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How to optimise your finances

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Below you will find six steps you might take in order to effectively ‘own the world’. Please follow each of them in order. Ideally you will complete each one before moving to the next.

1. **PAY OFF ANY DEBT**
   This is a crucial first step before you start investing. There is no point investing money until you have cleared any expensive debt you might have.

2. **‘RAINY DAY’ CASH**
   Another thing you need to do before investing is save up a pot of cash. Most experts suggest anywhere between 1 and 6 months of salary.

3. **REGULAR INVESTMENT**
   In this section we look at the advantages of investing regularly and how you can find the money to do it.

4. **USING YOUR ISA**
   In section 4, we look at how to use a best in class ISA account to implement this investment strategy, no matter what the economy is doing.

5. **PRECIOUS METALS**
   Over time, gold and silver should be a key part of everyone’s portfolio. Here we show you several ways to own them.

6. **RE-BALANCING**
   This final section deals with a few housekeeping issues such as how to re-balance and what to do if you already have a lump sum to invest.

Next Page
A note before we begin...
4. USING YOUR ISA — Tax-free growth

Getting started
Once you know how much you are going to allocate to ‘owning the world’ and to cash, you will want to open a stocks and shares ISA account with a top-quality stockbroking company.

I have written elsewhere about why it is crucial to use a stocks and shares ISA, NOT a cash ISA. (In a nut-shell – this is because cash ISAs almost certainly return less than real inflation, so you make no actual forward progress at all financially if you use them. Please do read these two articles on our website if you want to understand this in more detail):

• The UK’s number one finance blind spot
• The “twelfth 12th” of your 2017/2018 ISA

In terms of firms who offer a stocks and shares ISA, there are many that you might consider using. My favourite is the multi-award-winning Hargreaves Lansdown. I use them myself, quite simply because they have the best customer service of any company I use for anything in the UK (e.g. vs. British Airways, EDF, O2, Apple – you name it – HL are in a league of their own). Some people think they are a little expensive so there are plenty of other good options these days. This is a solid recent article on the subject which might help you choose if you would prefer to use someone other than HL.

Do ensure, however, that whichever firm you chose offers you the option to invest in a wide range of funds and stock market investments and that they offer the capability for you to invest regularly by direct debit (more on this below). This is very important in my opinion.

Once you set up the ISA account you are simply going to:

01. Set up a direct debit for whatever you have decided you can afford to invest each month.

02. Instruct your stocks and shares ISA provider (e.g. Hargreaves Lansdown) to pay a certain amount of that debit each month into a fund or funds that will help you to ‘own the world’.

03. Keep a certain percentage in cash in your ISA account.

Whether you buy one fund or more than one fund each month will depend on how much money you have, and which specific funds (or investments) you buy will depend on some decisions you make after you have read to the end of this section.

As a reminder – there are three reasons that I suggest that you might keep a certain amount in cash each month: First, cash cannot fall in (notional) value. (“Cash doesn’t crash” - the only risk to cash is inflation eating it up). Second, it is always good to keep some cash available in order to take advantage of investment opportunities that might arise in future. Third, you also need to hold cash to be properly diversified. To be clear, it is probably easiest to hold this cash in your ISA account.
“OWNING THE WORLD”

By now you should be well and truly up to speed on why you might want to do what we call ‘owning the world’ – i.e. why you will ideally look to own a good range of assets with truly global exposure. If you have already read ‘How to Own the World’ or some articles on our website, you might already have an idea of how it might be possible to do this...

Today you can buy a ‘tracker’ or ‘index fund’ for a vast range of different types of assets (assuming, of course, that you have an ISA provider that offers such a range – which you will by having an account with someone like Hargreaves Lansdown of course!).

One method you might use, therefore, would be to buy one fund for each geographical area and one or two for each asset class. You could buy a FTSE 100 tracker to own UK shares and an S&P 500 tracker to own the US for example. You might then do the same for Europe, Asia and Latin America and in order to get exposure to the real estate, commodity and bond markets.

The problem with this approach as you may realise is that it can only really work if you have a reasonably significant amount of money to invest and a great deal of time to spend on your investments. This is because every time you buy a financial product, you pay a fee. To get a truly global and diversified asset exposure this way will obviously require you to buy a large number of funds (in my book I show how you would probably want more than twenty). This is expensive (likely prohibitively so) but also a real pain to administrate and keep on top of (not consistent with our “keeping it simple” ambitions).

ONE FUND?

I would argue that a more suitable and elegant method then is to look for one fund or a small number of funds which give you as much of the sort of exposure you are looking for as possible but keeps things simple administratively and your trading costs down.

Folks who have followed us for a while will know that in the original version of this document (written in 2014) I talked about how there were a fair number of different ways these days that a person with a good understanding of financial products in the UK market could get this sort of global, multi-asset exposure.

In the intervening time since then, I am delighted to report that we have managed to launch our own fund informed by this world view.

An example of how you might open your ISA

<table>
<thead>
<tr>
<th>Which stockbroker?</th>
<th>Hargreaves Lansdown (HL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which ISA should I open?</td>
<td>Vantage Stocks &amp; Shares ISA</td>
</tr>
<tr>
<td>Difficulty to open account?</td>
<td>Easy (5-10 minutes)</td>
</tr>
<tr>
<td>Method of funding:</td>
<td>Monthly direct debit</td>
</tr>
<tr>
<td>Maximum investment each month:</td>
<td>£1,666.66</td>
</tr>
<tr>
<td>Examples of funds you might consider:</td>
<td>7IM / Fundsmith / smart beta / investment trust funds / VT PEF GMAF</td>
</tr>
</tbody>
</table>

100 tracker to own UK shares and an S&P 500 tracker to own the US for example. You might then do the same for Europe, Asia and Latin America and in order to get exposure to the real estate, commodity and bond markets.