

THE SMART  
GUIDE TO  
INVESTING

YOUR QUESTIONS ANSWERED



## Making the right decisions

It is difficult to make the right decisions about where to put your money unless you know a little about the various types of investments available.

We hope this short guide will help you make successful investment choices and set you on the road to meeting your financial goals.

### How the markets have performed over the last 5 years

	Mar 03 – Mar 04	Mar 04 – Mar 05	Mar 05 – Mar 06	Mar 06 – Mar 07	Mar 07 – Mar 08
	%	%	%	%	%
Equities (FTSE All Share)	31.9	15.0	22.3	10.7	-2.7
Bonds (FTSE All Stocks)	1.1	5.3	9.3	0.4	5.7
Cash (UK Savings 2500+ Index)	1.0	1.5	1.5	1.5	1.9
Halifax UK House Price	17.9	9.6	8.7	9.0	1.1

Source: *morningstar* 03.03.03 – 03.03.08

Past performance is not a guide to what might happen in the future.

# THE SMART GUIDE TO INVESTING

YOUR QUESTIONS ANSWERED



When should I start investing?	4
What investments will do well in the future?	5
Why not just keep my money in a deposit account?	6
Wouldn't it be safer to put my money in property?	7
What is the right type of investment for me?	8
How do I balance risk and reward?	10
How much do I need to invest?	12
How can I tell the best time to invest?	13
Is it best to invest with lump sums or monthly payments?	14
Is it worth investing in ISAs?	16
Can I have a guarantee that I won't lose money?	17
Which fund should I choose?	18
How often should I check my investments?	19

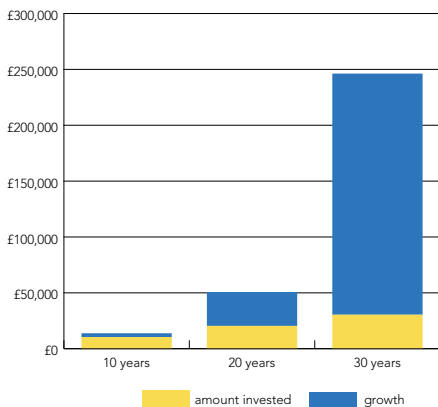
# When should I start investing?



The sooner you invest the more time your money will have to grow. You will also benefit more from "compounding", which is the snowball effect you have when the growth your investment has achieved also starts to grow.

If you delay, you will probably have to invest much more to achieve a similar result. The graph below shows how much growth you might have achieved if you had invested £1,000 a year in the UK stockmarket for the last ten, 20 and 30 years. The returns are much better over 20 years than ten. And over 30 years the difference is even more significant. Of course, past performance is not a guide to what might happen in the future.

Investing early gives your money more time to grow



Source: morningstar. Figures based on the performance of the FTSE All-Share Index. No annual management fund charges have been applied. No annual management fund charges or initial charges have been applied. Basis: bid to bid, with income reinvested net of UK basic-rate tax from 02.03.78 to 03.03.08

# What investments will do well in the future?



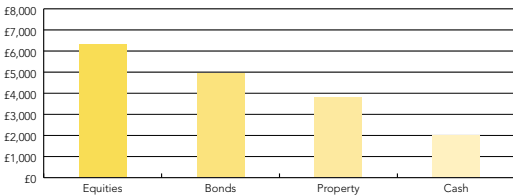
No one knows the answer to this question. All we can do is try to work out which investments have the greatest potential to do well, and on this basis the stockmarket is certainly worth considering, as long as you have time on your side.

The graph below looks at returns from the four main types of investment over the last 20 years. It's clear that shares have produced the best average growth.

It is best to take a long-term view – your investment should have time to recover from any setbacks. It is worth remembering with the exception of cash, these types of investment – and the income from them – can fall in value as well as rise so you might get back less than you invest.

