INTEGER WEALTH GLOBAL

Literature – Types of Investments

Issue: 29 January 2020

Think of the various types of investments as tools that can help you achieve your financial goals. Each broad investment type, from bank products to stocks (shares) and bonds, has its own general set of features, risk factors and ways in which they can be used by investors.

Below are various types of investments.

1. Stocks

When you buy shares of a company's stock, you own a piece of that company. Stocks come in a wide variety, and they often are described based the company's size, type, performance during market cycles and potential for short- and long-term growth. Learn more about your choices—from penny-stocks to large caps and more.

2. Bonds

A bond is a loan an investor makes to an organization in exchange for interest payments over a specified term plus repayment of principal at the bond's maturity date. Learn how corporate, muni, agency, Treasury and other types of bonds work.

3. Investment Funds

Funds—such as mutual funds, closed-end funds and exchange-traded funds—pool money from many investors and invest it according to a specific investment strategy. Funds can offer diversification, professional management and a wide variety of investment strategies and styles. But not all funds are the same. Understand how they work, and research fund fees and expenses.

4. Bank Products

Banks and credit unions can provide a safe and convenient way to accumulate savings—and some banks offer services that can help you manage your money. Checking and savings accounts offer liquidity and flexibility. Find out more about these and other bank products.

5. **Options**

   Options are contracts that give the purchaser the right, but not the obligation, to buy or sell a security, such as a stock or exchange-traded fund, at a fixed price within a specific period of time. It pays to learn about different types of options, trading strategies and the risks involved.

6. **Annuities**

   An annuity is a contract between you and an insurance company, in which the company promises to make periodic payments, either starting immediately—called an immediate annuity—or at some future time—a deferred annuity. Learn about the different types of annuities.

7. **Retirement**

   Numerous types of investments come into play when saving for retirement and managing income once you retire. For saving, tax-advantaged retirement options such as a 401(k) or an IRA can be a smart choice. Managing retirement income may require moving out of certain investments and into ones that are better suited to a retirement lifestyle.

8. **Saving for Education**

   Funding education begins with savings. Learn smart ways to save, including 529 Education Savings Plans and Education Savings Accounts. We'll help you navigate your savings options.

9. **Alternative and Complex Products**

   These products include notes with principal protection and high-yield bonds that have lower credit ratings and higher risk of default than traditional investments, but offer more attractive rates of return. Learn about their features, risks and potential advantages.

10. **Initial Coin Offerings and Cryptocurrencies**

    These are speculative investments that come with significant uncertainty and many risks. Before you consider an investment in ICOs or cryptocurrencies, learn more.

11. **Commodity Futures**

    Commodity futures contracts are agreements to buy or sell a specific quantity of a commodity at a specified price on a particular date in the future. Commodities include metals, oil, grains and animal products, as well as financial instruments and currencies. With limited exceptions, trading in futures contracts must be executed on the floor of a commodity exchange.

12. **Security Futures**

    Federal regulations permit trading in futures contracts on single stocks, also known as single stock futures, and certain security indices. Learn more about security futures, how they differ from stock options and the risks they can pose.

13. **Insurance**

    Life insurance products come in various forms, including term life, whole life and universal life policies. There also are variations on these—variable life insurance and variable universal life—which are considered securities.

14. **Active vs Passive**

    While all funds have different strategies and aims, there are two main types of fund available: active funds and passive funds.

15. **Actively managed funds**

    As the name suggests, the manager actively chooses the underlying investments held in the fund on the investors' behalf, aiming to outperform the market and their peers. The fund manager will continually undertake research and analysis, and then update the investments in the fund when they feel it necessary. This means that over time, they will buy and sell different assets depending on market conditions.

16. **Passive funds (also known as index tracking funds)**

    These funds aim to match the performance of a particular stock market index – often by simply investing in every share in the index being tracked. The FTSE 100 (a list of the 100 biggest companies in the UK) is an example of a commonly followed index. These funds can offer a convenient, low-cost way to gain exposure to a broad range of investments.

