For educational purposes

Taking action

My financial confidence workbook

"The most difficult thing is the decision to act, the rest is merely tenacity."

Amelia Earhart, American aviation pioneer and author (1897 – 1937)

My name

Why am I doing this?

“There is no elevator to success.
You have to take the stairs.”

Zig Ziglar, American author (1926 – 2012)

This book is based on…

35+
research reports to ensure methodological soundness

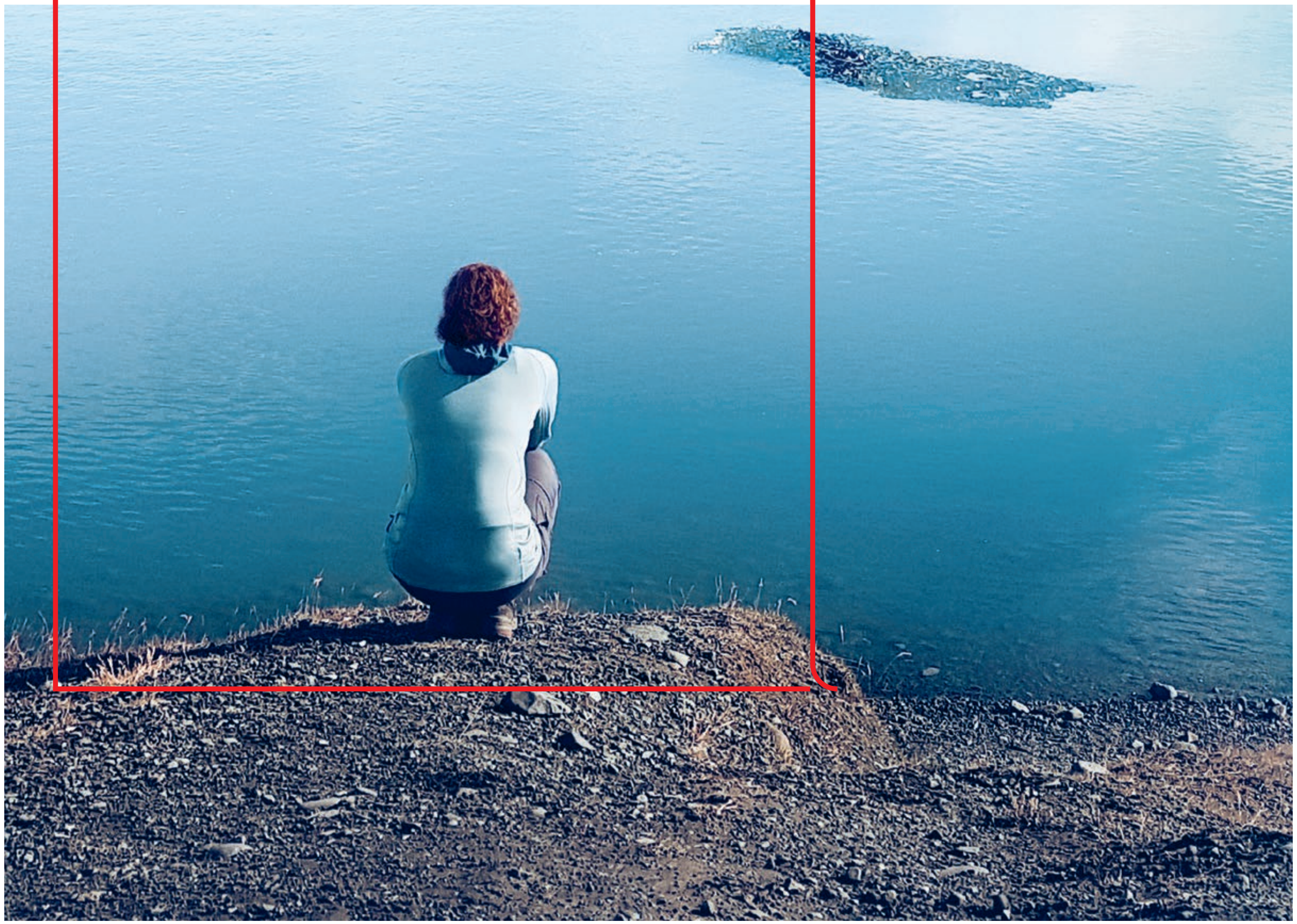
120+
passionate co-creators who gave us valuable feedback

17
financial specialists who provided expert insights

600+
days of researching, collaborating, writing and designing

What's inside?

Part 1: Getting started



How this workbook came about

Every journey starts with a single step. Ours was to work out what financial confidence really means.

As days of research turned into weeks and months, we realized something: almost everyone we'd spoken to said the same thing:

"I want to get more involved in my finances. Where should I start?"

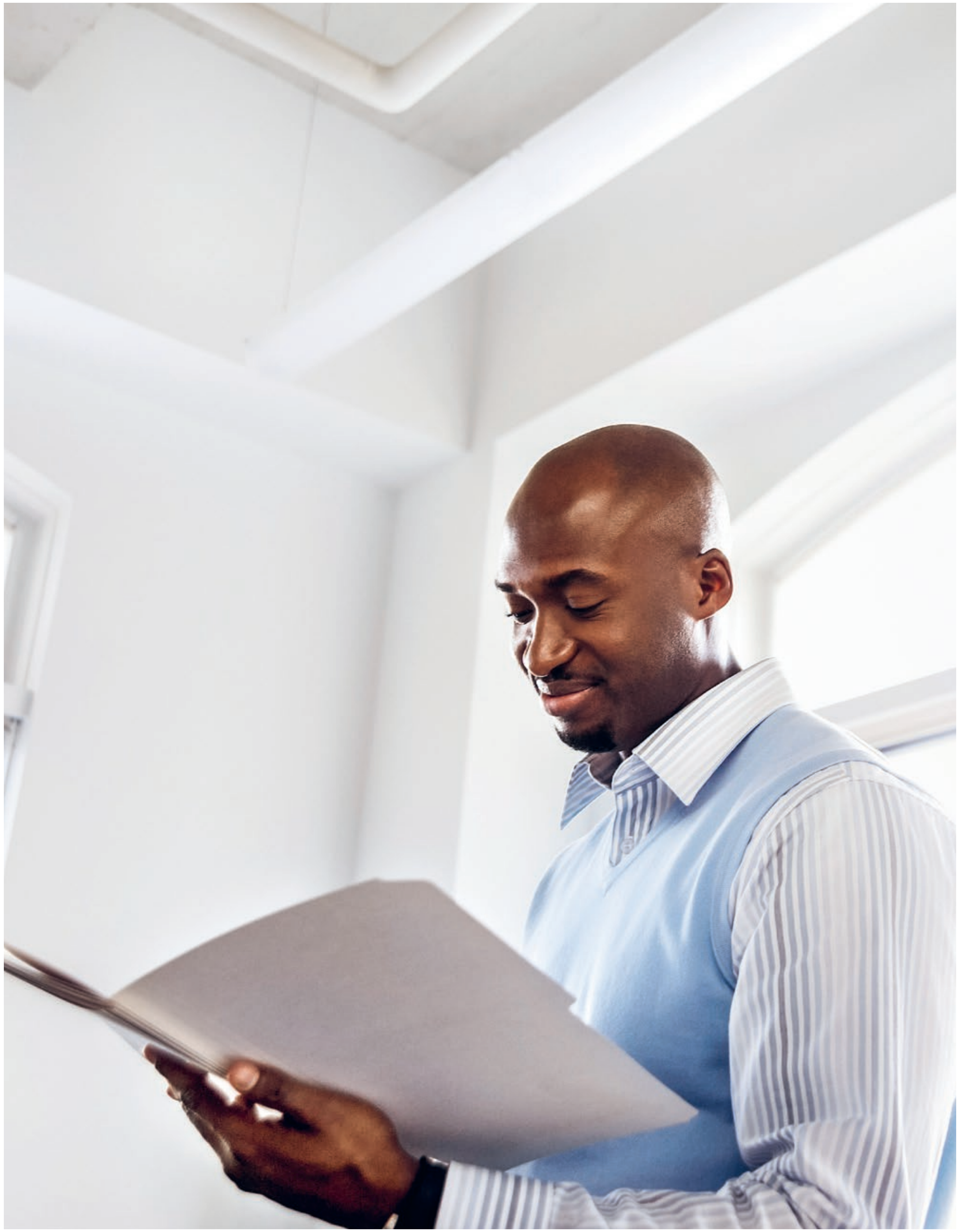
It's a good question. Because, too often, financial topics read like they're written in secret code. Take the jargon, for instance. Deciphering it takes time and effort, and can leave you feeling frustrated and inadequate. What good are financial solutions if you can't make sense of them?

Fortunately, if you peek behind the curtain, you'll find everything's a lot simpler than it seems. And you don't need to know all the technical stuff to get the most out of your money. The most important thing is to feel confident – confident about acting on what you know, asking questions about what you don't, and getting expert help if you need it.

That's why we wanted this workbook to speak a language everyone understands. You'll find lots of tips on getting started. You'll also find insights on making the most of your finances for the rest of your life. And if it does get a bit technical in places, you'll find it's all clearly explained in relatable ways.

Most of all, we hope this workbook gives you the confidence to dive into your finances, quiz the experts or professional advisors and, ultimately, feel good about your money and what it can do.

What better place to start?



"We hope this workbook inspires you to improve your life and realize your dreams by taking control of your money."

How to use this workbook

Money brings you the essentials in life like food, shelter, clothing and education. But it can do so much more. It can also buy you the freedom to do what you've always wanted. Start a business. Explore the world or change the world. Make a difference.

In short, money is a precious tool. So you need to manage it carefully and confidently.

This workbook will help you do just that. To make things easy, we've split it into five parts:

1. Getting started
2. Money matters
3. Investing with a gender lens
4. Let's go
5. Your financial journey guides

Parts 1, 2 and 3 give you the facts about taking control of your money. In part 4, you can explore how financially confident you are by taking an assessment. And when you're ready to dive deeper, you'll find lots of useful information and suggestions in part 5.

Feel free to go through these pages in any order you like. Start from the top. Head to the middle. Or jump straight to the financial facts. Whichever way you go, you'll emerge more confident about your money – and excited about the opportunities it brings.

So sit back, relax and have fun with this workbook. And when you've finished, remember to celebrate. Because you've just taken a bold first step towards achieving your goals.

Ready? Let's go. We're with you all the way.

Taking control: Why it pays to start early

Getting where you want to go in life usually takes time and money. And it's never too early to start growing the finances you need to reach your goals. Especially in times of low interest rates, where finding good returns on your savings can be tricky. But the earlier you start investing, the more chance your money has to grow.

That's down to the power of 'compounding', where an investment's value increases more and more rapidly over time. How does it work? The original investment earns interest – and so does the interest that's already accumulated. So your wealth grows faster as time passes.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it… he who doesn't… pays it."

Albert Einstein, German-born theoretical physicist (1879 – 1955)

Interview with Jean Nehme

Believe in yourself

Dr. Jean Nehme

According to a report by The Lancet[1], five billion people don't have access to safe operations; and patient outcomes vary depending on the surgeon's knowledge. Former surgeon, Dr. Jean Nehme, founded his company – Digital Surgery – to address the problem using virtual reality and artificial intelligence.

Millions downloaded the company's Touch Surgery app – an interactive simulator that enabled surgical staff to practice procedures.

Dr. Nehme has won multiple awards for researching and applying innovative surgical technologies and simulations; and was named by Debrett's (a professional coaching company) as one of the most influential 500 people in the UK.

At a time when healthcare is facing many global challenges, Dr. Nehme believes technologically-advanced solutions will give everyone access to safe surgical care.

1 Global access to surgical care: a modelling study, The Lancet, 2015

What does it take to start your own business? How can you secure the funding it needs? And what if you want to move on to pastures new? Jean Nehme, former surgeon and founder of health technology company, Digital Surgery, explains how becoming an entrepreneur changed his life for the better.

How did it all start?
I had a pretty humble upbringing in a family with four other siblings. Wealth for my parents meant being healthy, intellectually curious and a positive contributor to society. They wanted us to work hard and persevere, no matter what. I observed my father solving problems and working to understand what people needed. That's something I absorbed over the years growing up.