On average, shares have produced better returns than other types of investment

Average value of £1,000 invested over a twenty-year period



Past performance is not a guide to what might happen in the future

Source: Fidelity, based on morningstar information. Equity returns are based on the FTSE All-Share Index, bond returns on the FTSE All-Stocks Index, property returns on the Halifax UK House Price Index and cash returns on the UK Savings £2,500+ Index. Figures are bid to bid, with income reinvested net of UK basic-rate tax (except for the property figure) from 01.03.88 – 03.03.08, and include the original investment of £1,000

# Why not just keep my money in a deposit account?

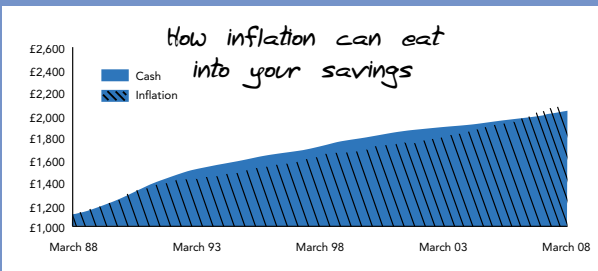


Deposit accounts may not carry any of the risks involved in bonds or shares but that does not mean they are risk-free. There is always the danger that inflation will eat into the value of your savings.

Your real return – the amount of interest you earn above inflation – can be a very small margin. If your account pays 5% but inflation is running at 2%, you are only making 3% in real terms. A small rise in inflation or a slight drop in interest rates could make a significant dent in your returns.

If your savings are taxed, that real return of 3% will be reduced even further. For a basic-rate taxpayer the result would be a real return of just 2%.

Our graph shows just how much of a typical cash investment can be swallowed up by inflation over the years. Please remember that past performance is not a guide to what might happen in the future.



The blue area shows how £1,000 has grown in a savings account over the past 20 years, but the hatched area shows how the value of this growth is not enough to offset the effect of inflation.

Source: morningstar 01.03.88 – 03.03.08. Basis, bid to bid, with income reinvested net of UK basic-rate tax. Cash returns are based on the UK Savings £2,500+ Index. Inflation based on UK Retail Price Index

Wouldn't it be safer to put my money in property?



Most people already have a significant proportion of their wealth tied up in their home. This may well have gone up in value over the years, but that does not necessarily mean it would be wise to make extra property investments.

The more you invest in property the more you stand to lose if house prices fall – particularly if you have a mortgage. Your loan won't fall in value just because your property does. You could even find yourself with "negative equity" where the value of a property is less than the mortgage.

Even if property prices continue to rise, individual properties can be affected by problems beyond the owners' control, such as flooding and noisy neighbours. With a buy-to-let property, rents may fall and it can be difficult to find tenants.

None of this is a reason to avoid property altogether – after all, everyone needs somewhere to live and most of us prefer to buy our own home. But you need to bear these factors in mind if you are thinking of investing in property. It may be best to think of property simply as one aspect of a balanced portfolio, not as the mainstay of your financial planning.

## JARGON BUSTER

**Diversification** means having several different investments. The benefit is that you are less likely to lose out if one type of investment does badly. You also have more chance of benefiting from investments that do well.

# What is the right type of investment for me?



Different investments suit different people at different stages in their lives. So the best person to decide which investments will suit your particular circumstances is you yourself.

Bear in mind that few people choose just one investment. Most investors choose a variety of different holdings, which together make up their "portfolio".

When you are comparing investments, you need to think about whether you will need your money in the next few years. Deposit accounts are ideal for short-term needs, such as an emergency fund or saving for a holiday, but the stockmarket may be better for long-term investment.

If you are thinking about investing in stocks and shares, it's also important to be sure you are comfortable with the risks involved. You can only benefit from the long-term growth potential of the stockmarket if you are prepared for some short-term risk. This means, for example, not giving up on an investment if you find out that it has fallen in value from £1,000 to £950.

- A stockmarket investment can achieve significant growth but there may be setbacks along the way
- If you couldn't accept an investment falling in value like this, you probably need to look at secure investments, such as savings accounts

## ☐ Cash investments (such as savings accounts)

**Pros** Your money is safe – its value won't go down

**Cons** Less growth potential than other investments. Inflation may erode your returns and reduce your purchasing power

## ☐ Property

**Pros** House prices can rise dramatically, and a property should give you a place to live or a rental income

**Cons** Property prices can fall. A lot of money is tied up in one asset. Mortgage and maintenance costs can be high

## ☐ Bonds

**Pros** Less risk than shares, but more growth potential than savings accounts. They also pay regular income, which can be reinvested for long-term growth

**Cons** Not as secure as a savings account, and bond funds can go down in value

## ☐ Shares

**Pros** Good long-term growth potential. Managed funds allow you to invest in thousands of company shares and a broad range of markets and offer flexible ways to invest and withdraw money

**Cons** Because shares fluctuate in value, they involve more risk than bonds and deposit accounts

### JARGON BUSTER

**Equities** is another name for company shares. When you buy shares you become one of a company's owners. You'll benefit if the shares go up in price, and may receive a share of the company's profits as a dividend.

