A Guide To Investing

HARGREAVEHALE

contemporary thinking with traditional values

Need some help?

Please contact your local office if you have any questions:

London
020 7009 4900

Blackpool
01253 621 575

Bangor
01248 353 242

Carlisle
01228 515 224

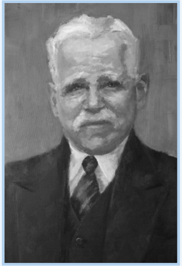
Lancaster
01524 541 560

Worcester
01905 723 551

Website
www.hargreave-hale.co.uk

Telephone calls may be recorded.

About Hargreave Hale



Marsden W Hargreave
Founded the firm in 1897

Hargreave Hale was founded in 1897 by Marsden W Hargreave and is still directed and managed by the family more than 100 years later.

Although we may have grown in size, the same philosophy drives the successes of today - the client's financial well being is paramount.

Our experienced and qualified teams continue to provide the excellent standards of portfolio management, investment advice and customer care for which we are renowned.

Hargreave Hale portfolio managers and advisers ensure the advice and investments suit the personal, professional and future needs of clients and their families.

We believe Marsden Hargreave would have wanted it this way…

Risk Warning: Hargreave Hale services may not be suitable for everyone. Invested capital is at risk, before investing in the stock market, please bear in mind that the value of investments and the income generated from them can fall as well as rise. Investing in the stock market should be done for the medium or longer term, and should be a part of personal financial planning which may also involve considering levels of debt and cash resources as well as pension provision and tax planning.

Why should I invest?

This guide is to help you understand investing and why it is different from saving. Most people are attracted to investing because they want to create greater returns from money they have saved up in the bank or building society.

Historically investing in stocks and shares, in particular, has proved a popular way of making more money than keeping cash on deposit. However, as you know, the value of stocks and shares can go down as well as up, which, not surprisingly is the reason many people choose not to invest in the stock market.

We have been guiding people through investments for more than 100 years so we understand the concerns many people have about investing and what type of investment would be most suitable for their needs. The first part of our investment process is to ask our clients questions so that we can understand what they want from their investments. In the same way, before you consider making a first investment or adding to your existing investments you should ask yourself some questions in order to work out what sort of investment (there are many, many different types) might be suitable for you.

What do you want to invest for?

Do you want income from your investment or do you want your money to grow over a period of time, or a combination of both. This will obviously have a major influence over what type of investment is best you.

How long do you want to invest for?

If you save your money in a bank account you can normally access it whenever you want. Investing is a much more long term process and you should think of your money being invested for a minimum of five years.

How much risk are you prepared to accept?

In general terms, the greater the risk the greater the potential returns. If you're new to investing it is probably more sensible to take things easy and not take on too much risk.

So, what we recommend you do is read the information in this guide and see if you think making an investment is something you would like to explore.

If it is, we would be happy to guide you through the process so that you can buy an investment that meets your needs and matches your risk profile.

What are the benefits of investing?

If you can afford to put your money aside for longer periods, say five years or more, investing offers greater potential for your money to grow. Most investments are stock market based and over the long term have the potential to earn more than a bank or building society savings account. Savings accounts offer security of capital, are generally more accessible and give greater certainty of growth. But historically, they have not achieved the same level of growth as investing in the stock market, although past performance is not a guide to future performance.

What are the risks?

When you invest in shares, you accept a risk to your capital in exchange for potentially higher returns - and what is acceptable to one person may be sheer recklessness to another. But if you prefer not to take too many risks with your hard-earned savings, there are a number of ways you can minimise that risk.

For example, the more companies you invest in, the more you spread the risk. If you were to invest equally in shares in four companies and one of them did particularly badly, that would adversely affect 25% of your money. If, on the other hand, you had invested in a fund that covered 100 companies equally, the poor performer would only affect 1% of your investment. Conversely, investing in a smaller number of companies means you benefit more when they do well and if you invest in a large number of companies you don't benefit as much.