Working hard at school was a given and my siblings pushed me too. I've always been a focused student, seeking the most challenging educational opportunities. For me, that was medicine and, eventually, plastic surgery.

Underlying all this was a sense of responsibility to do the right thing, and a goal to make a difference for others. As a doctor, I discovered I could help people in a one-to-one way – which is one of the most satisfying things you can do.

Why did you become an entrepreneur?
I was doing well professionally and enjoyed my research in plastic surgery. But I felt I needed to make my skills accessible to more than just one person at a time. So I applied for an 'accelerator program' (programs that provide entrepreneurs with funding, advice and support) in the US.

With that, I moved from medicine to business. Eventually, the services I developed with my business partner and friend found their first clients.

It was an exciting experience. We'd gone from building things to building a business. We also had to learn to code the applications we needed, while developing our product.

What were your experiences of securing funding for your business?
At first, we were paranoid that someone – including the venture capitalists we spoke to – would steal our idea. So we would only tell them half of our story.

Over time, we learned from their questions and rejections. Too many business founders aren't completely convinced of their idea and vision. They face obstacles, hear about other ideas, get rejected by investors – and give up. The trick is to persevere.

We also learned that a big, detailed presentation alone wouldn't sell our idea. We had to learn to communicate complex ideas clearly to people who weren't experts. Over time, we became better storytellers.

To others seeking funding for their business, I would say, keep going. Eventually, one investor among a thousand will 'get it'.

What did you learn as an entrepreneur?
I had to totally adapt my thinking to running my business sustainably. It's vital to generate cash flow, otherwise it's a charitable effort.

Also, compared to Europe, more people in the US expect to pay for services – especially healthcare services. So to do more good, we needed to demonstrate our product's value through sales.

Why did you decide to sell your business?
After raising a lot of funding and debt, we came to a point where we could either raise more money or sell the business.

But selling meant finding a buyer who shared our vision. We also wanted a buyer who could grow the business more significantly and quickly than us. Once we saw this was possible, we decided to sell.

How has your life changed since?
The money enables me to do the things I enjoy, like spending more time with the people I love. It also allows me to solve more problems for others, in the years I have left. So, working with likeminded partners, I'm focusing on making technologies that improve people's health.

For me, building things and investing are the same. I'm not planning to just invest and sit passively on company boards. Entrepreneurship is a full-time job – and investing should be the same.

How would you like to be remembered?
I want to keep working to make things better, and help people get more time with their loved ones. It would be great if people said I improved their lives in some way.

What is financial confidence?

We believe it's three things:

Awareness

Knowing how your finances, goals, beliefs, decisions and actions can interact and affect your life.

Expertise

Understanding financial topics – theoretically and practically – to help you decide what's best for your money.

Trust

Trusting financial advisors and companies to have your best interests at heart.

The main question for many people we spoke to was:

"Where do I start?"

Having the confidence to take the first step seems to be the biggest hurdle. This workbook aims to address that.

We asked hundreds of people what they thought it takes to feel financially confident. We discovered it's not really about knowing all the technical stuff, like the finer details of markets, assets and trading. That's 'financial literacy', not financial confidence.

The feel-good factor of financial confidence comes from knowing 'enough' – enough about your financial situation and goals; enough about the experts and professional advisors to approach; and enough to know which questions to ask them. And with that knowledge comes trust – trust that the answers and advice experts and advisors give you are in your best interests.

Take your health, as an example. If you needed to see a medical specialist, you wouldn't study for a medical degree before booking an appointment.

You might ask around for recommendations. And if you knew you had a particular condition, you could look into how it might affect you.

This would also help you work out some questions to ask the specialist. Then, because you know more about the condition you're dealing with, you're more likely to trust the specialist and feel confident in their advice.

Replace the words 'health' with 'money' and 'medical specialist' with 'financial advisor'. The message still stands.

Interview with Paul Donovan

Confidence is key. It motivates us to get up and go for our goals, like choosing a career or launching a business. But that's just the start. Along the way, we may encounter obstacles that seem beyond our control, like bias and prejudice. With confidence, we can challenge and overcome them – knowing that what makes us different makes us stronger…

Profit and prejudice

Why replacing falsehoods with facts profits us all

Prejudice benefits no one. But just how harmful is it to societies worldwide? And what are the economic arguments for overcoming it? Paul Donovan, Chief Economist at UBS Global Wealth Management – and author of 'Profit and Prejudice: The Luddites of the Fourth Industrial Revolution' – explains the facts and fictions of discrimination.

What inspired you to write the book, 'Profit and Prejudice'?
I was writing about the effects of prejudice on workforce productivity and economic growth. That initially sparked my interest. Then, one weekend, I was sat at home listening to a radio debate on the economics of marriage equality. What I heard made me choke on my tea in disbelief.

So I wrote and published an article about the topic, which naturally focused on prejudice. From there, I really got involved in the debate. This exploded into a commitment that saw me spending five years researching the book. I remember a colleague asked me how the book was progressing. I said, "I've just spent two weeks researching nineteenth century brick-making techniques, and that's boiled down to two lines in the book." But that's the nature of the topic – it's vast and covers so many different areas, like society, economics and psychology.

How do you define prejudice?
There are two definitions. First, discrimination in an economic sense, is simply choosing one thing over another. As long as it's a rational choice, it's fine. But an economic definition of prejudice is '*irrational* discrimination'. For example, someone might say they don't want to hire a candidate because they don't like their religion, gender, sexuality, hair color or whatever. That form of prejudice is economically destructive because it potentially dismisses the right person with the right skills for no rational reason.

More broadly, irrational discrimination sees people treating others as less than themselves – or worse, less than human.

What do you think are the most dangerous forms of prejudice?
A particularly dangerous form is one that creates what economists call an 'unstable equilibrium'. The 'equilibrium' in this sense refers to what society agrees is socially acceptable. While society is at that equilibrium, prejudice is held in check. But if something shifts society away from that equilibrium in the direction of prejudice, it's very hard to go back.

For example, someone may express prejudice then say, "It's just a joke, don't you have a sense of humor?". That kind of acceptance can rapidly descend into outright racism. Once society's on this slope, it's very hard to avoid sliding into the abyss.

Another form of prejudice is 'rule-of-thumb', which is often based on stereotypes. It's damaging because it's so common. In the book, I used the example of the nineteenth century stereotype that Irish people are lazy and shouldn't be hired as servants. If you're inundated with applications, being able to eliminate a big chunk of them seems like a simple solution. But I think this type of prejudice can be overcome by pointing out to people that they're being ridiculous.

How does prejudice harm society economically?
There are two aspects here. The first involves inclusion. In these times of structural change, economists don't really care about technology. What matters is how people use it. That's where the economic value comes from. But using technology in a way that brings most economic benefit means hiring the right people for the job. Failing to do that – being irrational when hiring – misses opportunities. For example, had Germany not employed Turkish-born medical researchers (as a result of anti-immigration prejudice) it might have cost the world a new coronavirus vaccine. So that's an obvious cost.

The second aspect deals with diversity. If a business has just one kind of culture (sometimes called a 'monoculture'), there's no diversity of thought, and the company's decisions will be flawed. Diversity enables companies to consider opportunities, problems and risks – which are more prevalent in times of change – from all possible sides.

But there are dangers in having a superficial tick-box approach to diversity. For example, Norway introduced a gender diversity requirement that increased the number of women on corporate boards. But many of the women sat on multiple boards and shared similar social backgrounds to their male colleagues. So while the boards were diverse on paper, there was not as much diversity of thought in practice.

In your book, you talk about the world's three previous industrial revolutions – steam, electric and computer. How would you define the 'fourth industrial revolution'?
It's primarily about automation in business, involving technologies like artificial intelligence and robotics. Communication is also a big part of it.

The first revolution took self-employed rural homeworking people and put them in an urban factory system. They were no longer relying on local produce. Instead, they depended on complicated supply chains for food and the things they needed.

Now, the fourth industrial revolution is in many ways reversing the social changes of the first. Local production, homeworking and self-employment are becoming more common. People once bought compact discs made in China. But now they stream music direct to their devices. So it's removed manufacturing and made the 'production' of music local.

For communication, there's something of a democratic revolution. Making media is accessible to almost everyone. Anyone with a YouTube channel can become a film star. The changes are dramatic – and from an economic perspective, very exciting.

What positives and negatives do you see arising from the fourth industrial revolution?
A lot of the positives are to do with efficiency and improving people's living standards, while doing less damage to the environment. Ultimately, we'll have a more efficient economy because we're using resources more efficiently, for example, producing goods locally. And more people working from home will mean fewer offices, less equipment and reduced commuting.

The problem is that we're talking about considerable economic upheaval. An industrial revolution is what it's called – a revolution. It turns society upside down. The robots won't take over. There will be plenty of jobs in the future. But some will lose their jobs; or they'll keep their jobs and earn less in lower-status roles.

There will also be new roles requiring skills that those who've lost jobs lack. Many will struggle to adapt to the new circumstances. All this encourages prejudice and inequality. There's a risk of a disillusioned class emerging that sees its status, income and jobs disappearing. That could lead to social, political and economic problems.

"There's a risk of a disillusioned class emerging that sees its status, income and jobs disappearing. That could lead to social, political and economic problems."

Why did you use the term 'Luddite' in the book's title? Are you drawing historical parallels with the Luddites from the nineteenth century – English workers who destroyed machines that threatened their jobs? Or are you referring more generally to prejudiced people who fear change?
Both. In the first industrial revolution, Luddites were trying to destroy a new technology – weaving looms – that were transforming the economy. But they were also attacking minority groups, so they were certainly prejudiced.

In the fourth industrial revolution, I think people – or what economists call 'human capital' – will transform the economy. Today's prejudiced 'Luddites' are trying to destroy human capital where once they destroyed physical capital.

Prejudiced people resist change and progress. They have 'restorative nostalgia', which involves believing everything was better in the past, and wanting to return to those times.

Do you have any sympathy for 'Luddite' fears?
People cling to the simple ideas of prejudice. However, we live in a complex world covered by a thin veneer of simplicity. For example, washing our clothes seems simple. We put them in a machine, add detergent and press a button. But how many can explain in detail how a washing machine actually works? It's complex.

The forces that cause people to lose their jobs are complex too. The simple veneer manifests as, "It's not my fault I lost my job – it's the fault of those people over there. Let's stop migrants arriving and women working, and everything will go back to the way it was." None of those opinions are valid but I see why people are drawn to them.

In the book, I tell the story of my great uncles. They were East London dock workers in the 1930s, when complex global forces cost them their jobs. According to family legend, they joined the British Union of Fascists (BUF).

Why? Because the BUF leader was telling them, it's not your fault – it's the fault of Jewish immigrants. They're the ones stealing your jobs, raising rents and increasing prices. When researching accounts from BUF members, I sensed they experienced a strong feeling of community. Because the BUF was telling them they were superior, it bonded the members as a group in a time of upheaval. That's seductive. We're still seeing that kind of mentality today.

Does being an economist make it easier to fight prejudice with facts?
Yes, the fact-based objectivity of economics is one of the profession's great triumphs. Unfortunately, if I go on social media and present fact-based arguments against, for example, Bitcoin's potential as a currency, there's a backlash. Rather than people saying I think you're wrong and here's why, the comments are usually things like, you're a dinosaur, you're corrupt – it's knee-jerk emotional stuff.

Posting a chart that shows immigrants are good for the economy isn't going to convince anyone on Twitter. Economists must get better at telling stories people can relate to – 'narrative economics'. Facts can prove what's right. But only by connecting emotionally will we win people over.

How can we solve gender prejudice in the workplace?
I think larger companies need to lead the way on this, because they have the resources and opportunities to do so. Female role models in business are important because they inspire others to aspire and progress. Without them, there's a risk that employees become disillusioned. Mentoring and reverse mentoring (senior staff learning from junior employees) are also useful approaches.

But efforts need to go beyond the workplace. Take the example of a woman who needs to leave a work event early in the evening to relieve the babysitter, then misses out on important discussions later. I think that needs to change. Why is a company conducting business this way, and not more equally?

We also need to challenge social norms. That's starting to happen. I have female friends who are the main wage earners while their male partners are the principal child carers. But in my generation, that's the exception, not the norm. We need to think about how we change and adjust.

