Santander
Asset Management

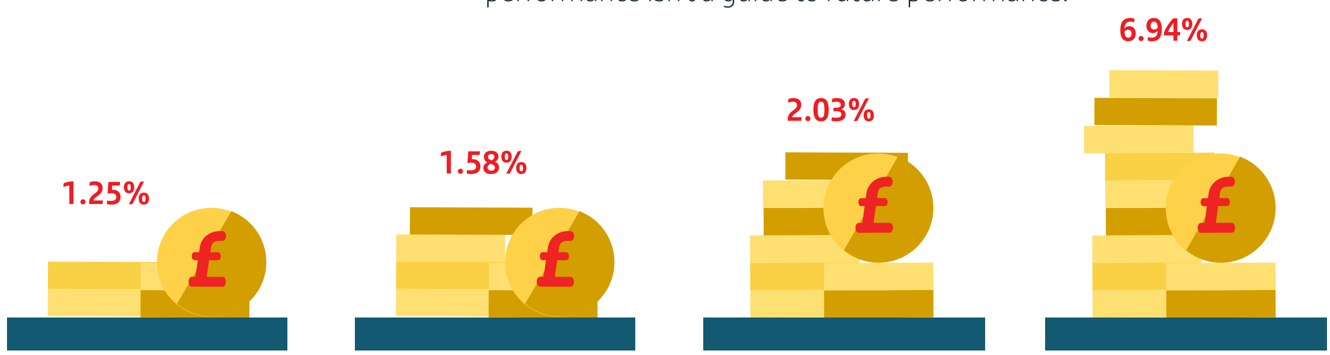
Principles of Investing

Balancing savings and investments

Savings and investments each have an important role to play: the secret is in finding the right balance for you and your money. That balance will depend on your circumstances, your goals, and your timescales among other factors.

Looking at the last 10 years

When investments move up and down – as we have seen during the COVID-19 pandemic and more recently with the war in Ukraine – you might find yourself questioning your balance of savings and investments. However, over the last 10 years, based on information to 30 June 2022, investments have tended to outpace savings. Remember, past performance isn't a guide to future performance.



Base rate
The maximum Bank of England base rate over the period

Return on UK Government Bonds
Represented by the annualised total return of the IA UK Gilts sector

Inflation
The average annual CPI (Consumer Price Index)

Return on UK Shares
Represented by the annualised total return of the IA UK All Companies sector

Source: Bank of England, Office for National Statistics and Morningstar, based on the Investment Association (IA) average sector returns. As at 30 June 2022.

You can see shares have outpaced inflation over the period, but UK Government bonds (also known as gilts) and the Bank of England base rate, which affects the rates available to UK retail savers, did not. In the past, UK Government bonds typically have delivered returns either close to or slightly above inflation. However, when the Bank of England began to increase interest rates in response to rising inflation, yields increased in response to these rises and on the expectation that further rate rises could follow. When bond yields rise, bond values fall, therefore affecting the investment returns over the period measured.

So, when it comes to the longer-term, you can see how investing is more likely to help your money keep ahead of rising prices. Clearly, the results can vary over different time periods. Inflation is currently rising impacting both the purchasing power of your savings, but also investment returns available. As interest rates return closer to their long-term historic norm it will be important to strike the right balance between savings and investments. Regardless of the recent changes over the longer-term investments are still expected to provide a better chance of growing the real value of your money.

Investments do go down as well as up, sometimes quite sharply. And if you need to sell at a time they are going down, that may increase your risk of getting back less than you put in. Having cash savings that you can access when markets are lower can help you avoid this situation.

From acorns...

Reinvesting any income you receive from investments (dividends for example) adds to the number of units in an investment fund you hold that can then benefit from future growth. It can make a big difference to what you get back over the longer-term and how quickly you can reach your goals.

Making the right decisions for you

Saving is mainly about keeping your money both safe and accessible, rather than growing it to any significant extent. That's why savings tend to be used for emergencies or short-term goals.

Investing, on the other hand, is about growing your money, using it to generate an income or a mix of both. That means a more long-term view and taking some additional risk. However, you can access investment solutions which are spread across a range of asset classes, helping to balance some of this risk.

Saving and investing each have an important role to play and most people will find that a mix of the two helps to meet their needs in different situations. For example:

	Saving	Investing
An emergency fund for unexpected expenses or if you can't work for a while.	✓	✗
A short-term goal (usually less than five years) such as a holiday or wedding.	✓	✗
A long-term goal (usually more than five years) such as retirement income.	✗	✓
You don't want to risk losing any of your money, even though it may not be worth so much over the longer-term due to the effects of inflation.	✓	✗
You are willing to take some risk with your money to hopefully achieve growth over the longer-term.	✗	✓

Choosing the right balance

It is important to have the right balance between savings and investments suited to your circumstances. If you don't have an emergency fund or savings for planned short-term expenditure, it's best practice to prioritise saving enough money to cover these before committing your money for long-term investing.

If you're unsure whether you've got the right balance between savings and investments you might find it helpful to speak with a financial adviser. They can assess your current financial circumstances and make recommendations to help you achieve your financial goals.

Explore the other principles of investing

To cut through the noise and understand the principles of investing, visit our website **here** where you can watch or read about them.

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. shares, bonds, property, cash and alternatives are all examples of asset classes.

Bonds: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Government Bonds: Bonds issued by governments.

Index: A way of tracking the overall performance of a basket of individual investments of a similar type. For example, the FTSE 100 index tracks the performance of shares in the 100 largest companies by market value on the London Stock Exchange.

Inflation: Measures the increase in price of selected goods and services in an economy over a period of time.

Shares (often referred to as equities or stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.