

A Guide to Asset Allocation

How spreading your investments across different types of assets can help protect your wealth and work towards your financial goals



Inside This Guide

Asset allocation is one of the most important decisions you can make as an investor. This guide explains what it is, why it matters, and how to build a mix of investments that works for your life.

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What Is Asset Allocation?

Asset allocation is the process of dividing an investment portfolio among different asset classes, such as stocks, bonds, and cash. The goal is to balance risk and return based on the investor's investment objectives, risk tolerance, and time horizon.

Asset allocation is a key component of a long-term investment strategy. It helps to reduce the volatility of a portfolio and can help to achieve long-term financial goals.

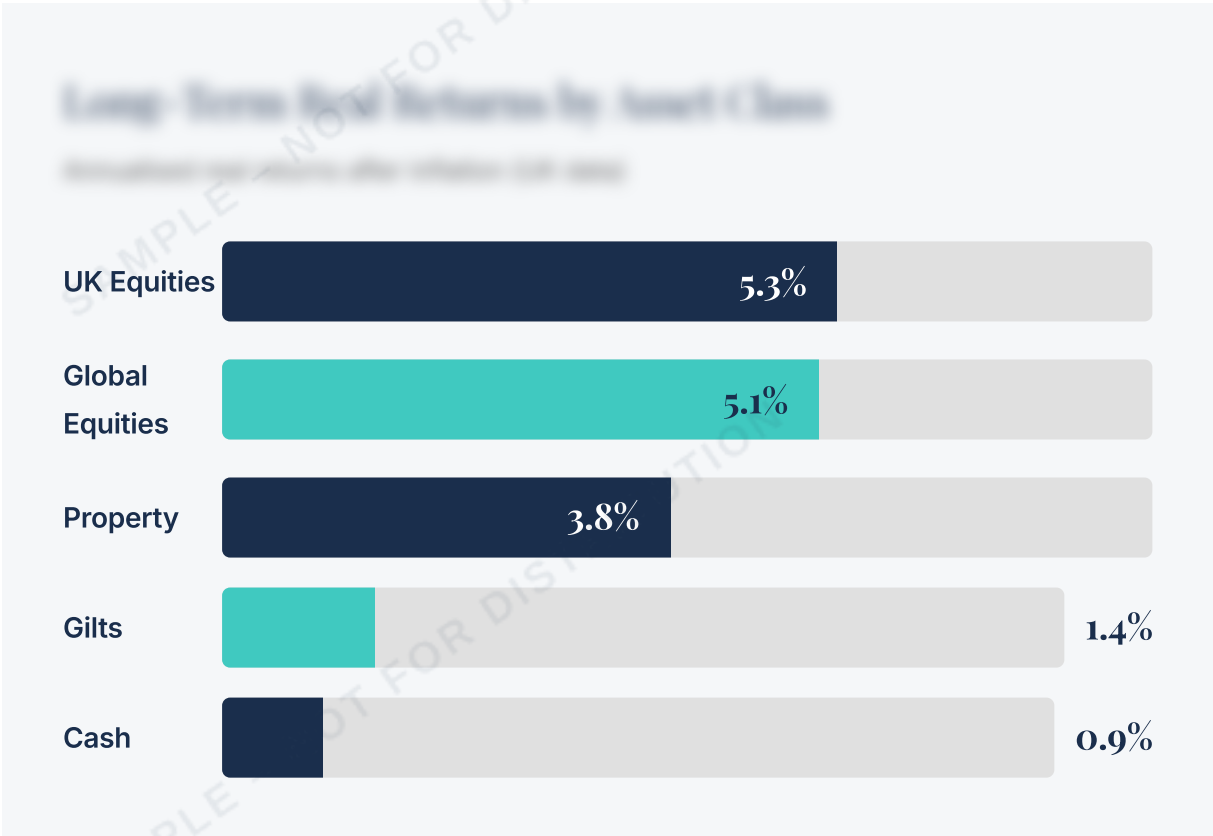
Why It Matters

- A good asset allocation strategy can help to reduce the risk of a portfolio and can help to achieve long-term financial goals.
- The asset allocation strategy should be reviewed and adjusted regularly to reflect changes in the investor's investment objectives, risk tolerance, and time horizon.



Understanding the Building Blocks

Every investment has its own risk categories. Each has its own risk and return profile, and they need to be managed differently.



