Mulberry Wealth Management Ltd
366-370 Cyncoed Road,
Cyncoed, Cardiff CF23 6SA

T: 02920 023 333
E: info@mulberrywealth.co.uk
W: www.mulberrywealth.co.uk

Wealth needs managing – now more than ever

Achieving your financial goals through investing, and one size does not fit all

Even as we hope to put the coronavirus (COVID-19) pandemic in the rearview mirror in 2021, uncertainty regarding both the virus and Brexit is likely to continue to further weigh on the UK and global economies as well as on our personal finances during this year.

While we hope volatility is less elevated this year, financial markets and the economy could still remain at the mercy of COVID-19 developments.

SETTING SPECIFIC INVESTMENT GOALS IS KEY

Understandably investment volatility can make it easy to focus on the short-term and those temporary peaks and troughs. Setting your specific investment goals is important to keep you focused when you need it and enable you to build a portfolio to get you where you want to be. Investment strategies should include a combination of various investment and fund types in order to obtain a balanced approach to risk and return. Maintaining a balanced approach is usually key to the chances of achieving your investment goals, while bearing in mind that at some point you will want access to your money.

MARKET FACTORS THAT DETERMINE VOLATILITY

Market volatility can be nerve-racking, even for the most seasoned investors. Many different factors can impact market volatility, sending values of investments in either direction. Some of the most common factors that determine the volatility of the market include investor concern, political events, natural disasters and major events in foreign markets. But it's important to keep matters in perspective. Avoid making rash decisions and focus on your long-term goals. Keep investing as you normally would. Also don't attempt to pick the market bottom or the turnaround to jump in. Fight the impulse to think you can.

RIDING OUT THE MARKET UPS AND DOWNS

Investments don't always go in a straight line – they have the potential to react and recover from short-term market events. Rather than looking at short-term volatility, it pays to look at the bigger picture. Over the long term, investments will usually deliver returns that allow you to grow your wealth. Looking at a twelve-month snapshot of your investment portfolio may show that investments have underperformed but look back over the last five or ten years, and you'll hopefully be on track.

CAREFULLY CONSIDERED DECISION TO INVEST

One of the first steps in developing an investment strategy is to identify your tolerance for risk as an investor, referred to as your 'risk profile'. Every investor has a different risk tolerance with regard to their investment selections. Making investment decisions can depend on your personality as well as the goals you are investing towards. Weighing up the level of risk you're willing to be exposed to can be challenging. Whether you're reviewing your pension or building a personal investment portfolio, balancing risk is a crucial part of the process.

WELL-ALLOCATED INVESTMENT PORTFOLIO ASSET CLASSES

During volatile times, asset classes such as stocks tend to fluctuate more, while lower-risk assets such as bonds or cash tend to be more stable. By allocating your investments among these different asset classes, you can help smooth out the short-term ups and downs. Portfolio diversification may reduce the amount of volatility you experience by simultaneously spreading market risk across many different asset classes. By investing in several asset classes, you may improve your chances of participating in market gains and lessen the impact of poor-performing asset categories on your overall portfolio returns.

DIVERSIFICATION TO PROTECT AND GROW INVESTMENTS

Diversify, diversify, diversify – in other words, 'don't put all your eggs in one basket' – is sage investing advice. In addition to diversifying your portfolio by asset class, you should also diversify by sector, size (market cap), and style (for example, growth versus value). Why? Because different sectors, sizes and styles take turns outperforming one another. By diversifying your holdings according to these parameters, you can smooth out short-term performance fluctuations and mitigate the impact of shifting economic conditions on your portfolio. ■

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TIME TO REACH YOUR FINANCIAL GOALS?

There's always a purpose behind financial investments. What's yours? For many of us, building a nest egg feels like a natural thing to do. Perhaps it's performance. Or preserving your wealth for the next generation. Or maybe you want your investments to reflect your values. What's important is that you understand your situation and your financial goals. To discuss accessible ways of investing that could help you make your money work harder, please contact us.

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