How can we fight prejudice individually?
Challenge yourself. Stop and think. Recognize that if you're feeling a little uncomfortable, there's something you need to consider and correct. And challenge others respectfully, particularly when they express those subtle "it's-a-joke" kind of prejudices. If you make people feel too uncomfortable, they put up barriers and their prejudice becomes entrenched. But making people feel a bit uncomfortable encourages them to reflect on their prejudices.

We also need to engage. I talk in the book about 'parasocial contact theory'. The theory proposes that knowing someone from a different group makes it more difficult to be prejudiced against that group. Today's diverse media can also help. For example, following a YouTuber who happens to be gay may change someone's views on sexuality. There's a big opportunity, especially among the younger generations, to better understand others. It helps us realize that other groups aren't less than us – they're the same as us.

Sadly, we'll still have extremist groups dehumanizing people on social media. But generally, every successive generation is becoming less prejudiced. This fact, combined with increased parasocial contact, more diverse social media, and the positive role of large companies, makes me optimistic for the future.

Author royalties for 'Profit and Prejudice: The Luddites of the Fourth Industrial Revolution' are being donated to charity.

Five big takeaways

1. **Economically unsound.** Dismissing potential candidates due to 'irrational discrimination' is economically destructive because it means overlooking people with the right skills for jobs.

2. **"It's just a joke."** Accepting prejudiced statements as throwaway or amusing comments can see society slip into outright racism. Statements based on rule-of-thumb stereotypes are also damaging but more easily challenged.

3. **Adapting to change.** The fourth industrial revolution should create more jobs and improve people's living standards, while doing less harm to the environment. But some will lose their jobs, or see their income and status fall. This could lead to social, political and economic challenges.

4. **Putting people first.** Beyond technology, people (or what economists call 'human capital') will transform the economy. Today's prejudiced 'Luddites' try to destroy human capital where Luddites from the nineteenth century once tried to destroy the technologies that threatened their jobs.

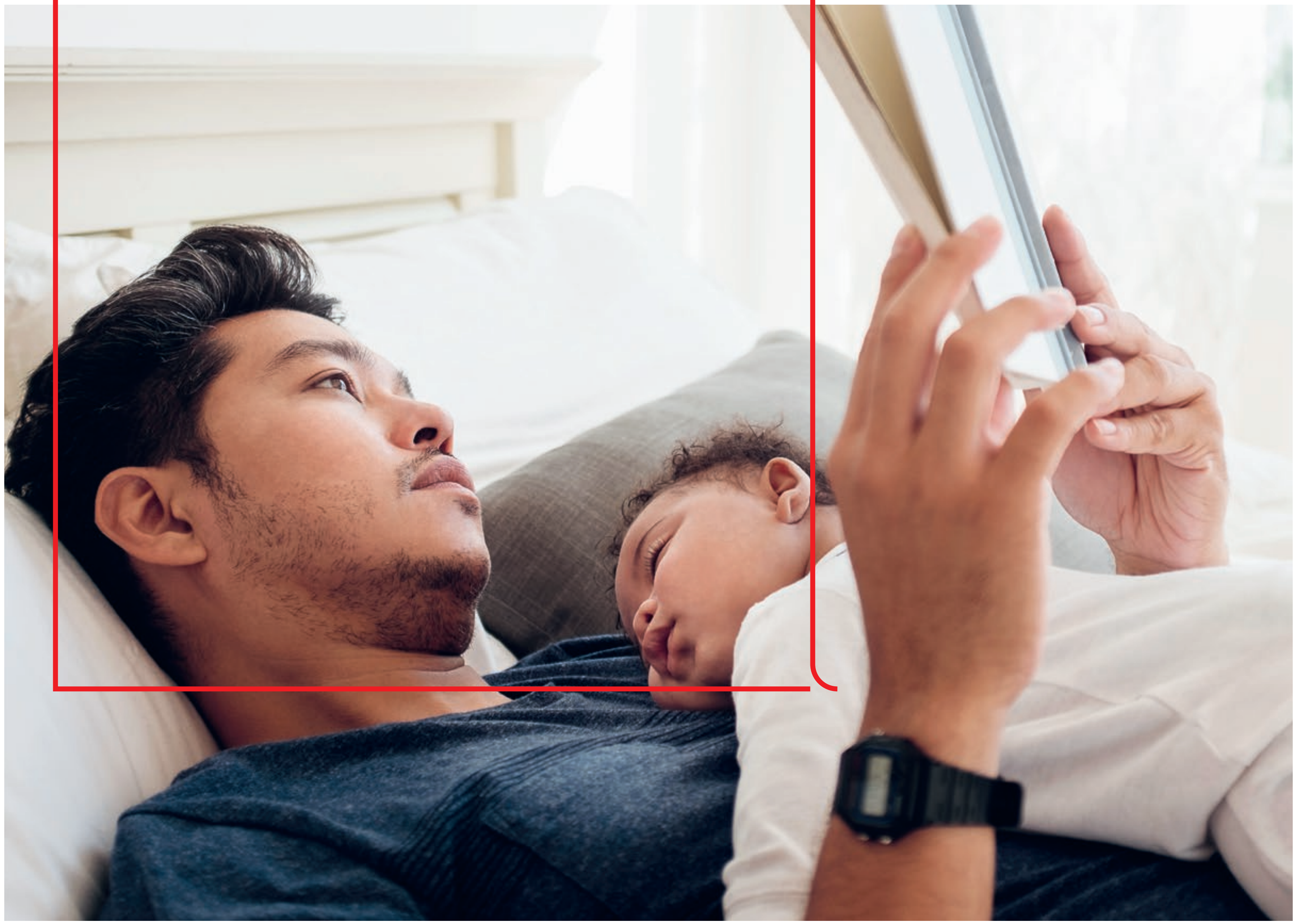
5. **A bright future?** Younger, less prejudiced generations; engaging more with people from other groups; diverse social media; and the positive role of large companies may lead to a more equal future and stronger global economy.

Let's recap

Financial confidence drives us to learn more about money and making it work for us. But more generally, confidence makes us more comfortable in our own skin. The result? We're better placed to appreciate our individuality, challenge prejudice, and recognize that diversity makes for better societies, economies and businesses.

The next chapter focuses on the building blocks of financial confidence – guiding you on assessing your goals, situation, attitude to money and feelings about risk. It also demystifies investing, exploring the many ways you can put your money to work.

Part 2:
Money matters



“Money is your independence,
it’s how you can be free to do
what you want to do in your life.”

Mona Sutphen
White House Deputy Chief of Staff
2009 to 2011

What are your goals?

Life's goals come in all shapes, sizes, times and places. For example, to maintain your lifestyle over the short term, you might want to build some savings in case you're ever out of work. Or in the longer term, you may want to buy a holiday home. And how about empowering your money to do good in the world, beyond your lifetime?

It's important to work out how much money you need to live comfortably, how much you need to invest towards achieving your lifelong goals, and even what you want to leave your loved ones and the world.

Ask yourself these questions:

1. **What do I want to achieve and by when?** And how much will my money need to grow to do it?
2. **What do I already own (assets) and owe (liabilities)?**
3. **How much readily available money (liquidity)** do I need to put aside for everyday spending, unexpected events and emergencies?
4. **How much money do I have left to grow by investing?** You can work this out by subtracting your liabilities from your assets.
5. **How much might I be able to save and invest** in the future?
6. **How do I feel about the risk of investing** (the chance I might lose money)? And how much risk am I prepared to take to grow my money? See page 36.

> "If you don't know where you're going, you'll probably end up somewhere else."

Laurence J. Peter,
Canadian educator (1919 – 1990)

> "When you know better, you do better."

Maya Angelou, American civil rights activist (1928 – 2014)

How much can I invest?

The finances you can use to invest are sometimes called 'free assets'. They are all the liquid (quickly and easily accessed) assets where you don't need to pay back a liability (like a mortgage) or use the money for something else in the future.

Example: What's my free asset ratio (how much do I have available to invest)?

+	1 Liquid assets	100
–	2 Current and future liabilities	30
=	3 Free assets	70
Free assets ratio:	3 divided by 1	70%

What I own (assets)

1 Liquid assets
For example, cash in your accounts, or bonds, shares and other assets you can access and sell easily.

Non-liquid assets
Assets that are harder to sell, such as real estate, term deposits, or assets held in retirement funds.

Other assets
For example, cars, art, jewelry and other valuables.

What you owe (liabilities)

2 Current and future liabilities
For example, mortgage, credit card repayments, or planned expenses like vacations and education.

3 Free assets

Mortgage that's not being repaid periodically over time (amortized)
For example, a mortgage that you'll pay off with one lump sum in the future.

This overview can help you assess your overall financial situation. You can also complement it with a detailed budget plan on page 100.

What's your financial personality?

Are you afraid to take risks even when they might work in your favor? Or are you happy to throw caution to the wind without worrying about things going wrong? Your financial personality can play a big role in the investments you choose.

So, what's yours? And how might it affect your wealth?

Your financial personality covers your attitude to investing. Some people are financial daredevils, willing and able to risk losing money for the chance of high returns. Others struggle to sleep knowing they're risking their hard-earned finances. For them, the opportunity to grow their money just a little is a fair price for peace of mind.

You can find lots of financial personality tests online. But perhaps the most accurate way to discover yours is to meet a financial advisor. If they're reputable, they will have the experience and tools to work it out for you, in fact in most countries, they are obligated to assess your 'risk profile'.

Here are three aspects that define a financial personality. How do they fit with your feelings about investing?

Make some notes. They might surprise you…

Loss aversion

How willing and able are you to lose money in exchange for the chance of growing it? Someone with a high loss aversion would rather avoid investments that could lose modest amounts of money – even if they might deliver big returns. They may also avoid investments that can fluctuate wildly. At the other end of the spectrum are those with a low loss aversion. They're keen to receive big returns and don't mind if there are bumps in the road on the way.

These are just a few aspects of your financial personality. You may also want to think about your **'liquidity preference'**. This is how much you prefer your wealth being readily available to you, rather than tied into longer-term investments. They say good things come to those who wait, and this is often true of investing. You can usually expect to be compensated if you're prepared to lock up your money for longer. But some don't like the idea of not being able to quickly access their funds.

The more you understand your financial personality, the better your chance of planning your wealth in the right way.

Uncertainty aversion

Are you willing to take plenty of risk when you're fairly sure about the chances of losing or gaining money? That's low uncertainty aversion. Or are you less comfortable about investments where you can't be sure of the outcome? This means your uncertainty aversion is probably at the higher end of the scale.

Investment temperament

While some investors are happy to jump on an investment rollercoaster, others prefer a smoother ride. How willing are you to choose investments where the returns might vary widely? How would you react to an investment losing more money than you're comfortable with? Would you panic? Or ride it out, hoping it regains its losses in time?

“Sometimes the riskiest decision you can make is to do nothing.”

Richard Branson
English business magnate

What about risk?

Risk when investing is all about the chance of growing your money – at the risk of losing it.

When investing, there's no reward without risk. Generally, the more risk you take, the more your money may grow in the long term. But it might also fluctuate strongly in the shorter term.

In the financial world, this link between taking risks and gaining returns is called a 'risk-return trade-off'. Knowing your goals will help you work out how much risk you're prepared to take – and how much risk you'll have to accept to get the return you want.

Different types of investment risks

1

Specific risks – affecting individual investments, such as a shareholding in a single company.

Business risk
The risk of losing money because a company you've invested in may run into trouble.

Credit risk/counterparty risk
The risk of losing money because a counterparty can't or won't meet its contractual obligations.

Liquidity risk
The risk of losing money when assets become 'illiquid' (difficult to access and sell). Remember, some asset classes are less liquid than others, like real estate.

Currency/exchange rate risk
The risk of losing money because currencies you're invested in are devalued.

Sustainability risks
Sustainability risks are financial risks that are defined as environmental, social or governance (ESG) events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment.

2

Systematic risks – affecting the whole investment market

Market risk
The risk of losing money due to movements in market prices.

Economic risk
The risk of losing money due to changes in the macroeconomic environment (major movements in national and global economies).

Political risk
The risk of losing money due to changes in the political environment, for example, a government introducing regulations unfavorable to your investment.

What to invest in?

When you invest, you put your money into assets, each with different potential risks and rewards. If you're looking to invest, you may come across the term 'asset class'. This refers to a group of investments that are similar to each other and behave in similar ways.