Likewise, by limiting your investment to a single industry sector, say telecommunications, or geographical region, say the Far East, your returns will grow quickly when those areas are booming, but will also feel the negative effects of any economic downturn more quickly. Variations in exchange rates will also have an impact on the returns on your investment.

You can also place some of your money in funds that invest in cash, corporate bonds and property to add balance to your portfolio.

Sensible investing is all about setting the amount of risk you are prepared to accept.

How long should I invest for?

Of course you can invest your money for as long as you want, but there are a few points you need to bear in mind:

- Short-term investment in the hope of making big gains quickly is risky. You should be thinking in terms of an investment period of at least five years.
- The longer you leave your investment, the more likely you are to see a return, but the downside is that you may get back less than you invested.

Choosing the right investment for you

This depends mainly on your attitude to risk, how much access to your money you need, and the period of time you want to invest. This guide should provide information to help you better understand the benefits and risks of investments. If you have more specific concerns, or you would like to speak to us and arrange an appointment with one of our financial advisers, please contact the closest Hargreave Hale office (details at the end of the guide).

Types of Investment

There are many different types of investment to consider. In this section we describe some of the most common types.

Individual Savings Accounts (ISAs)

Most investors will have heard of the Individual Savings Account, or, ISA, an ISA is not an actual investment, but is a wrapper that protects investments within it from being subject to tax. There are two main types currently available for new investors, the cash ISA and the stocks and shares ISA. These accounts have tax benefits which are particularly valuable to the higher rate tax payer but are subject to restrictions on the amounts that can be invested in any one tax year.

A self select style stocks and shares ISA account can contain any of the above investments subject to meeting the criteria set down by the Government. Some ISAs do not allow self selection of investments and are automatically linked to an underlying investment, usually a unit trust.

Tax Disclaimer

This document is prepared in accordance with our understanding of current tax law (April 2012) and there are risks that tax legislation may be subject to change in the future. The tax treatment depends on the individual circumstances of each client.

Collective Investments

As explained above investing in individual companies can be risky and can involve a lot of time spent doing research. One of the fundamental tools used to reduce this risk is to invest in a number of shares rather than one share to diversify investment risk.

Collective investments allow investors to invest in a range of underlying investments by making one single investment. These underlying investments can include bonds, property, shares, etc or a combination thereof, and be broken down by index, sector, country etc. They are generally considered to be lower risk than investing directly in shares, although as the value of the underlying investments can vary so can the value of the collective which can result in capital losses and gains.

Although the investor can choose a collective which is suitable for them, they do not have any control over the investments held within it.

Collectives can either be ‘actively managed’ whereby the investment manager plays an active role in selecting the investments held, or they can be ‘passive’ where they are designed so that their value is linked to an external benchmark or Index, such as the FTSE 100.

Like companies issuing dividends, collectives can also make distributions, although not all do. Therefore it is important that investors identify a collective suitable for them.

The two main types of collective investment are; unit trusts and open-ended investment companies (OEICs), and investment trusts.

Unit Trusts and OEICs

A unit trust or OEIC is a type of investment where the investor buys a unit in a fund, rather than a share in a company. All the money invested by unit holders, after costs, goes to the investment manager who invests it in line with the trust’s stated investment objectives. The value of the units is reflected by the value of the underlying investments, there is no premium or discount to the trust’s Net Asset Value.

When considering investing in a unit trust or OEIC investors should consider the level of charges. There is sometimes a difference between the buying and selling price, which results in a loss in value when selling. There can also be an initial charge for investing in the fund and also annual management fees. The level of fees can have a significant impact on the value of the investment.

Investment Trusts

These are similar to unit trusts in that an investment manager receives funds from external investors and decides on the underlying investments to be held by the trust. The difference is that these trusts are companies themselves whose shares are usually traded on stockmarkets. Like other shares, the trust’s shares are subject to the forces of supply and demand and can therefore be different to the value of the underlying investments.

Shares

Understanding Equity Shares

Shares are issued by companies to raise finance to expand or grow the business.