# How do I balance risk and reward?



There are risks involved in the stockmarket, and to a lesser extent in bonds, as these investments can fall in value. However, this has to be balanced against the growth potential they offer. Shares, in particular, can rise significantly over a number of years.

If you're aiming for long-term growth, you can't avoid risk – but that doesn't mean you should ignore it either. There are some useful strategies you can use to help keep it in perspective.

## Strategy 1

### **Think of risk as an opportunity**

“Nothing ventured nothing gained” applies just as much to the stockmarket as to other aspects of life. Share prices often fall. But investors who let this put them off cannot benefit from the times when the market rises. You need to accept that there may be occasional downturns in the markets if you want to benefit from the long-term growth that the stockmarket has the potential to generate.

## Strategy 2

### Invest in managed funds

Rather than buying shares yourself, you can have an expert looking after your money in a managed fund. Money from thousands of investors is pooled, and the fund manager buys a broad selection of shares, so you do not lose too much if a single company's shares fall in price.

## Strategy 3

### Have a variety of investments

It's rarely a good idea to concentrate on just one type of investment.

- Cash* is good for emergencies and for short-term plans, such as saving for a holiday or for the deposit on a new home. It can also be a key investment for people who are not prepared to take much of a risk with their money
- The stockmarket* could account for the bulk of your investments if you are relatively young and want to maximise your money's growth potential. But if you have less time until you need your money, you will probably want a smaller proportion of your portfolio invested in shares. Of course, with people living longer and the potential of a longer life in retirement, it's worth remembering that there may still be a need to keep some exposure to the stockmarket, even when work is a thing of the past
- Many people have a proportion of *bond funds* in their portfolio to balance their other investments, especially near the time when they will need their money. This is because bonds are considered more secure than shares, and also pay regular interest – if you don't need this income, you can reinvest it to achieve extra growth for the future

# How much do I need to invest?



As much as you can afford. The important thing is to start investing as soon as you can so that your money has plenty of time to grow.

You may be surprised at how much even small amounts can grow to over a number of years. If you had invested in a fund that grew by 6% and had a management charge of 1.5% a year and no initial charge, the table below shows how much your investment could be worth.

Amount you invested each month	Time you invested for		
	10 years	20 years	30 years
£50	£7,559	£19,406	£37,969
£100	£15,119	£38,812	£75,938
£250	£37,799	£97,031	£189,846

*These figures are purely for illustration and the growth rate isn't guaranteed, and that this means you could get back less than you invested.*

Of course, as the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost.

## JARGON BUSTER

A **portfolio** is a collection of investments. If you already have a number of investments, thinking of them as a portfolio may give you an idea of how they are working together to achieve your goals.

# How can I tell the best time to invest?

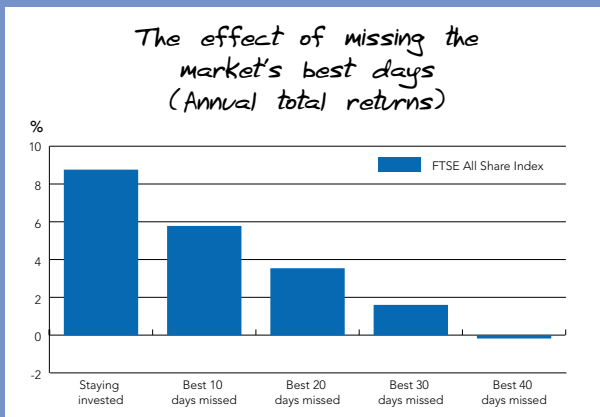


You can't – unless you are an exceptionally lucky investor. Naturally, it is tempting to wait for the market to reach a low point before you invest. But how will you know when this low point is? Even the experts find it impossible to "time the markets" like this with any consistency.