Here are some of the main asset classes.

Liquid assets
These are the most liquid (easily and quickly accessed) types of investments. They're generally considered to be the safest investments. Examples of liquid assets include term deposits, certificates of deposits, government bills, commercial papers and money market instruments.

Fixed-income investments
Fixed-income investments are a type of loan that pay you interest periodically and repay you on a future date. A bond is the most common type of fixed-income investment. They generally involve lending your money to a private (company) or public (government-related) organization.

On a future date (maturity), the bond provides you with its value (also called principal, paramount or face value). It also pays you fixed or variable interest payments (also called coupons) while it's running.

Typically, the more likely it is that the organization issuing the bond will default (can't repay you the bond's value or interest), the higher the interest rate you'll receive.

Equities
Equities are also called stocks and shares. Put simply, they're individual chunks of a company's value. Owning them makes you a part owner of that company. So technically, equity/share/stock holders have a claim on a company's assets and earnings – and they usually have the right to vote on corporate decisions at shareholder meetings. Share values are based on a company's future expected earnings and the value of its assets.

Commodities
Commodities are basic goods and raw materials that companies typically use to produce other goods. They're usually categorized in four groups: energy, precious metals, industrial metals and agriculture. Investors generally trade them on stock exchanges using contracts (also called futures). These contracts state that the investor promises to buy or sell the commodity in the future for a specified price.

The contracts allow investors to try to benefit from changes in commodity prices, without even needing to physically see or touch the commodity. However, investors can physically store some commodities – like gold and other precious metals – if they wish. Commodities don't pay investors income or earnings. Investors only potentially gain from price changes.

Real estate
Real estate investments relate to owning physical property and the rental income from it. They're usually categorized into commercial and residential properties. To keep things simple, people generally invest in real estate by putting their money into portfolios with money from lots of different investors (commingled or pooled investment vehicles, such as funds, partnerships and trusts). This allows investors to spread their money across several different properties.

Alternative investments
Alternative investments usually sit outside conventional investment categories like equities, fixed income and cash. Their risks and performance depend on the involved managers' investment skills and expertise, while their liquidity (ease of accessing the money) is generally lower than for conventional investments.

Hedge funds are pooled investments that invest across different assets, such as equities, commodities, currencies and fixed income. Generally, they give investors the opportunity to grow their money regardless of whether markets rise or fall. Hedge funds managers apply different strategies, and the funds are categorized according to the asset classes they invest in (such as equities and bonds), geographies, investment themes, and strategies.

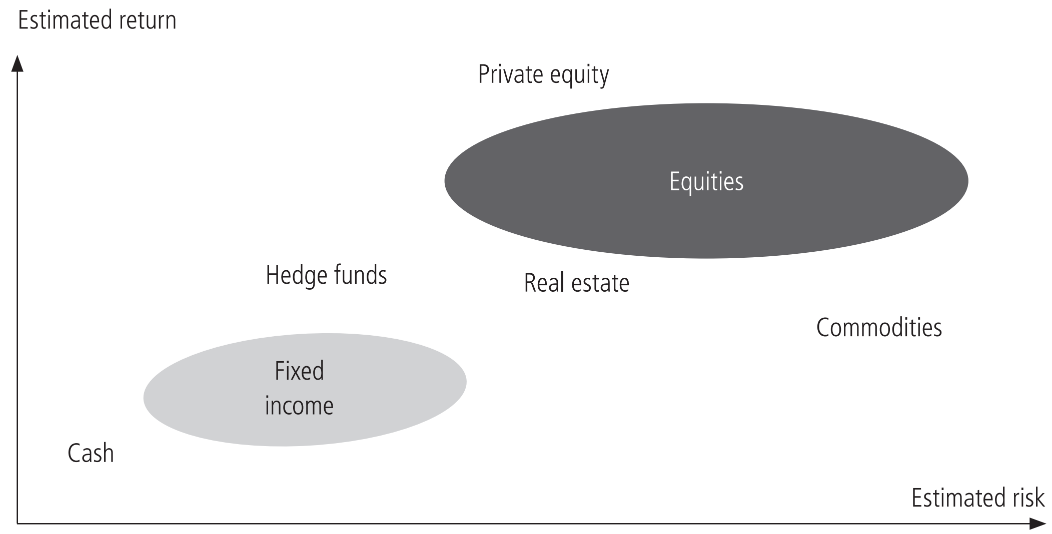
Private equity (PE) is an actively managed illiquid (not easily converted into cash) investment strategy. Typical PE investments are pooled or direct investments that invest longer term in companies and assets not listed on stock exchanges. Investors commit their money upfront. Fund managers typically invest the money over several years and require the investment to be locked up for about 10 years. This gives fund managers time to choose, manage and grow the underlying holdings. PE investments generally terminate when the underlying investments have been exited and all capital has been paid to investors.

Structured products are packaged investments based on conventional financial instruments (underlyings) – such as stocks, bonds, indexes, currencies and commodities – combined with a derivative. Their value depends on how their underlyings perform, and the type and amount of payoff these generate. They enable investors to:

- invest in stocks across diverse regions
- choose from various rates, plus options for protecting their money
- hedge (offset) currency risks and other risks.

Thanks to the various derivative strategies that can be applied to them, structured products constitute flexible investment instruments that can be adapted to any market situation and all market expectations. They can also be tailored to personal investment targets and requirements, creating a spectrum of exploitable market opportunities for different investor types.

Risk-return profile of asset classes



This is an illustration only. Forecasts do not reliably indicate future performance or results.

Mixing it up: The power of diversification

Variety is the spice of life. The same is true when investing. In financial speak, it's called 'diversification.' It involves spreading your money across lots of different asset classes, rather than sticking with one. The great thing about diversifying is that it can reduce risk in your investment portfolio – without reducing the opportunities for your money to grow.

Having a diverse investment portfolio is like packing your suitcase for a British summer holiday. It will probably rain, so you'll need a thick jumper and raincoat. But the sun might shine. So you'll want to make room for shorts and T-shirts too.

Financial markets can change like the British weather. That's why it's wise to have lots of different investments that react differently to changes in those markets.

How can diversifying reduce risk?
Investors face two types of risk: 'systematic' and 'specific'. Systematic risks are changes in big national matters like interest rates, inflation and politics. You can't really avoid them because they affect every financial market.

But you can reduce specific risks because they affect specific companies, sectors and industries. That's where diversifying your investments can help. Because while some of your investments might fall, others might rise to compensate.

Diversifying doesn't guarantee you won't lose money. And it's not a get-rich-quick scheme. But it's a great way to help reduce risks, and protect and grow your wealth.

How can you diversify your investments?

You can choose different investments with values that typically don't move alongside each other:

1. **Putting your money in different asset classes** – such as liquidity or cash, fixed income, equities, commodities, real estate and alternative investments (see table 'Simulated historic annual returns, from best to worst' on page 45).
2. **Investing in different countries** – there's less risk to you if just one country's economy falls behind.
3. **Buying different assets within an asset class** (a group of similar investments). For example, you might buy shares in various companies, instead of one. And you can diversify more by buying shares in companies from different industries. The table on page 45 shows some examples of asset classes.

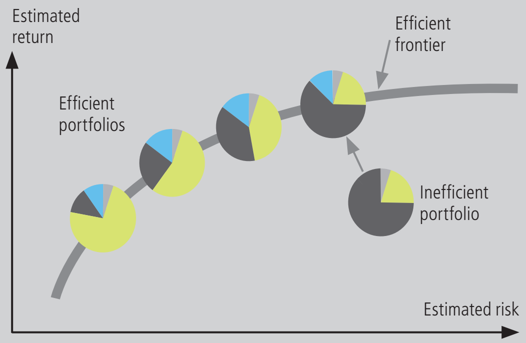
What if you only have a small amount to invest?
Don't worry, you can still diversify. For example, you could put your money in a fund. A fund is a pot of money where people come together to invest in different assets.

Or you might choose an 'index' fund (also known as 'passive' and 'tracker' funds). They match or track a market index (a measure of how a market is performing), like the FTSE 100 (which measures how the 100 largest companies on the London Stock Exchange are performing).

Risk-return profile of portfolios
Other terms you might encounter on your financial journey are 'volatility' – or 'standard deviation'. They refer to how much and often your investment's value might rise and fall, straying from the return you expect it to deliver.

It's important not to confuse rises and falls in your investment's value with the chance you might lose money. True, no one likes watching their investment leap around. But if you have a proper investment strategy, you can relax about daily changes and let the strategy do its job.

The graph illustrates this relationship, indicating the goal of achieving the highest possible return for a risk level, or the lowest possible risk level for an expected return. The area where you can't improve this relationship is known as the 'efficient frontier'.



For illustration only. The colors of the pies refer to the allocation of assets in the same portfolio and are illustrative examples.

Why is it important to diversify?

It's important to diversify because, historically, no single asset class has performed consistently better than others. And as this table illustrates, neither do market-related indices.

Simulated historic annual returns, from best to worst
30 December 2008 to 29 January 2021

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best	80.5%	21.9%	14.3%	29.2%	32.6%	13.4%	13.3%	17.5%	37.8%	10.2%	33.6%	21.4%	4.9%
	79.0%	19.2%	11.2%	22.3%	30.0%	11.8%	9.9%	13.3%	29.3%	6.7%	31.6%	18.7%	3.1%
	58.1%	15.6%	7.6%	21.5%	27.6%	11.3%	5.6%	11.6%	24.4%	2.2%	24.2%	14.9%	0.4%
	43.4%	15.4%	7.3%	18.6%	27.3%	7.4%	2.3%	11.6%	23.6%	1.1%	21.1%	12.8%	0.0%
	38.6%	15.1%	5.5%	17.4%	21.5%	5.7%	1.3%	11.4%	22.4%	-0.2%	20.1%	12.0%	0.0%
	32.5%	13.5%	4.4%	17.0%	20.7%	5.5%	1.2%	10.4%	21.9%	-1.7%	18.9%	10.8%	0.0%
	29.8%	13.1%	3.2%	16.1%	15.0%	4.3%	1.2%	10.2%	21.5%	-2.3%	17.6%	9.4%	-0.1%
	27.1%	12.9%	2.0%	15.5%	11.0%	3.4%	1.2%	8.0%	18.0%	-4.0%	15.0%	8.5%	-0.2%
	26.6%	12.2%	0.3%	15.3%	9.0%	2.5%	1.1%	5.9%	10.3%	-4.3%	14.4%	7.5%	-0.3%
	18.6%	9.0%	-1.2%	13.5%	7.4%	0.7%	0.4%	4.0%	7.9%	-4.5%	13.9%	7.3%	-0.3%
	13.5%	8.8%	-2.5%	10.5%	0.3%	0.2%	-0.3%	2.7%	7.8%	-8.2%	13.6%	6.1%	-0.4%
	13.4%	8.3%	-5.7%	8.8%	0.1%	-1.8%	-0.6%	2.3%	7.5%	-8.3%	10.1%	5.3%	-0.9%
	11.5%	8.1%	-5.7%	8.4%	-1.2%	-3.7%	-4.6%	2.1%	7.0%	-12.6%	9.3%	1.6%	-1.0%
	6.4%	6.8%	-6.0%	5.9%	-1.7%	-5.4%	-7.5%	0.8%	5.8%	-13.8%	8.9%	0.7%	-1.0%
	4.2%	5.7%	-14.2%	4.8%	-1.8%	-7.4%	-9.5%	0.6%	3.9%	-14.1%	8.4%	-1.6%	-1.1%
	0.9%	0.3%	-16.9%	0.4%	-2.3%	-7.8%	-14.6%	0.0%	3.2%	-14.2%	6.4%	-10.4%	-2.0%
Worst	-16.8%	-3.2%	-18.2%	0.1%	-5.3%	-33.1%	-32.9%	-4.0%	1.2%	-16.4%	2.4%	-23.7%	-2.0%

- FTSE USD Euro Deposits 3M
- ICE BofA Euro High Yield
- BBG Barclays Euro$ AA+ 5-7y
- BBG Barclays US Intermediate Corp.
- ICE BofA US HY Master II Cnstr.
- JPM CEMBI Diversified
- JPM EMBI Global Diversified
- MSCI EMU
- MSCI Emerging Markets
- MSCI Japan
- MSCI Switzerland
- MSCI United Kingdom
- MSCI USA
- CAPE US Private Equity Index
- HFRI Fund of Funds Composite
- NCREIF Property Index
- GSCI Commodity Index

For illustrative purposes only. Markets are subject to change and returns may vary. See the explanation in appendix 4 at the end of this document. Please note that this page should always be read in conjunction with the risk information and explanations of terms appended to this presentation. Source: UBS Quantitative Investment Solutions (QIS). Time horizon: 30.12.2008 – 29.01.2021

An experienced financial advisor can help set up an investment strategy that's right for you.