    Another main difference between active and passive fund management is the fees charged. As they require less day-to-day management, passive funds usually have lower ongoing charges. With actively managed funds, the extra work and analysis involved means investors generally have to pay more in the way of charges, although having your money with a good fund manager can justify this extra cost.

17. **Income vs Accumulation**

    Many funds, both active and passive, give investors the choice between investing in either income or accumulation units. The difference is how the income generated by the investments in the fund is treated.

For example, if a fund is invested in shares, these shares will often pay dividends and thus generate an income. The income version of a fund will distribute these dividends to investors as cash. With the accumulation version, the fund manager instead uses the cash to buy more shares, increasing the value of each unit in the fund.

Those investing with the aim of generating an income should choose income units. Those looking for long-term growth in their investment will probably wish to choose accumulation units.

18. Investment trusts

Investment trusts are a different type of fund. They are traded on the stock market (rather than directly through the fund manager). As such, unlike funds which typically value once a day, they have a share price which moves up and down in value when the stock market is open.

While there are many good quality investment trusts available, investment trusts often involve more sophisticated techniques than regular funds, such as the manager borrowing money to try and boost returns. This can make them a higher risk investment

19. Different styles of fund management

Different funds offer different levels of risk and potential rewards. Some fund managers adopt a cautious approach, trying to shelter investors from the worst of any stock market falls. Others are happy to take on riskier investment strategies in search of potential higher returns.

There are managers who look to add value by focusing on the bigger picture, identifying trends or reading the economic outlook before investing in areas they feel are most likely to benefit. Others place less importance on these wider influences and prefer to focus almost exclusively on the prospects for individual companies or investments.

With thousands of funds available, the choice can be daunting. That is why we created the Wealth 50, a list of our favourite funds across the major sectors. The Wealth 50 also contains the passive funds we feel offer the best value.

Integer Wealth Capital has negotiated reduced annual charges on many of these funds for those who invest through us.

This list could be a useful starting place for those who wish to start investing in funds. We believe all managers currently featured on the Wealth 50 are capable of delivering exceptional returns for their investors over the long term.

20. Monthly investing or a lump sum.?

One of the reasons for the popularity of funds is that they give investors access to a wide range of investments, and offer the benefit of an expert manager, without the need to invest large sums of money.

Monthly investing has a number of benefits. Small regular investments can soon add up to a sizeable pot of money, and can help average out the highs and lows of the stock market. This takes the pressure off trying to time your investment correctly.

Please remember that investing involves risk and you could get back less than you invest.

The average fund will have at least 30-50 investments (projects) in it, which means an investor benefits from diversification. In general therefore, funds offer a lower-risk approach than investing in just one single share.

However, choosing which funds to invest in can be daunting for some investors. This is where multi-manager funds can be useful.

21. Why choose multi-manager funds?

A multi-manager fund can make an investor's life easier by bringing together a range of different funds into a single fund, again managed by an expert manager. It's a fund made up of other funds, and so offers added diversification and professional management in a single, convenient investment.

Multi-manager funds often offer a balance of fund management styles. This should mean that the underlying holdings don't all perform the same way at the same time.

These funds often charge higher fees. However, for many, especially those who do not have the time or experience to manage their own investments, the potential benefits can justify the costs.

Integer Wealth Capital has a range of multi-manager funds covering a wide variety of sectors, which are continually monitored and managed by our experienced team

Just as cash can be held in various accounts, so too can funds. You can hold funds within a general investment account, or in tax shelters such as ISAs (Individual Savings Accounts) or SIPPs (Self Invested Personal Pensions).

22. ISAs

An ISA's flexibility means it can be considered by almost any investor. Investments held within an ISA are sheltered from capital gains and UK income tax – less tax means higher returns.

Since the tax benefits of an ISA are so attractive, the amount that can be invested in each tax year is limited. For the 2018/19 tax year (which runs from 6 April 2018 to 5 April 2019), each adult may invest up to £20,000. Remember tax rules can change, and the value of benefits will depend on personal circumstances.

23. Lifetime ISA

Adults under 40 can save up to £4,000 per year with a 25% government bonus towards a first home or later life. Early withdrawals will usually be subject to a 25% charge.