These returns are averages over long periods. Actual returns can vary significantly. Bonds and cash are lower yielding than equity assets in the long run.

Risk and Reward: What to Expect

Each asset class carries a different level of risk and reward. Knowing these risks will help you build a portfolio that matches your investment goals and goals.

Asset Class	Typical Return (real, pa)	Risk Level
UK Equities	5 - 8%	HIGHER
Global Equities	5 - 7%	HIGHER
Corporate Bonds	2 - 4%	MEDIUM
UK Gilts	1 - 3%	LOWER
Property (REITs)	3 - 5%	MEDIUM
Cash Savings	0 - 1%	LOWEST

Important:
 Past performance is not a reliable indicator of future results. All investments carry some degree of risk. The value of your investments can fall as well as rise.

Your Tax-Efficient Toolkit

Choosing the right investments is just the start. When you hold those investments, can make a significant effort to tax most of your returns as efficiently as possible.

ISAs and Pensions

ISAs and pensions offer up to £10,000 each tax free per year. All growth and income is completely free of tax. Pensions offer up to £10,000 in yearly contributions, with tax relief on the way in.

- Full allowance £10,000 per year (£10,000)
- Pension annual allowance £10,000 (£10,000)
- Both shelter your investments from income tax and capital gains tax
- Using both supports flexibility and tax efficiency

Capital Gains and Dividends

Outside ISAs and pensions, you have a capital gains tax allowance of £3,000 for 2023/24. This rises to £6,000 for 2024/25. Your dividend allowance is £1,000, after which tax rates range from 8.75% to 34.38% based on your tax band.

Did you know?

Using your full tax allowance each year could shelter £10,000 of growth from tax. Over 10 years, that adds up to £100,000 sheltered against tax from income tax and capital gains tax.

Matching Your Mix to Your Life

How does your life change over time? It's important to understand the stages of life and how they affect your investment goals. This helps you make the most of your money.

The longer you live, the more time you have to grow your money. In your early years, you can afford to take more risk. As you get older, you should focus on preserving what you've earned.

A Simple Framework

- **Match the risk to your goals.** If you need the money soon, you should invest in safer assets.
- **Match the risk to your time horizon.** The longer you can wait, the more risk you can take.
- **Match the risk to your risk tolerance.** How comfortable are you with losing money?



The Home Bias Trap

UK investors often hold 80% or more of their equities in British companies, despite the UK making up only around 5% of the global stock market. This concentration adds unnecessary risk to portfolios.

UK-Heavy Portfolio

- Concentration in one country
- Limited asset classes
- Exposure to UK market risk
- Highly correlated
- Single currency

High risk

RECOMMENDED

Globally Diversified

- Global geographic spread
- Access to all major markets
- Reduced single market risk
- Greater diversification
- Strong risk-adjusted returns

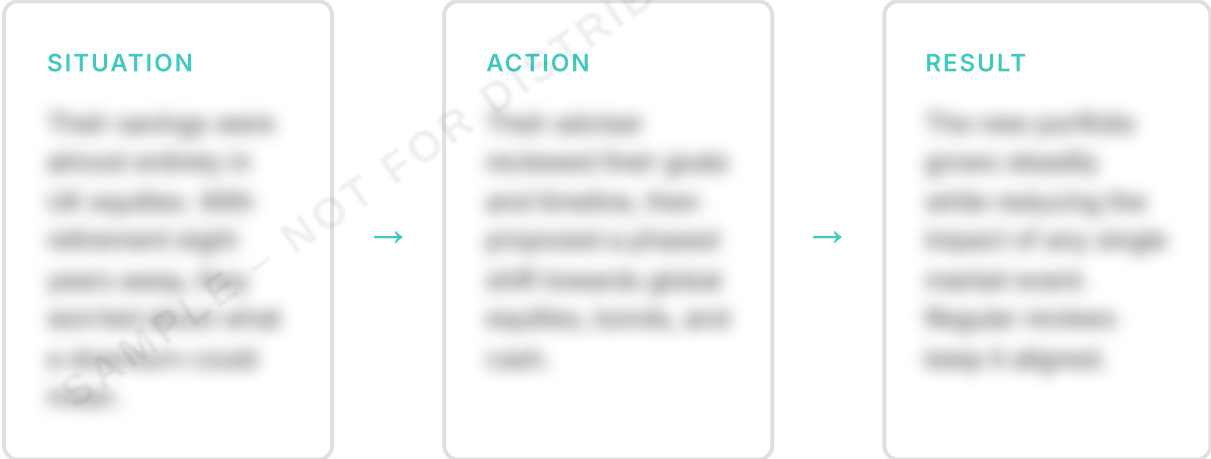
Low risk

Bringing It Together: Sarah and David

How do investors view their asset allocation decisions after people's financial goals?