5 mistakes to avoid

We're all human and we all make mistakes. But there's a big difference between forgetting an anniversary and picking the wrong place to invest. Here are five common investment errors you'll want to avoid.

1 Changing your investments too often

Market timing
People in the investment industry call it 'timing the market.' And it's very easy to get wrong. For example, you might buy or sell investments because you're following a trend, feeling overconfident when markets rise, or getting unnecessarily scared when they fall.

2 Not checking and maintaining your portfolio regularly

Portfolio drift
Ignore your portfolio at your peril. Because life goals and circumstances change. And it's important to make sure your investment portfolio is on track for achieving your goals. To keep it on course, you'll need to review it regularly and rebalance your investments if necessary.

3 Letting big numbers blind you

Obsession with 'alpha'
Some choose 'star' fund managers and investments (alpha) because they're impressed by how they've performed recently. Always remember – what goes up can and does come down.

4 Sticking with losers, not winners

Disposition effect
A strange investor behavior involves selling assets that have grown in value and locked in that growth – and keeping assets that have lost money, hoping they'll regain their value. This happens because people fear losses more than they enjoy gains.

5 Staying too close to home

Home bias
This involves only investing in assets from your own country or close to home – despite the chance of growing your money by investing abroad too.

Investing with purpose

Imagine growing your money while doing good for the world. Imagine no more. With sustainable investing, you can make your investments match your values – while receiving returns comparable to (and sometimes better than) conventional investments[1].

What's sustainable investing? And why does it matter?
Sustainable investing is an ethical approach to investing. It aims to grow your money in a comparable way to traditional investments – while putting your money to work for good. For example, your investment might go towards organizations doing anything from making their workplaces more inclusive to tackling climate change.

Many institutions, like pension funds, are already putting billions into sustainable investments[2]. And more organizations than ever are working to solve global environmental and social challenges. For example, the United Nations is focusing on 17 Sustainable Development Goals to solve the world's most pressing issues[3].

All this means there have never been more opportunities for people to invest their money in ways that reflect their values. And who knows? Maybe your sustainable investing journey starts right here.

1 Bloomberg UBS, as of August 31, 2018. **2** Source: Global Sustainable Investment Alliance: '2018 Global Sustainable Investment Review (GSIR)', 2018 **3** Source: United Nations: www.un.org/sustainabledevelopment, 2019

Blended finance

It's important to know about blended finance. Why? Because blended finance solutions aim to unlock the power of investing for the good of the world. They combine philanthropic money (often from a charity or government organization) with commercial investments. Putting these funds together creates a stronger financial pot that can make a bigger difference, for example, by funding sustainable projects. The results of blended finance solutions are measured carefully, and investors enjoy the potential of receiving returns on their money.

What do investors care about?

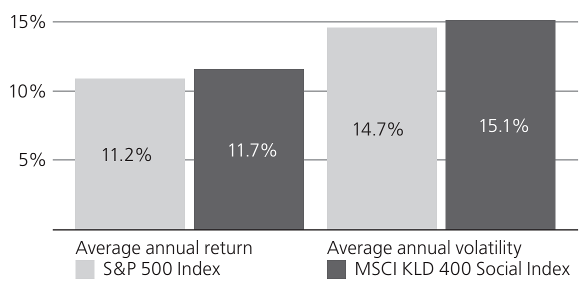
Investors care about finding investment opportunities that deliver returns on their money (performance) without risking more than they're comfortable with (risk management). Sustainable investing can help investors achieve both – and all while benefiting people and the planet.

Performance
You don't have to sacrifice returns to invest sustainably. In fact, sustainably managed companies can be more:

- resilient and less exposed to some environmental, social and governance (ESG) risks that may affect financial performance
- efficient, leading to long-term cost savings, for example, through energy efficiency
- innovative, building more effective and diverse teams that collaborate and innovate for growth, staff retention and market share
- attractive, enjoying a better reputation, which can make customers more loyal to the brand and attract the right employees to the business.[1]

Comparing the historical returns of sustainable investment indices (performance measures) and conventional investment indices suggests that investing sustainably doesn't limit performance. For example, the chart shows that the MSCI KLD 400 Social Index and the S&P 500 index generated similar returns and volatility (risk).

Average annual returns and volatility[2]



1 Source: UBS, as of January 2020; Source of graph: Thomson Reuters, as of November 29, 2019 Data from 30 April 1990 to 31 December 2020. Investing involves risks, including the potential of losing money or the decline in value of the investment. KLD (Kinder, Lyndenberg, Domini & Co) Research & Analytics. The MSCI KLD 400 Social Index is a capitalization weighted index of 400 US securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. The parent index is MSCI USA IMI, an equity index of large, mid and small cap companies. The Index is designed for investors seeking a diversified benchmark comprised of companies with strong sustainability profiles while avoiding companies incompatible with values screens. Launched in May 1990 as the Domini 400 Social Index, it is one of the first SRI indexes. Constituent selection is based on data from MSCI ESG Research. (Source: MSCI, 2021). The S&P 500 focuses on the large-cap sector of the market; however, since it includes a significant portion of the total value of the market, it also represents the market. Companies in the S&P 500 are considered leading companies in leading industries. (Source: NASDAQ, 2021). 2 Source: Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2,000 empirical studies, Journal of Sustainable Finance & Investment

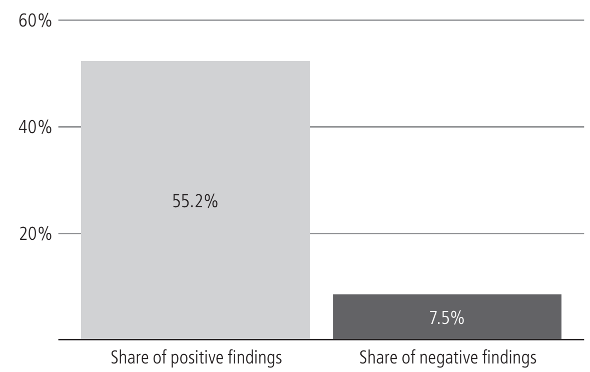
Risk management
When choosing investments, to minimize risk, it's important to consider them closely.

If you were to buy a company, for example, you wouldn't just look at the accounts. You'd want to know how good its products are and what customers think of them. How attractive is the company to new employees? Has the business suffered a recent accounting scandal? Or worse?

You need to know all this because it affects the company's current and future value. No one wants to throw good money after bad. The same goes for investments. Fortunately, sustainable investing takes factors like these into account.

More than 2,000 academic studies in the past 40 years have sought to identify the corporate and investment consequences of sustainable practices. More than half reported significant positive findings, while only 7.5% suggested a possible negative relationship.

Impact of SI on returns[2]



How to invest sustainably

Generally, there are three approaches[1] to sustainable investing: exclusion, integration and impact investing. At UBS, we focus on integration and impact investing.

Exclusion
This is the traditional and still most commonly used approach. It involves excluding individual companies or entire industries from your investment portfolio if their activities conflict with your values. The process of doing this is (called exclusionary or negative screening) can follow exclusion criteria or be tailored to your preferences. For example, some investors might wish to exclude companies with 5% of sales or more coming from alcohol, weapons, tobacco, adult entertainment or gambling (so-called 'sin stocks').

Integration
This approach involves choosing investments by combining environmental, social and governance (ESG) factors (see box) with traditional financial considerations. The process seeks to understand how companies handle environmental, social and governance risks that could harm their finances and reputations. It also involves assessing whether firms are well placed to capture opportunities arising from major sustainability themes and trends that might give them a competitive edge.

Impact investing
Impact investments intend to measurably improve the environment and societies while seeking attractive financial returns. The link between money invested and positive outcomes is tricky to establish in public markets. So impact investments tend to take place privately. One big exception to this is 'shareholder engagement'. This involves investors using the power of owning a stake in a publicly listed company to encourage it to do more for the planet and people.

A guide to E(nvironmental), S(ocial) and G(overnance)

	What kind of topics?	What's the potential impact?
E	– Climate change, pollution and waste, environmental opportunities.	– Companies growing their business based on applying improved sourcing, production and distribution processes.
S	– Workplace safety, discrimination and diversity, supply chain, community controversies, human rights.	– Companies enjoying increased employee productivity and satisfaction levels thereby beating industry margins and outperforming financially.
G	– Corruption, tax gaps, anti-competitive behavior, business ethics, board structure.	– Well-run companies implementing long-term strategic decisions that create economic value.

1 The UBS sustainable investing framework and categories align closely to the proposed standardized terminology introduced by the Institute for International Finance (IIF) in November 2019. See "IIF Sustainable Finance Working Group Report: The Case for Simplifying Sustainable Investment Terminology," November 2019

How impact investing can make a difference

Of the three approaches – exclusion, integration and impact investing – at UBS, we believe impact investing is best at doing measurable good for the world while delivering financial returns.

Before we consider offering an impact investment, we first need to satisfy three criteria:

1. **Intent.** Those structuring the investment must have stated that they intend to generate positive social and/or environmental impact, plus sustainable financial performance.
2. **Measurement.** The investment's outcomes must be tied to specific metrics and measured against a base case or benchmark. Examples of metrics might include the number of jobs created or liters of water purified.
3. **Verification.** There needs to be proof that any money invested – or the investment approach itself – is positively linked to its stated intent. For example, if the stated intent is cleaner drinking water and the metrics include the number of liters of available clean water, there should be data proving that the money invested led to this outcome (such as buying better quality pipes).

> "We make the future sustainable when we invest in the poor, not when we insist on their suffering."

Bill Gates, business magnate and philanthropist

Interview with Rachel Whittaker

Why sustainable investing matters

Rachel Whittaker
Rachel Whittaker is a Sustainable Investing Strategist, with many years' experience in conventional and sustainable investments. Rachel has an undergraduate degree from the University of Cambridge and an MSc in Corporate Environmental Strategy from the University of Surrey in the UK. Rachel is also a CFA (Chartered Financial Analyst) charterholder, and sits on the Analyst Advisory Committee of the UK Sustainable Investment & Finance Association (UK SIF).

UBS has placed sustainable investing at the heart of its investment approach. What's in it for investors?

Our clients have different reasons for investing. For some, it's about generating financial returns. For others, it's about preserving their wealth for the next generation – including their grandchildren – which involves looking at their investments over the long term. But increasingly, investors want to use their wealth to do good in the world and align their investments with their personal values. Our sustainable investing approach enables people to invest in ways that are right for them.

What evidence is there that sustainable investments perform comparably with so-called 'conventional' investments?
It's supported by evidence from past performance of sustainable investment indices. Beyond delivering comparable returns, we also think that, in some cases, sustainable investments can perform better than conventional investments.

For example, 2020 was an unusually volatile year for investing. But it still reflected our long-term view of sustainable investments. We found that sustainable investment strategies performed comparably or better in the first half of 2020 than their conventional equivalents.

In fact, 72% of self-declared sustainable investment funds ranked in the top half of their Morningstar categories for the first half of 2020. Additionally, MSCI environmental, social and governance (ESG) indices across geographies outperformed conventional indexes – as did indices focusing on sustainable themes.

How cautious are clients about sustainable investing?
Naturally, investors have questions and want to understand the opportunities. Because until recently, sustainable investing was quite a niche area. Companies and investors are increasingly acknowledging the link between social and environmental topics and financial performance. That's strengthened the case for including sustainability in investment portfolios.

There are also more social movements than ever focusing on issues like climate change and racial inequality. This has driven changes in corporate behavior, government spending and policies. And financial market regulators are focusing more on sustainable investing. So things have become more comparable and connected.

What about clients who want to preserve their wealth for the next generation?
We've found that such clients generally want to help make the world a better place for younger generations. Investing with a long-term perspective also provides opportunities to get involved in impact investing, which aims to drive measurable change and returns at market rates – or more. For example, clients might invest in sustainable industries, like healthcare or education technology, using private equity or venture capital solutions.

