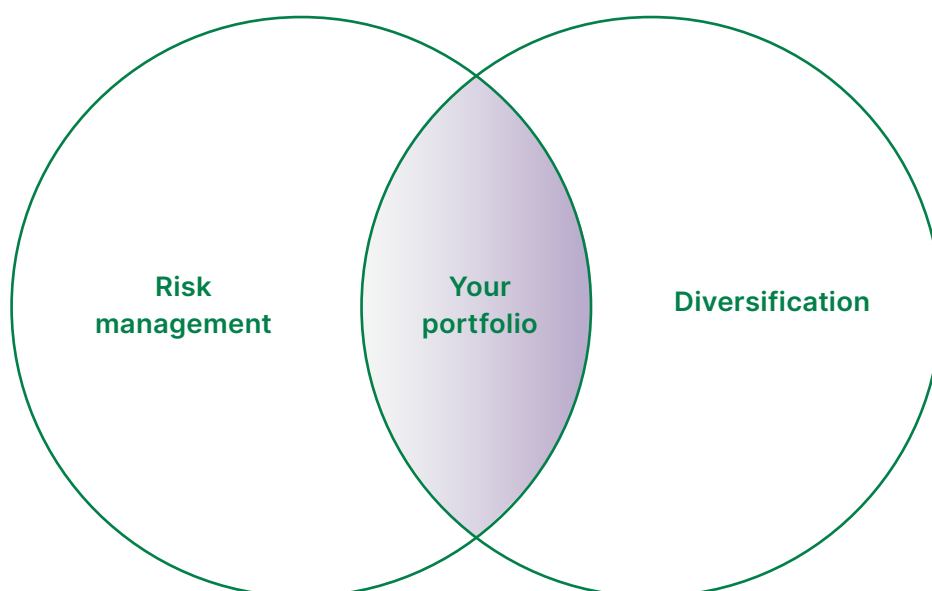


Scenario analysis - optimise

We use in-depth data and institutional-grade risk tools to analyse the risks within an investment portfolio. From there, we adjust the portfolio's risk positioning to reflect our view of the world - taking into account interest rates, inflation, and the outlook for economic growth across a range of possible scenarios.

Investment Oversight - scrutinise

Monitoring and review of investments is an ongoing process. Proprietary governance software tracks over 60 individual measures to ensure that each fund operates within defined performance and risk parameters. Any potential concerns are promptly flagged for further investigation by the analyst team. Portfolio Managers also conduct regular reviews of portfolio risk relative to target levels and make recommendations for adjustments as part of scheduled oversight meetings.



Building a balanced and diversified portfolio

A portfolio is constructed using a range of asset classes – groups of investments with differing risk and return characteristics. Some are more defensive, designed to help protect capital, while others are growth-oriented, aiming to generate higher returns over time.

The purpose of combining these asset classes is twofold:

- To anchor the portfolio's overall risk at a level that suits the investor's personal circumstances and objectives.
- To diversify risk as effectively as possible across different areas of the market.

What Is Diversification?

Diversification refers to the practice of spreading investment risk across a range of assets. The old saying, “Don’t put all your eggs in one basket”, captures the idea well. The principle is straightforward: if one area of the portfolio underperforms, others may help offset the impact, contributing to greater overall stability.

There are many ways to diversify a portfolio, and often they overlap:

- **Across holdings** – Spreading investments across multiple companies, rather than relying on just a few.
- **Across industries** – Investing in companies across different sectors, such as pharmaceuticals, technology, or transport.
- **Across company size** – Including a range of company types from global giants like Apple and GlaxoSmithKline to smaller firms like Jet2 or regional brewers.

The goal is to avoid overexposure to any single company, sector, or type of investment. For example, while the technology sector may seem diverse on the surface, the dot-com crash of 2000 showed how a concentrated exposure to one industry can lead to significant losses.

Diversification can’t eliminate all risks - especially market-wide downturns - but it can reduce the impact of individual investment failures. And over time, a well-diversified portfolio improves the likelihood of achieving positive long-term outcomes.



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