24. Pensions

Pension contributions receive up to 45% tax relief. For most people, the government will top up every £80 net contribution to £100 gross. Higher and top rate taxpayers can claim back more

through their tax return, so £100 in a pension could effectively cost as little as £55. The amount of tax relief you can get depends on personal circumstances. Investments held within a SIPP are also sheltered from capital gains and UK income tax.

You can usually access money in a SIPP from the age of 55 (57 from 2028), with up to 25% tax free and the rest taxed as income. Tax rules may change in the future. Most investors can contribute as much as they earn, although a £40,000 annual allowance also applies for most people. Some can contribute more, and others less, so call us on 0117 980 9926 if you are unsure.

25. Standalone investment

Alternatively, investors can choose to hold funds in an account such as our HL Fund & Share Account. Held this way, investments are subject to capital gains tax on profits, as well as tax on any income. They can be held jointly, for example with a spouse, or in an account on behalf of a child. Unlike ISAs and SIPPs, there is no restriction on the amount that can be invested.

26. Find the one that's right for you

The right account for you will depend on your goals. Whether you're building a pension pot or just saving for the future, we can help you find the one which suits you best.

You can check the different features of our award-winning investment and savings accounts in the table below, or tell us your goals to narrow the field.

27. What are the different types of funds?

Funds are of two main types: registered investment companies and private funds.

28. Registered investment companies

Registered investment companies are registered under the 1940 Act and subject to significant disclosure and ongoing compliance obligations. As registered investment company securities are also registered under the 1933 Act, they may be offered to the public.

Registered investment companies can be further divided into three categories: mutual funds, closed-end funds and unit investment trusts.

29. Mutual funds

Mutual funds (also known as open-end funds) are investment companies that sell shares on a continuous basis.

Mutual fund shares are purchased directly from the fund or from a broker for the fund. The purchase price is equal to the fund’s net asset value per share, plus any sales charges or other upfront fees.

Investors liquidate their investments in a mutual fund by selling their shares back to the fund. The sale price is equal to the fund's net asset value per share, minus any redemption or other fees.

Mutual funds pursue a wide variety of investment strategies. Stock funds, bond funds, index funds, money market funds and ETFs may all be organized as mutual funds.

30. Closed-end funds

Unlike a mutual fund, which offers share continuously, a closed-end fund sells a fixed number of shares in an initial public offering. The shares then trade in the secondary market at a price that may be greater or less than the fund's net asset value. As closed-end fund shares are generally not redeemable, investors wishing to exit from their investment must generally rely on the secondary market to sell their shares.

An interval fund is a type of closed-end fund that is permitted to offer shares continuously at a price based on the fund's net asset value and periodically offers to repurchase its shares from shareholders. Such repurchase offers are generally made every three, six or twelve months. The purchase price is based on the fund's net asset value per share as of the date specified in the repurchase offer (generally, no more than 14 days after the date on which shareholders must submit their acceptance of the repurchase offer). As closed-end fund shares do not typically trade in the secondary market, investors must rely on the repurchase offers for liquidity.

Closed-end funds may invest in a greater amount of illiquid securities than mutual funds and, therefore, are the preferred form of organization for funds engaging in such investments.

31. Unit investment trusts

Unit investment trusts issue a fixed number of securities ("units") as part of a public offering. Investors may redeem units upon request at their approximate net asset value.

A UIT will terminate and dissolve on a fixed date, which will be specified when the UIT is created. A UIT does not actively trade its portfolio. Instead, it will hold a more or less static portfolio until its termination date. Upon termination, a UIT's portfolio is liquidated and the proceeds are paid to investors.

32. Private funds

Private funds differ from registered investment companies in that they are offered only to a limited number of financially sophisticated investors rather than to the general public. This allows private funds to avoid registering as investment companies under the 1940 Act or registering their securities under the 1933 Act. As a result, private funds avoid many of the ongoing reporting and compliance obligations imposed on registered investment companies. Common types of private funds include hedge funds, private equity funds and managed futures funds (also known as "commodity pools").

In contrast to registered investment companies, which must always be organized within the United States, private funds are often organized in offshore jurisdictions for tax, regulatory and marketing reasons.