The issue of new shares by companies is called the ‘primary market’. Once issued, quoted companies shares are traded on a stock exchange. In the UK this is mainly the London Stock Exchange or AIM (Alternative Investment Market). The trading of shares after they have been issued is called the ‘secondary market’.

When you buy a share on the stockmarket the company that issued the share does not receive any money, all the money (after costs) goes to the seller. When buying shares the investor is actually buying a small fraction of the issuing company. One of the main benefits of this is that the investor is entitled to receive a share of the company’s profits by way of dividends. For equity shares, sometimes called ordinary shares, the amount of dividends paid out is set by the company’s directors each year. The level of dividends can vary depending on the company’s policy and its profitability, some pay out large proportions of their profits, some choose not to pay any dividends instead choosing to reinvest profits in the business. Therefore it is important when choosing to invest in shares to decide whether or not you want an income from your shares. Obviously you should always bear in mind that future profits made may not be as expected or that the directors may change their policy, which could have a negative impact on the level of dividends you would receive.

The second main benefit of owning shares is if the share price rises you can make a gain by selling the shares at a higher price. Share prices change because of differing levels of supply and demand. If there is high demand and low supply the price will rise, if low demand and high supply the price will fall. There are numerous reasons why the supply and demand for shares changes. These can be reasons specifically related to the company concerned such as expected profits, takeovers, research reports, resignation or appointment of new directors, expansion or new contracts. Wider factors can also have an impact such as legal and environmental issues, interest rates, oil prices, political reasons, competitors performance, etc. Just as share prices can rise they can also fall. In the worst cases, firms can ‘go bust’, and their shares become worthless, meaning that any capital invested is lost.

Some companies have share prices which go up and down by large amounts on a regular basis, these volatile shares are considered more risky than companies whose share prices tend to be rather stable, because there is an increased chance that capital could be lost when buying shares in such companies.

Share Indices

There are many indices which include a group of shares gathered together so that their collective performance can easily be identified. These can include both UK and overseas traded shares.

All eligible companies listed on the London Stock Exchange are included in the FTSE All Share index. The movement on this index shows how the whole of the stockmarket moves. The 100 companies whose total share capital has the highest value on the London Stock Exchange are included in the FTSE 100 index. These shares are considered to be towards the lower end of the risk spectrum because these companies usually have a long trading history, are well managed, subject to a lot of external scrutiny and have the resources to overcome most problems they may encounter.

The next 250 companies by value are included in the FTSE 250 index, and below that is the FTSE Small Cap Index. Smaller company shares are considered to be towards the more risky end of the investment spectrum because there can be difficulties in buying and selling their shares, particularly in large numbers, if there is little or no demand, they can also have relatively short trading histories, a low level of capital resources available to overcome problems, and are subject to much less external scrutiny.

Market Sectors

A second way of grouping shares is by the type of business the company does rather than the size of the company. The differing types of businesses are broken down into sectors. Traditionally there has been some consistency between companies in the same sector, for example bank share prices tend to all move in the same direction when interest rate changes are announced. Furthermore some sectors have in the past tended to act differently when compared to others, for example the utility sector tends to pay higher levels of dividends and is considered to be a suitable investment for those seeking income, whereas the technology sector tends not to pay dividends so is not suitable for such an investor.

Bonds

Understanding Bonds

Another way that companies, or governments, can raise capital is by issuing bonds. Bonds issued by companies are called corporate bonds, bonds issued by governments are called gilts or sovereign debt. As we explained above, buying a share results in the investor owning part of the issuing company. However, a bond is fundamentally different because the investor does not own part of the company instead the issuer is indebted to them. Usually when a bond is issued a redemption date and price will be set, as long as the issue does not default the bond holder knows what return the bond will produce until it is redeemed.

In a similar way that one of the main advantages of investing in shares is the receipt of dividends, one of the main advantages of investing in bonds is the receipt of interest. The rate of interest is set by the issuer when the bond is issued, in some circumstances it can vary with inflation. The rate of interest is not related to the level of the company's profits. If the company makes large profits the amount of interest will not rise in the same way that a dividend may do. However, the company is obliged to pay the interest on bonds before it is allowed to pay out any dividends, so when profits are low the bond holder has a higher comfort level.