The motivations for investing sustainably are similar to those for giving to charity. Investors can do both at the same time. For example, they can make their charitable gifts work harder by placing them in a donor-advised fund. This means their money is invested for returns and doing good in the world.

Is there a way to invest while supporting gender equality?
Yes. It's sometimes called 'gender-lens investing'. It's an approach to investing focused on empowering women and girls while providing a financial return. There's also growing evidence that diverse teams and organizations deliver performance-improving outcomes, like better ideas and more satisfied workforces. And treating the genders equally (gender equality) can be a mark of good management.

How can people match their sustainable investments to their personal values?
There are lots of ways. For example, they might like to invest in companies tackling climate change. Or companies with diverse and well-looked-after workforces. Or they could simply avoid investing in anything they don't like, such as weapons or tobacco. There's something for everyone.

Changing things for the better requires investors and companies to recognize the lasting benefits of behaving responsibly and sustainably. As more investors see the link between ethical behavior and financial returns, we expect sustainable investing to go from strength to strength.

Innovative solutions for long-term challenges

Three mega trends are driving demand for innovative solutions, goods and services now and in the future.

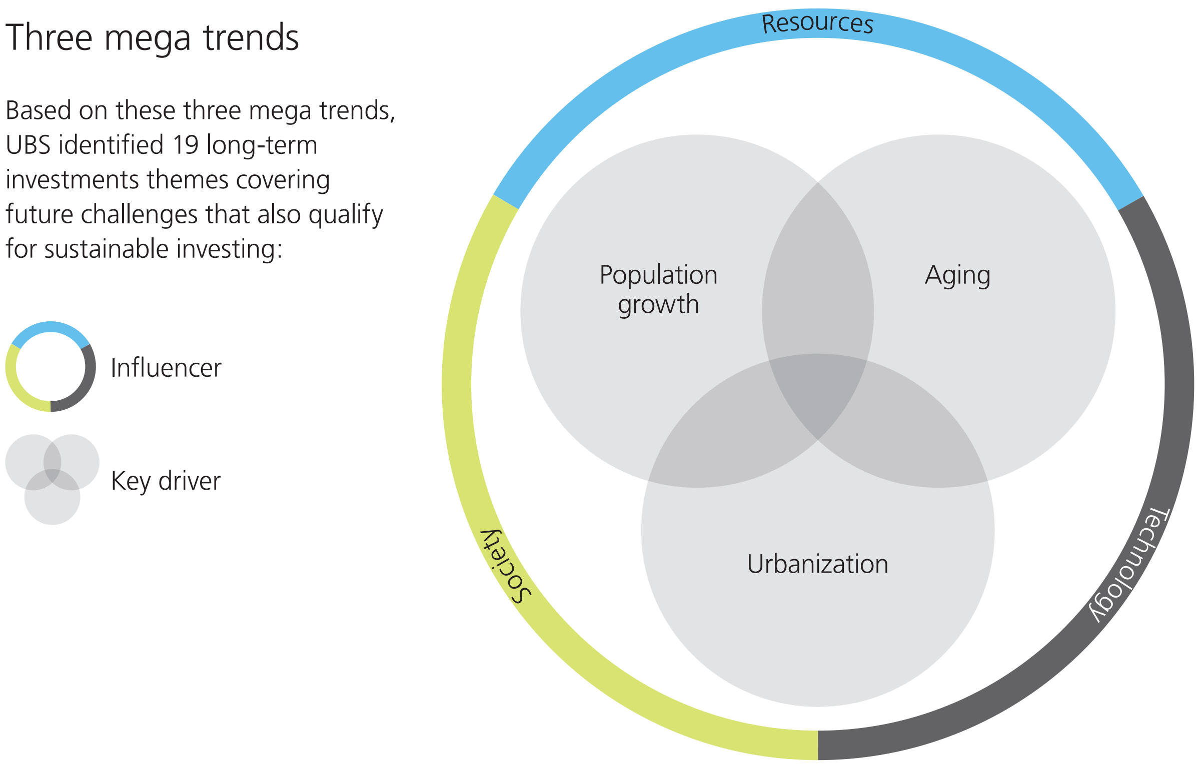
1. Growing population
Population growth: According to the UN, the world's population will rise from 7.7 billion in 2019 to approximately 9.7 billion people in 2050. At the end of the century, the world's population could reach almost 11 billion. Most of this growth will occur in low- and middle-income countries (source: UN World Population Prospects 2019).

2. Urbanization
The UN estimates that 55% of the world's population live in urban areas compared to just 30% in 1950. By 2050, this number is expected to rise to 68%, with nearly 90% of this growth occurring in Asia and Africa (source: UN World Urbanization Prospects 2018).

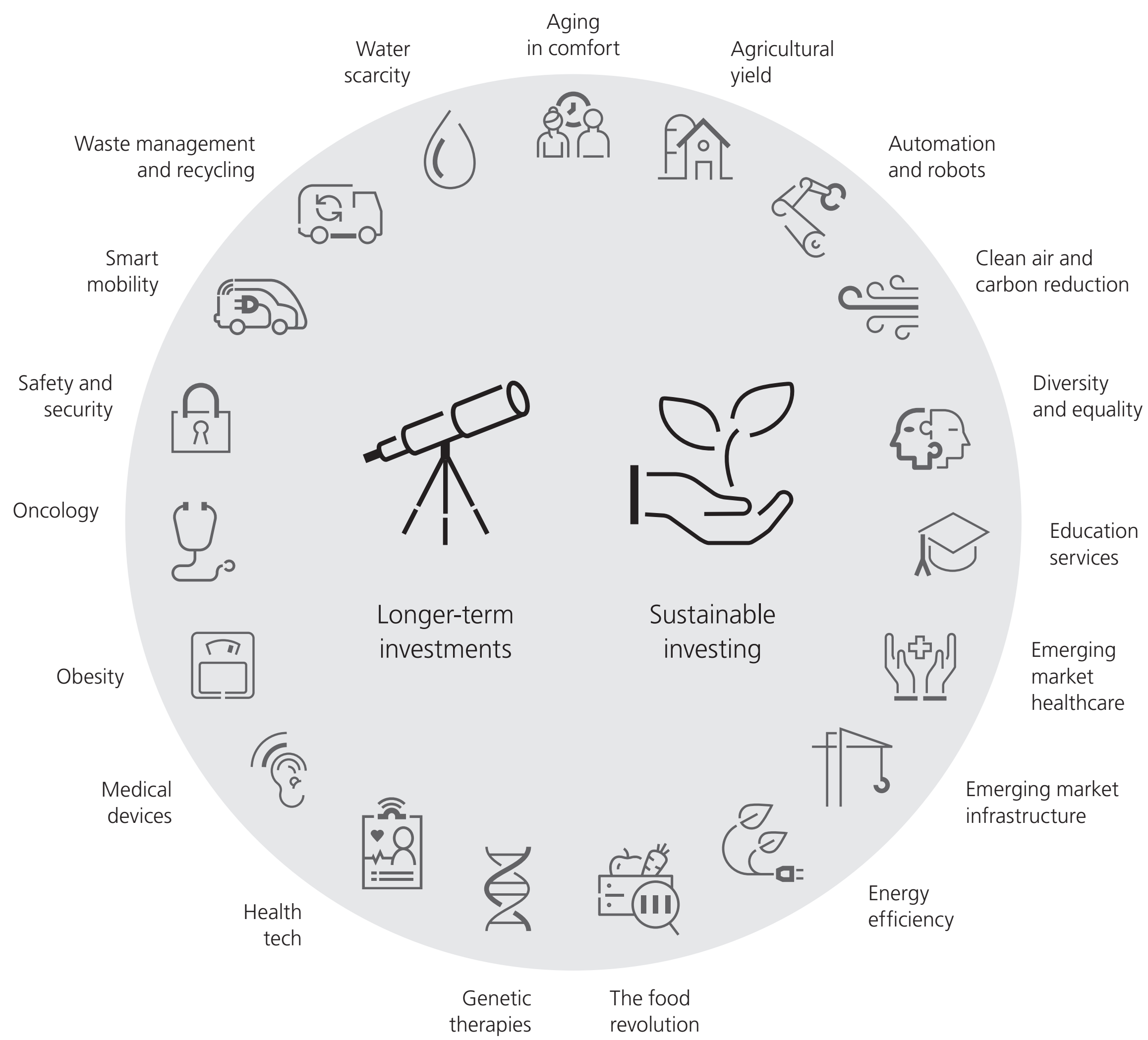
3. Aging
In 2019, one in eleven people in the world was aged over 65 (9% of the population). By 2050 this ratio will be one in six (16%). Developed countries will particularly feel the effects of aging populations. In Europe and Northern America, one in four people could be aged 65 or above by 2050 (source: UN World Population Prospects 2019).

Three mega trends

Based on these three mega trends, UBS identified 19 long-term investments themes covering future challenges that also qualify for sustainable investing:



Long-term themes provide opportunities to tackle some of the world's pressing future challenges by investing.



Source: UBS Wealth Management CIO

Talking points

Thoughts to discuss with my financial advisor:

What do I really care about?

And how might I support my passion through investing?

How could I use my wealth to support society and the environment?

And apart from investing, are there any other ways I can give back to the world?

Does my portfolio reflect my values?

For example, should I invest in a business that harms the environment or doesn't follow good employment practices?

To find out more about how you can do well by doing good, please visit:

UN Principles for Responsible Investment:
unpri.org

Global Sustainable Investment Alliance:
gsi-alliance.org

Impact Management Project:
impactmanagementproject.com

Global Impact Investing Network:
thegiin.org

UBS Global Wealth Management Chief Investment Office:
ubs.com/si

Gender Smart Investing Summit:
gendersmartinvesting.com

Together

Congratulations for getting this far! You're well on your way to taking control of your finances. And you're proving you have what it takes to manage your money successfully.

But you don't have to do it alone.

With UBS, you can access opportunities to connect with others and gain professional insights on financial topics. Just get in touch, and we'll let you know about events and meetings (online and in person) that can help you get more out of life and your finances.

Part 3: Investing with a gender lens

Growing wealth to achieve your goals

Did you know that there are differences in how women and men grow their wealth to achieve their lifelong goals? It pays to be aware of these differences when working out how to build up your finances.

When investing, some of the main differences between men and women are:

1. **Life circumstances.** Many common scenarios that arise in women's lives hinder their ability to grow their wealth. These include pay differences between the genders ('gender pay gap'), taking career breaks and needing to work flexibly. Women also tend to live longer than men, on average, so need more money to live comfortably. And divorce and widowhood can seriously harm women's finances.

2. **Values.** Some of the investing differences between men and women boil down to their values. Research suggests that women tend to view wealth more as a source of security. They also tend to be more inclined to place greater value on leaving a legacy to their loved ones. And research indicates that women like to invest in businesses that reflect their values – such as doing good in the world (sustainability) and supporting equal opportunities (gender equality)[1].

3. **Attitude to risk.** Research suggests furthermore that, when choosing investments, women may be more reluctant to take risks. But evidence also suggests that once women start investing, they're more disciplined than men. Women also tend to deliberate more, seeking the data they need to choose investments confidently; and diversify their investments more across different assets to reduce risk[1].

Women can benefit from a wealth plan that addresses these differences throughout their lives.

