About Investing

The various styles of investing for growth

We each have our own reasons for investing, for some it is the desire to buy a property or grow a savings pot for a comfortable retirement. However, some simple motivations lie beneath.

We want our money to grow in value over time, to provide us with an income or to do a mixture of both. In this quick guide we focus on investing for growth, looking at some of the styles fund managers might implement to help achieve this goal.

1. Growth investing

Fund managers who favour growth investing as a style will invest in stocks they expect to grow more quickly or to a greater extent than the market overall.

Growth stocks can range from big technology companies like Amazon, Meta (Facebook) and Alphabet (which owns Google) to smaller, newer companies innovating in areas like climate change or the ageing population. Often, growth stocks don't share their profits with investors by paying dividends, instead, they usually reinvest their profits to help drive future growth.

Be aware

If you choose a fund that favours smaller and newer companies for growth investing, be aware that such companies can carry a greater amount of risk – they tend to have a high failure rate and many suffer in periods of economic uncertainty, an example of this being the recent COVID-19 pandemic.[1]

That said, many are also concentrated in technology and clean energy innovation and could potentially benefit from initiatives such as the European Green Deal and US President Joe Biden's $2.25tr (US dollar) infrastructure plan aimed at building back 'better' and 'greener'.

2. Value investing

This style involves a fund manager investing in shares, which based on their investment research and analysis, they feel are undervalued by the market and are trading at a lower price than what they think should be be expected. The idea is that, over time the price may increase to more closely represent their perceived true value.

Value stocks can be established companies with good foundations and future prospects that have fallen out of favour with investors, or niche businesses with potential that has not yet been fully realised or generally understood. One reason for a company or sector falling out of favour can be how it is impacted by the ups and downs of the ongoing economic cycle. You may hear these described as 'cyclical' investments.

3. Momentum investing

Momentum investing is based on clear evidence that changes in asset prices tend to persist long after the trend appears. It is based on a principle that markets remain inefficient and can be slow to react to new information. The decisions made by momentum investors are built around specific data measures which identify both the start and end of any trend. These are based on technical analysis and rules they have set for themselves, so it's not the same as simply following the herd.

Some fund managers will choose to use this philosophy either to partially drive decision-making or if appropriate as the main strategy used to deliver investment outcomes.

4. High conviction investing

This style sees a fund manager focus on a relatively small range of investments (say, 20-30) normally based on a very targeted investment philosophy. These investments have been specifically selected by the fund manager as they believe their potential performance and other qualities match their investment convictions.

High conviction funds typically carry higher investment risk because of the narrow range of components when compared to a broad-based multi-asset fund as an example. Long-term performance will be heavily reliant upon picking more winners overall than losers due to the lack of diversification.

5. Factor investing

This style is all about choosing investments in a systematic way, based on a broad range of attributes (the factors) that have tended to be associated with achieving higher returns over time. Academics have identified over 600[2] that can influence risk and return for investing. These include value and momentum factors, for example.

Style diversification

Investing in funds that follow different styles, or blend a range of styles, can help to diversify your portfolio and smooth your investment journey over the longer-term. For example, growth and value stocks may respond differently to market activity and economic cycles – each has outperformed the other at various points over the years.

It's important however to keep in mind that investments can always go down as well as up and past performance is not a guide to future performance.

Do you research before you invest

It's important to be clear on exactly where you're putting your money, what that means and whether funds are consistent with your own objectives, needs and risk tolerance.

The vast majority of funds are required by law to produce a short, accessible document containing key information: objectives and investment policy, investment strategy, risk and reward profile, charges, past performance and some practical information. This will include whether a fund aims to provide growth, income or a mix of the two. Further information on the investment strategy and process implemented by the fund manager will be contained within the Prospectus, which you may find helpful to enable you to fully compare different styles within your portfolio.

These Key Investor Information Documents (KIIDs), also known as Key Investor Documents (KIDs) for some types of funds, should be easy to find on a fund provider's website. For example, you can find KIIDs for Santander Asset Management funds in our **fund centre** at **santanderassetmanagement.co.uk**.

Don't forget the power of compounding

Compounding plays a key role in investment growth. Choosing a fund that reinvests any interest or dividend payments to add to your capital for generating growth, could make a substantial difference to your outcome over time.

The right investment – or mix of investments – for you will always depend on your personal circumstances, timescale and goals. If you're not sure then you may find it helpful to speak with a financial adviser who can help you understand different fund manager styles, the pros and cons of each, and explore your options.

Learn more!

Investing can feel complex and overwhelming, but our educational insights can help you cut through the noise. Learn more about the Principles of Investing **here**.

[1] Startup Genome, April 2021
[2] Canaccord Genuity, 25 March 2020

Let's be clear!

Investment terms explained

Cyclical sectors: Industries that are sensitive to or positively affected by the macroeconomic environment.

Diversification: Spreading your money across different investments to help manage risk.

Economic Cycle: Economic cycles are part of the normal ebb and flow of investing. Each cycle usually has four main stages: peak, recession (when the economy is going through a downturn), trough and expansion (when the economy starts to grow again).

Portfolio: A group of investments that are managed together to meet a particular objective.

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.