One of the main risks to bond holders is if interest rates rise. This will usually result in a fall in the market value of the bond. This is because the interest paid by the bond issuer is less attractive and therefore there will be less demand for the bond.

The second main risk is default by the issuer. If the issuer faces financial difficulty it may not be able to make a scheduled interest payment or may not be able to redeem the bonds as intended. To aid investors determine the risk of default, bonds are rated by external rating agencies. Each agency has its own scale to determine the most secure bonds and the most risky ones.

Like shares, bonds are traded so their price can go up and down with supply and demand. Therefore gains and losses can be made when selling bonds.

Other Savings and Investments

There are many other types of savings and investments. These range from low risk deposit accounts held with banks and building societies to structured products and derivatives where the return (both positive and negative) is linked to the performance of an underlying share index or other item and can be far in excess of the original capital deposited. Some of these investments are subject to restrictions such as the requirement to issue a formal risk warning notice or restrictions on marketing investments to retail investors.

Portfolio Management

As your wealth develops and your personal goals evolve, you may want to think about having your investment portfolio managed by a financial professional who can advise you on how to invest wisely.

A Discretionary Account gives you the opportunity to hand over the day to day management of your investment portfolio, knowing that your personal portfolio manager will make important investment decisions carefully, quickly and responsibly on your behalf, this service usually incurs an annual management fee. A portfolio manager will help to establish your risk profile and investment strategy that will produce the best possible returns from your portfolio.

Alternatively, an Non-Discretionary Account offers investors a professional advisory service concerning all matters of their portfolio. The portfolio manager will still establish the investor's risk profile and investment strategy, but will consult you before any investment action is taken. The final decision, regarding all investments, remains with the investor.

Nominee Accounts

Clients who do not wish to retain their share certificates and similar documents of title should consider using a nominee account. These are provided by banks and stockbrokers to make settlement of investment transactions more efficient for both the investor and the company.

If such an account is used, there can be a charge for it. The investments will usually be registered in the name of the nominee rather than the investor's name. The nominee will collect payments on behalf of the investor and account to the investor for these. The nominee will also issue a statement to the investor on a regular basis to confirm the investments being held.

What should I do next?

Opening an account with Hargreave Hale is an easy and friendly process. Our company philosophy and network of UK offices enables our account executives to access any of the services and expertise located in any of our other offices. Contact your nearest branch for further assistance.

Contact Hargreave Hale

General enquiries: 020 7009 4900 **website: www.hargreave-hale.co.uk**

London

Accurist House
44 Baker Street
London W1U 7AL

T: **020 7009 4900**
F: **020 7009 4999**
E: **london@hargreave.com**

Bangor

Second Floor
30 Dean Street
Bangor
Gwynedd LL57 1UR

T: **01248 353 242**
F: **01248 361 745**
E: **bangor@hargreave.com**

Carlisle

10b Clifford Court
Cooper Way
Parkhouse
Carlisle CA3 0JG

T: **01228 515 224**
F: **01228 514 721**
E: **carlisle@hargreave.com**

Blackpool

4 Neptune Court
Hallam Way
Blackpool FY4 5LZ

T: **01253 621 575**
F: **01253 764 894**
E: **blackpool@hargreave.com**

Lancaster

25 Brock Street
Lancaster LA1 1UR

T: **01524 541 560**
F: **01524 541 569**
E: **lancaster@hargreave.com**

Worcester

Virginia House
The Butts
Worcester WR1 3PL

T: **01905 723 551**
F: **01905 723 368**
E: **worcester@hargreave.com**

Hargreave Hale Settlement Office

9-11 Neptune Court
Hallam Way
Blackpool FY4 5LZ

T: **01253 754 700**
F: **01253 792 012**
E: **settlements@hargreave.com**

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Investment Expertise | Professional Advice | Personal Service

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