S&D

Retire at 60 Help children buy homes Travel in retirement



How do investors view their asset allocation decisions after people's financial goals?

Why Staying Invested Matters

The biggest risk to your long-term returns is often not the market itself, but how you react to it. Staying invested through downturns and holding for the "right time" to get back in can mean the difference between success and failure.

The Cost of Missing the Best Days

Missing the market's best days can significantly reduce your long-term returns. If you miss out on the top 10% of market returns, you can lose up to 35% of your potential gains.

- Missing the market's best days can reduce your long-term returns by up to 35%.
- Missing out on the top 10% of market returns can cost you up to 35% of your potential gains.
- Missing out on the top 5% of market returns can cost you up to 25% of your potential gains.

The Behaviour Gap

The behaviour gap is the difference between the average returns of investors who stay invested and those who sell during downturns. This gap can be as large as 10% over the long term.

Pound Cost Averaging

Investing a fixed amount each month, rather than trying to time the market, can help reduce the effects of volatility. This strategy can result in lower average costs per share over time.

Key Figures

11.6%

Annual return of the S&P 500 from 1926 to 2021

9.6%

Annual return of the S&P 500 from 1926 to 2021, excluding the top 10% of returns

1.22%

Annual return of the S&P 500 from 1926 to 2021, excluding the top 5% of returns

Keeping Your Portfolio on Track

Keeping the right portfolio is a matter of ongoing monitoring. Your time, market movements, and your objectives may change. Regular portfolio reviews ensure your investments continue to work for you.

The image shows a grid of 8 numbered boxes, each containing blurred text. The boxes are arranged in two columns and four rows. The numbers are: 1, 2, 3, 4, 5, 6, 7, 8. The text is illegible due to blurring.

The Bigger Picture

Asset allocation is not just about choosing between stocks and bonds. True diversification means spreading your investments across multiple dimensions to build a more robust portfolio.

Diversify Across Geographies

Don't get too heavily reliant on any single economy. The US market is heavy in financials, energy, and mining. Other markets give you access to technology, healthcare, and consumer goods.

- The S&P 500 index has returned 10.4% per year over the past decade vs 12.8% for emerging markets.
- Emerging markets offer additional growth potential alongside higher volatility.
- Currency diversification can provide an extra layer of protection.

Diversify Across Time

Regular investing spreads your entry points across market conditions. Vanguard Research predicts international assets around 6.4% per year to return. Together, these tactics can compound your wealth over time.

Did you know?

The S&P 500 has only 20% of its portfolio through health care. For growing and diversifying, consider a strategy of diversified portfolio options such as ESG funds while continuing against the main direction.

Your Next Steps

Taking control of your asset allocation does not need to be complicated. Here are some practical steps you can take today.

1 Review your current holdings 15 MINS

Take statements from all your investment accounts, list assets and any other holdings, and note percentages in a spreadsheet.

2 Check your risk profile 10 MINS

Take a moment to assess how you feel if your portfolio dropped 20% in value. Your comfort level will guide your equity allocation.

3 Consider your timeline 10 MINS

What does your long-term financial goal look like, and when do you need the money? Your timeline is the single biggest factor in choosing the right mix.

4 Speak to your adviser 30 MINS

Book a routine meeting to discuss your allocation. We can help you build a portfolio that matches your goals, your timeline, and your peace of mind.

Ready to take the next step?

Call us at [800.955.2833](tel:800.955.2833) or visit www.fidelity.com to arrange your portfolio review.



"The best investment you can make is in a plan that lets you sleep soundly, knowing your money is working as hard as you did to earn it."

Your Financial Adviser

Your next chapter starts with a conversation

Whether you are just starting to invest or reviewing an existing portfolio, we are here to help you build a plan that works for your life. Our team of qualified financial advisers can guide you through every step of the process.

Ready to take the next step?

Call us on [REDACTED] or email [REDACTED]
to book your free initial consultation.