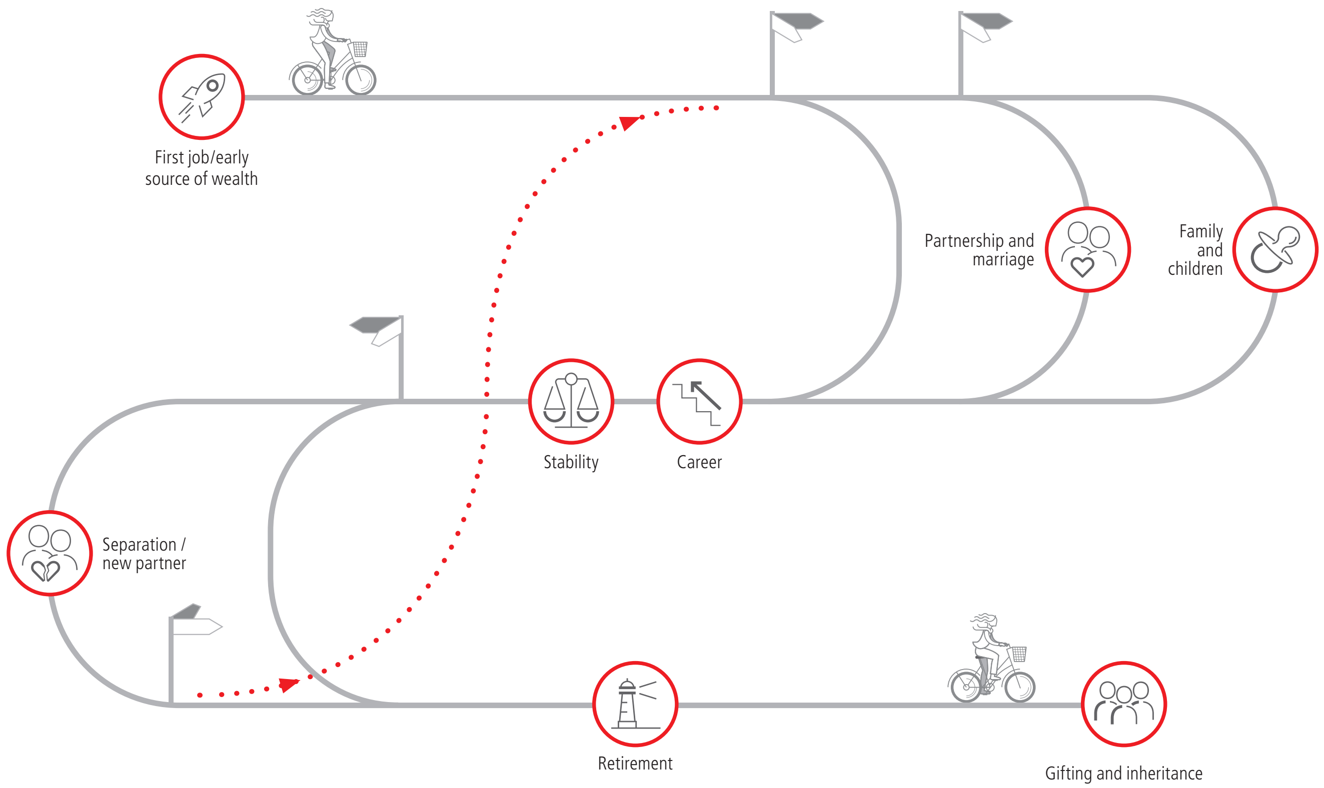
1 Managing the Next Decade of Women's Wealth, Boston Consulting Group, April 2020

Mind the gap: The story of Joe and Jane

How do the finances of women and men measure up?

Everyone's lives and goals are different. But there are moments in life that many people experience, such as starting work, marrying, having a child, retiring and losing a partner. Various scenarios at each stage can affect your wealth and ability to reach your goals. So it's important to work out how you can shape your wealth to cope with the challenges – and achieve your ambitions.

Key questions to ask for each stage



First job/early source of wealth:
- Are you taking control of your finances and contracts?
- Are you investing for the first time and working out how much risk you can take?
- Are you protecting yourself from risks?

Partnership and marriage:
- Are you prepared for major expenses, like buying a home?
- Have you arranged your joint finances?
- Have you found a suitable way to share your finances, should life not go to plan?

Family and children:
- Have you assessed and prioritized your goals, and made sure they're in line with other family members' expenses?
- How will you fund your children's education?
- How will you finance your home? What are the tax implications?

Career:
- Retirement may seem a long way off. But it's sensible to prepare early for it. What should you invest in? When and how much? How much control do you want over your investments? What happens if your career doesn't go to plan?
- If you have assets tied up in a company, what might that mean in terms of tax? Is there a better way to access your assets?
- Before buying a property, it's important to ask some questions: What is its market value? What's the best way of financing it? How will you maintain your repayments if your circumstances change? What tax and legal matters should you consider?

Stability:
- Now's the time to keep building your assets so you can achieve your goals. How can you maintain your living standards over the long term? What might derail your plans?
- It's worth understanding the different kinds of tax that can affect you, like tax on dividends, savings and capital gains. How can you maximize your money after tax?
- Handing over a company can be complex. How can you transfer the company tax-efficiently? What are the legal and procedural obstacles? Who should you pass your business to? Can they raise the finance to take over the company?

Separation/new partner:
- When couples divorce, their joint assets and retirement assets are divided between them. How might this harm your finances?
- How will you unravel and adapt your current finances and contracts to your new circumstances?
- How will you rebuild your financial independence and confidence?

Retirement:
- When would you like to stop working? What pensions do you have? What health-related expenses might you need to pay for?
- How will your retirement assets be taxed?
- Are your finances flexible enough to keep pace with your new passions, like traveling, spending time with grandchildren, volunteering, or pursuing a dream or hobby?

Gifting and inheritance:
- You may have already earmarked some or all of your wealth for loved ones. Have you considered involving them in your investment decisions?
- What are you passionate about? People often want to give something back by helping those less fortunate, getting involved in environmental projects or supporting other causes.
- Do you have the right arrangements for the assets you wish to pass on? Remember to check if there are any special tax laws, including foreign rules.

We wanted to show how events and issues in women's lives can affect their finances. So we compared the wealth of an illustrative man and woman (Joe and Jane) during their lifetimes. Here's what we discovered…

Research has examined the differences between women and men when investing. However, research has tended to look separately at other factors, such as pay differences between the genders and lifespans. Only by seeing the big picture can we answer big questions like, how much of a gap do gender differences create in women's finances? And can women narrow this gap managing their investments wisely?

For the answers, we modeled the financial outcomes of Joe and Jane based on five of the main factors affecting how they create wealth: pay gap, career break, flexible employment, life expectancy, and risk tolerance.

In our model, Jane and Joe are 25, single, have recently started work, and want to:

- preserve and grow their inheritance of one million US dollars for the next generation
- buy a house at the age of 35 by taking out a mortgage
- enjoy a decent standard of living later in life.

To model the effect of gender differences, we assumed that Jane:

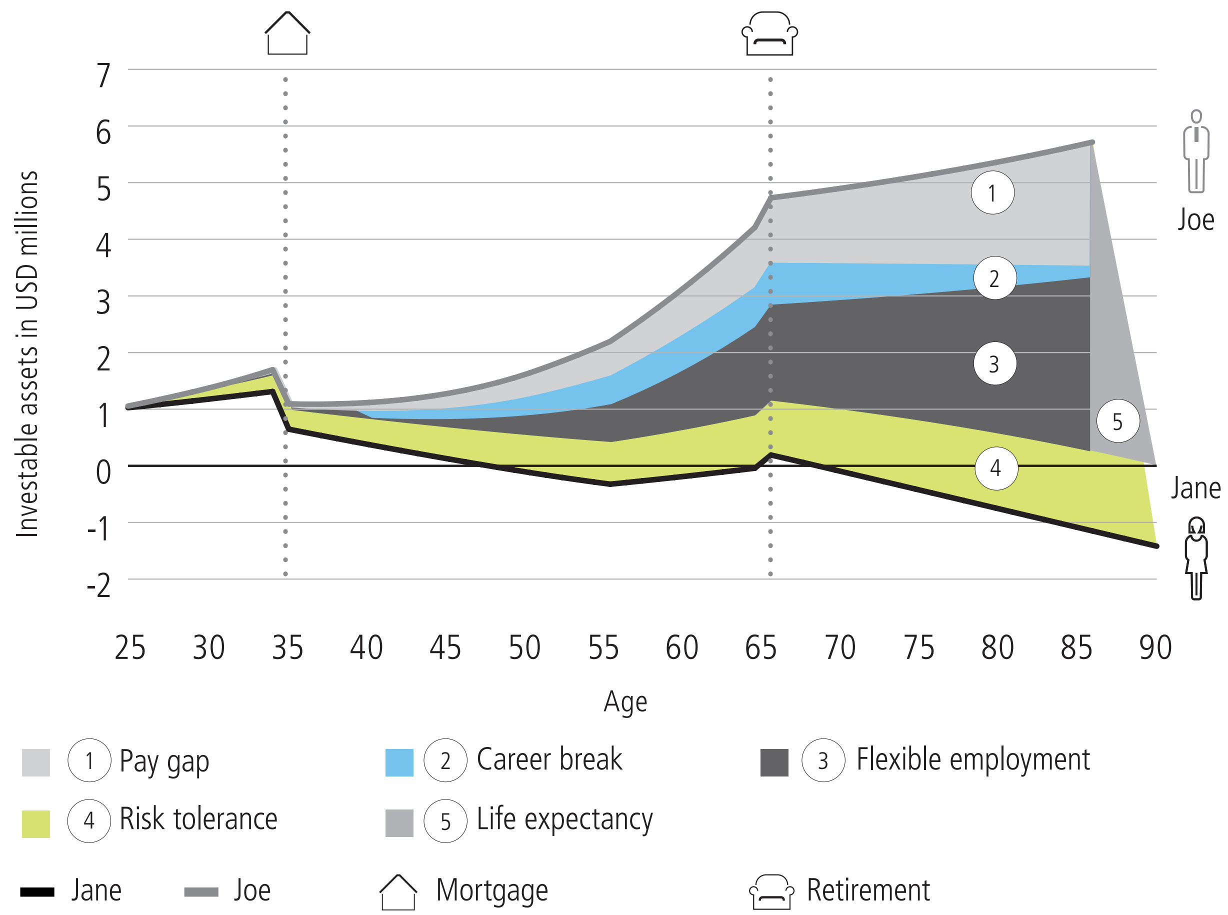
- has a starting salary 10% lower than Joe's, due to the persistent salary gap between genders
- receives a total gross salary less than Joe's over her lifetime because she takes a career break of one year and works part-time later on
- invests more conservatively than Joe
- lives longer than Joe.

We also assumed that Jane's expenses will grow less than Joe's – and that both their real estate and pensions are the same.

The graph shows how Jane's and Joe's wealth develop over a lifetime.

For the full story on the model, please see the appendix on page 138.

Throughout her life, Jane's conservative investment approach may harm the opportunity to grow her money.



- A 10% pay gap can lead to a 38% wealth gap
- A one-year career break widens the gap by an extra 5%
- Part-time work dramatically reduces Jane's ability to grow her wealth
- Jane chooses an investment that's less 'risky' (less volatile), so her wealth doesn't grow as fast as Joe's. She might struggle supporting herself in retirement, given she will live longer than Joe.

The model reveals that all factors (and despite our very modest assumptions – in fact, the gender pay gap in many countries is much higher than 10%) can significantly reduce growth on women's wealth. This can result in women:

- having less money to invest and grow
- using up all their wealth over time
- not achieving their long-term goals
- having less to support their family and society.

This is an illustration only. Forecasts do not reliably indicate future performance or results. Readers should not rely on the assumptions and outcomes above to determine any investment strategy or draw any conclusions on investments. Note: The wealth of Joe and Jane follows a median path of strategy that maximizes the likelihood of meeting objectives.

> "Navigating a more complex world of change will require companies to consider their business from as wide a range of perspectives as possible. A monoculture of thinking will almost certainly miss both risks and opportunities as the world changes… With real diversity, better quality decisions will be taken, and innovation is likely to flourish."

Paul Donovan, Chief Economist, UBS Global Wealth Management

How can Jane avoid this situation?
Because Jane has less money to start with and accumulates less wealth over her lifetime, she would benefit from investing her funds strategically – and focusing on achieving her lifelong goals.

How might a moderate investment risk strategy help?
Jane could benefit from establishing a level of risk she's comfortable with that puts her in reach of her goals. She could then set up an investment portfolio for life, and invest in a disciplined way for the long term.