If you put off making an investment because you think prices have further to fall, there is a risk that you will miss out on the significant rises that often occur in the early days of an upward trend. The graph below shows how much difference it could make if you had invested in the stockmarket for the past ten years, but missed the best ten days. Similarly missing the 10 worst days could increase the value of your investments.

It is better to choose an investment that you feel confident about and take a long-term view, so that you have time to ride out any downturns in the market.

Please remember that past performance is not a guide to what might happen in the future.



Source: Datastream. Annualised total returns from 26.02.93 – 29.02.08 in sterling

# Is it best to invest with lump sums or monthly payments?

The answer to this question depends on your own situation and preferences. Some people prefer to invest lump sums when they have the money available – perhaps from a bonus at work. The benefits of this approach are that you may be able to take advantage of discounted charges and you are much less likely to spend the money on other things if you have tucked it away in an investment fund.

However, if you do not have a lump sum to hand, do not feel you have to save up until you have a large amount to invest. It is possible to invest a relatively small amount – £50 month, for example – and, as our table on page 12 shows, even this can build up into a worthwhile nest egg.

If you set up a monthly savings plan, you will soon come to think of your regular payment as an essential part of your budget.

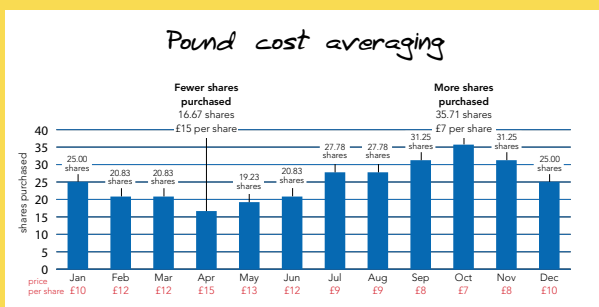
What's more, you can benefit no matter how markets are performing:

- if share prices go up, the shares you already own will increase in value
- if share prices go down, your next payment will buy more shares



A further benefit of regular saving is that you can capitalise on a phenomenon known as “pound cost averaging”, which is illustrated in the table below. This compares the returns achieved when an investor invests a lump sum of £3000 and someone who spreads the investment over 12 months.

The regular saver finishes the period with an investment that is worth more than that of the lump-sum investor – even though the starting price, finishing price and average price are exactly the same. It sounds unlikely, but it’s true. Check the figures for yourself!



*Based upon hypothetical market movements. There is no guarantee that cost averaging will result in better returns than lump sum investing*

	Pound cost averaging	Lump-sum investment
Average price/share	£9.93	£10
Shares accumulated	302.13	300
Value by end of the year	£3,021.30	£3,000

# Is it worth investing in ISAs?



ISAs give valuable protection from tax – every year you can invest up to £7,200 in ISAs and there will be no further income or capital gains tax for you to pay on your returns. This will help you enjoy the full benefit of any growth your investment achieves over the years.

Since 6 April 2008 the Government have simplified the way ISAs work and increased the amount you can invest:

Mini and Maxi ISAs will no longer exist. Instead, you'll be able to invest in two separate ISAs each tax year; a cash ISA and a stocks and shares ISA.

- All of your allowance can be invested in stocks and shares, or you can split it by investing up to £3,600 in cash and the remainder of the £7,200 in stocks and shares with either the same or a different provider.
- All PEP accounts are being re-classified as a "stocks and shares ISA", and will be subject to ISA rules. This also means that PEP investments will be labelled as ISA on Account Management.

Whether or not you are eligible to invest in an ISA, and how much the tax savings are worth to you, will depend on your individual circumstances. You should also remember that all tax rules may change in the future.

## JARGON BUSTER

**Bonds** are a special type of loan. If you invest in a bond you might be lending money to the UK government or a company like BT. In return you should receive regular interest payments and at a set date in the future your loan will be repaid, provided that the organisation that issued the bond has not run into financial difficulties.

Can I have a guarantee that I won't lose money?



A number of banks and building societies offer investment products that appear to offer the best of both worlds – stockmarket growth, plus a guarantee that your capital will not fall in value. Typically, you will receive returns based on the growth in a stockmarket index, such as the FTSE 100. At the same time, there will be a guarantee that at the end of a set period – usually three or five years – you will not have lost any money, even if the index has fallen.

Unfortunately, nothing comes for free. You will almost certainly have to pay for this guarantee in some way. Many companies will only offer you a percentage of the growth in the index – 85%, for example. Even if a company offers to match the index's total growth, you may not benefit from the effect of having dividend payments reinvested.

You also need to remember that there may be a penalty for withdrawing your money early.

There are some risks associated with guaranteed products, so if you have time on your side and are prepared to take a long-term view, perhaps you should consider a non-guaranteed stockmarket investment. As long as you can invest for at least five years, this would allow you to reap the full benefit of any rise in share prices. After all, do you really want your returns reduced to pay for a guarantee that you may not need? The value of investments can go down as well as up so you may get back less than you invest.

# Which fund should I choose?



Fidelity has a comprehensive range of funds, with something to suit every type of investor. Some of our investment products are what we call “funds-of-funds”, which means they invest in other funds, rather than holding shares or bonds directly. In other words, you have a diversified selection of funds in a single investment. You also benefit from the expertise of the Fidelity professionals who decide which funds to invest in and constantly monitor their selections, switching money between funds whenever they think it is necessary.

**Fidelity MultiManager Portfolios** include a selection of funds from leading investment companies such as Jupiter, New Star, Framlington and Gartmore. Here are some of the funds in our MultiManager portfolio.

- The **MultiManager Growth Portfolio** only holds funds that invest in shares. It covers the UK, Europe, the US, Japan and emerging markets
- The **MultiManager Income Portfolio**, on the other hand, may suit more cautious investors. It focuses solely on the UK and the portfolio is divided between bond funds and equity income funds, which aim to invest in profitable companies that pay good dividends to shareholders

**Fidelity WealthBuilder Target Funds** are an innovative way to save towards a particular date. They invest in other Fidelity funds, and as they approach their target dates, the investment focus gradually shifts from shares towards bonds and cash. As a result, there is less chance of your investment falling in value just before you need your money. There are three Target Funds – 2010, 2015 and 2020. Simply choose the date that is closest to your goal and leave all the hard work to us. The value of investments can go down as well as up, so you may get back less than you invest. Funds investing overseas may be affected by currency fluctuations.

# How often should I check my investments?



Some people keep a daily watch on their funds, but twice a year would be enough for most investors. Your investments need to adapt to changes in your life, such as having children, starting a business or retiring. It's also a good idea to check that each of your investments is living up to your expectations. If they aren't, you may have to ask yourself whether it is worth moving your money, or if it is just a temporary setback.

If you have a regular savings plan, you should also try to increase your payment whenever you can – after a pay rise, for example.

The internet has made it much easier to review and manage your investments. For example, an online fund supermarket can enable you to see the value of your portfolio at the touch of a button, at any time of the day or night, and make changes whenever you need to. Online tools help you review your holdings and decide where to invest.

Fund supermarkets offer hundreds of funds from a range of different companies. It may even be possible to bring your previous investments into your supermarket account, through a process called re-registration, which allows you to see all your funds on the same statement. This can be a very convenient way of managing a portfolio that contains funds from a number of different companies.

## JARGON BUSTER

**Re-registration** means moving an investment to another fund provider or a fund supermarket so you can manage it alongside your other investments. Your money stays invested in the same funds, but the supermarket takes over the administration of your account from the company you originally invested with.

# WE'RE HERE TO HELP

*Fidelity has a long history of helping people meet their financial goals. We have a reputation for developing innovative investment products and we pride ourselves on providing clear information to help you make your investment decisions.*

*We can't advise you on what investments would suit your particular circumstances, so you may want to talk to a Financial Adviser. However, we do have a full range of brochures about our products and services, together with a number of free guides about key investment topics.*

*If you would like copies of any of these publications or more information about Fidelity, or if you would like to invest, please:*

- Go to** [fidelity.co.uk](http://fidelity.co.uk)
- Call** Fidelity **0800 41 41 61**  
(9.00am to 6.00pm, seven days a week)
- Visit** our London Investor Centre,  
25 Cannon Street, next to St Paul's Cathedral  
(8.00am to 5.30pm, Monday to Friday)

## Gold Standard Awards 2007

Winner – Gold Standard for Fund  
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