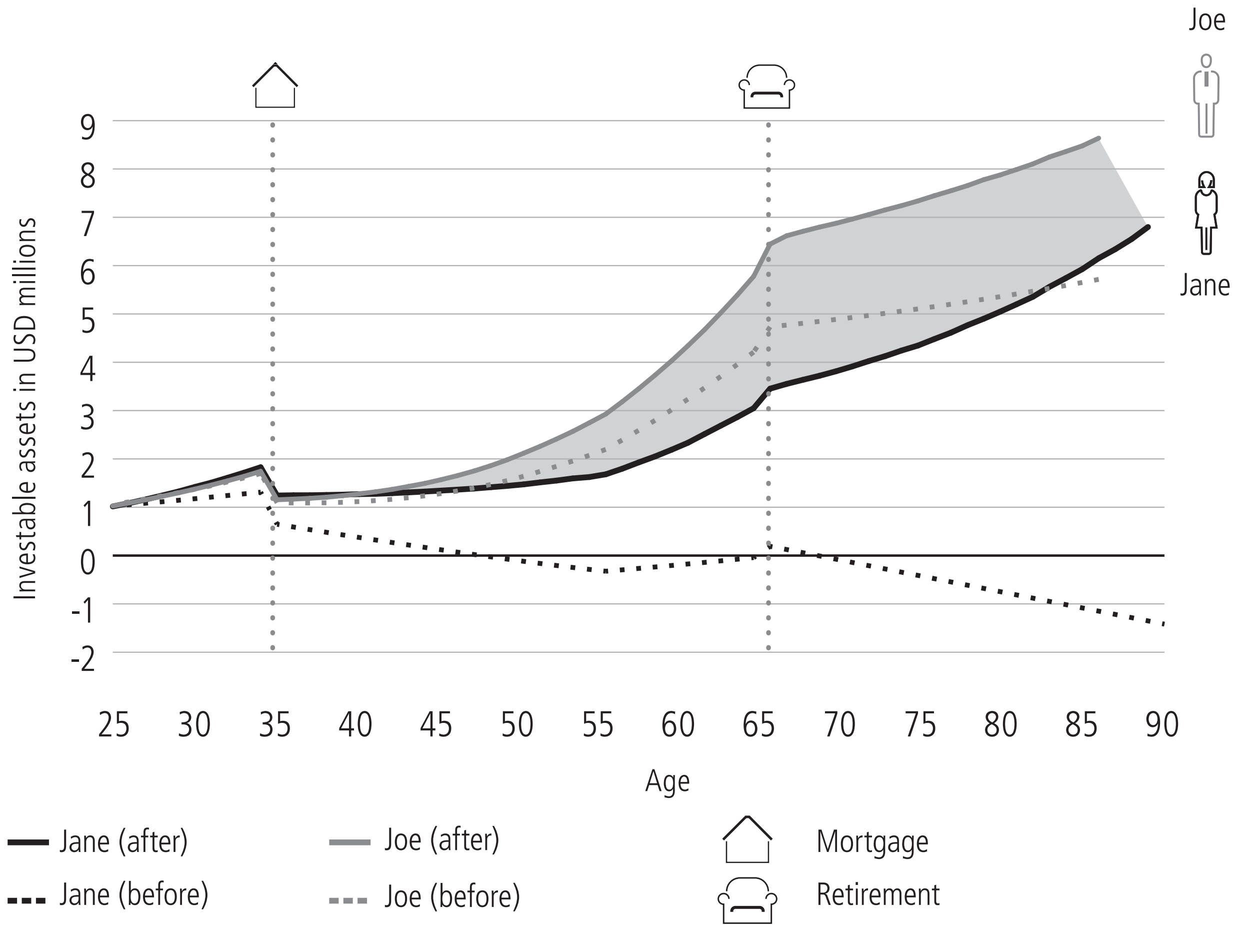
What does this all mean for Jane?
To achieve her goals, it pays for Jane to:

- understand the factors that can harm how she builds her wealth, and how those factors might play out over her life
- understand risk and how taking calculated risks with money can help it grow
- become more financially confident, so she can ask the right questions and feel sure she's choosing the right investment strategy
- understand how to separate her financial and personal goals when managing her wealth.

> "Issues like pay disparity, career discontinuity, work flexibility, life expectancy, and risk tolerance can conspire to create meaningful disparities in the financial outcomes of men and women. Awareness is the first step in closing this gender gap."

Mark Haefele, Chief Investment Officer, Global Wealth Management

A portfolio for life: Jane benefits from investing in a disciplined way throughout her life



This is an illustration only. Forecasts do not reliably indicate future performance or results. Readers should not rely on the assumptions and outcomes above to determine any investment strategy or draw any conclusions on investments.
Note: The wealth of Joe and Jane follows a median path of strategy that maximizes the likelihood of meeting objectives.

Talking points

You might want to ask yourself these questions:

Do I know how life events and the gender pay gap might affect my wealth over time?

How confident am I with my finances?

Am I being too conservative with my investments?

Part 4: Let’s go

Explore your financial confidence

Want to start a business?
Travel the world?
Take a break from work
and finally write that book?

Gaining financial confidence will help you work out the best way to manage your money and reach your goals.

Self-assessment

How financially confident do you feel? The following self-assessment presents 12 statements that will help you explore where you feel most and least confident. When you've finished, you'll discover which learning nuggets are most helpful for you to work through.

Awareness

Expertise

Trust

When you've reached the end of this workbook, why not do the assessment again? It's a great way to find out whether you've become more financially confident. You can also take the assessment online at www.ubs.com/financial-confidence

1	Read the 12 statements and assess your position
2	Determine your financial learning journey
3	Work through your learning nuggets

Assess your level of awareness

Awareness

Knowing how your finances, goals, beliefs, decisions and actions can interact and affect your life.

For each statement, mark with an 'X' how much you agree or disagree. All done? Write your results in the boxes on page 85. Your results come down to you assessing honestly how financially confident you feel (it's not all about scores and numbers).

	Disagree	**Agree**
I know how events in my life – and wider concerns like the economy and stock markets – can affect my finances	◄	►
I know exactly how much I earn and spend every month	◄	►
I'm clear about my goals in life and what they might mean to my finances	◄	►
I know exactly how to invest to grow my money	◄	►
I understand the opportunities and risks of being an entrepreneur	◄	►
I think my level of awareness is:	○ **Low**	○ **High**

Mark this result on page 85.

Date of self-assessment: ____________________

Assess your level of expertise

Expertise

Understanding financial topics so you can decide what's best for your money.

We're not testing your technical knowledge here. This is about knowing what affects your wealth – and which questions to ask.

	Disagree	Agree
I know how economic topics like inflation and interest rates can affect my finances		
I know what information I need to understand how an investment will affect my finances		
I know how savings and debt affect my ability to grow my wealth		
I know how to identify the information I need on investments		
I think my level of expertise is:	Low	High

Mark this result on page 85.

Date of self-assessment: ____________________

Assess your level of trust

Trust

Trusting financial advisors and companies to have your best interests at heart.

Some want to get their finances in order but aren't sure who to turn to for advice. Others might have had bad past experiences, for example, being persuaded to buy financial products they didn't need.

We believe trust is an essential part of financial confidence. And we believe financial companies can only build trust by giving people the best-possible advice in their best interests.

	Disagree	Agree
I have a comprehensive list of criteria to help me assess financial advisors		
I know exactly what to ask a financial advisor to ensure a successful meeting with them		
I know how to protect my data and ensure I'm secure online		
I think my level of trust is:	Low	High

Mark the result the result below.

Date of self-assessment: ____________________

Summarize the results and determine your financial journey on the next page.

Awareness	Expertise	Trust
Low High	Low High	Low High

Determine your financial journey 1/2

Now check the results of your assessment to see which type of 'financial traveler' you are – and the financial learning guides we recommend reading.

Awareness: low
Expertise: low
Trust: low

Wanderer

You're still exploring your options. To get the most from your wealth, it's worth thinking about your lifelong goals and current situation – and learning how to take control of your finances. You can also call on experts and professional advisors to guide you, should you feel a little lost.

Your financial journey guides

1. Taking control
2. Getting your bearings
5. Taking in the landscape
8. Striking the right balance
9. Picking a travel companion
11. Minding your step

Awareness: low
Expertise: low
Trust: high

Hitchhiker

You know you can make the most of your money by letting a trusted expert or professional advisor guide you. It's worth thinking about your goals and how your wealth could help you achieve them. And you might get more from your money by building your financial knowledge.

Your financial journey guides

1. Taking control
2. Getting your bearings
5. Taking in the landscape
8. Striking the right balance
10. Asking for directions
12. Navigating the digital landscape

Note: You'll see that the 'Taking control' guide appears in all the financial learning journeys.
That's because the facts it contains are vital even for the most financially confident person.

Awareness: low
Expertise: high
Trust: low

Cartographer

You know how to grow your wealth over time and have a plan to do it. Now it's time to think about your life goals and how your wealth can help you reach them. And who knows? You might get there even faster (or avoid bumps on the road) with a financial advisor at your side.

Your financial journey guides

1. Taking control
3. Preparing for the ups and downs
6. Reading the terrain
7. Plotting a course
9. Picking a travel companion
11. Minding your step

Awareness: high
Expertise: low
Trust: low

Scout

You've got a good idea about what you want for your life and finances. You might reach your goals faster by working out the best route. So consider exploring some of the main factors that can affect your wealth. And think about working with an expert or professional advisor to help grow your finances.

Your financial journey guides

1. Taking control
4. Choosing your path
5. Taking in the landscape
8. Striking the right balance
9. Picking a travel companion
11. Minding your step

Determine your financial journey 2/2

Awareness: low
Expertise: high
Trust: high

Trailblazer

You're switched on to your finances and know how to get advice on your money. Just think what might be possible by looking at the bigger picture. For example, what are your goals in life? And how might maximizing your money help you achieve them?

Your financial journey guides

1. Taking control
3. Preparing for the ups and downs
6. Reading the terrain
7. Plotting a course
10. Asking for directions
12. Navigating the digital landscape

Awareness: high
Expertise: low
Trust: high

Nomad

You know where you want your wealth to take you. And you're comfortable calling on experts or professional advisors for help. But imagine how learning a little more about your finances and some of the technical aspects might help you when discussing with them.

Your financial journey guides

1. Taking control
4. Choosing your path
5. Taking in the landscape
8. Striking the right balance
10. Asking for directions
12. Navigating the digital landscape

Awareness: high
Expertise: high
Trust: low

Lone ranger

You know where you want to go and have a great plan for getting there. But what if you could reach your goals more quickly? Make sure you're making the most of your wealth by working with financial experts or professional advisors you trust.

Your financial journey guides

1. Taking control
4. Choosing your path
6. Reading the terrain
7. Plotting a course
9. Picking a travel companion
11. Minding your step

Awareness: high
Expertise: high
Trust: high

Pioneer

You know exactly where you're going and how your wealth can help you get there. And you feel comfortable working with financial experts or advisors. Now why not take your knowledge a step further, and learn more about keeping your finances on track to reach your goals?

Your financial journey guides

1. Taking control
4. Choosing your path
6. Reading the terrain
7. Plotting a course
10. Asking for directions
12. Navigating the digital landscape

Note: You'll see that the 'Taking control' guide appears in all the financial learning journeys.
That's because the facts it contains are vital even for the most financially confident person.

Part 5: Your financial journey guides

1

Taking control

Your life, goals and wealth

If you want to live comfortably and achieve your lifelong goals, it pays to think about your plans for the short, medium and long term.

Your life
You probably know what's in store for today, tomorrow and even the next few weeks or months. But what about your plans and goals for the years ahead? It can be difficult picturing everything clearly. And big changes in society and technology mean life will probably be very different in five or 10-years' time.

All this can tempt you to live for today. But you'll be more likely to reach your goals by thinking about where you'd like to be in three, 10 or 30 years' time – and starting your journey early.

Your wealth
Just as your life goes through stages, so will your wealth. This is sometimes called a 'wealth cycle'. It has two phases:

- **The accumulation phase**
  Once you've gone through childhood and education, you start the journey of your adult life. As you progress, the money you earn is more likely to exceed your outgoings.

- **The decumulation phase**
  When you stop working and start enjoying the fruits of your labor (retirement for most of us), the chances are you'll spend more each month than the money you receive.

By the time you reach this decumulation phase, you'll need enough money set aside to cover your living costs (costs you can't pay with any guaranteed pension payments). And you might need enough money to sustain you for longer, since we tend to live longer these days.

The essentials

- Working out what your goals are makes it more likely you'll achieve them.
- It's never too soon to start working towards your goals. You can reach them more easily by starting early.
- Retiring is generally the most important long-term financial goal you should plan for.
- It can be worth saving a small amount towards your long-term goals, even if you're still paying off debt.

Planning your finances

It's all too easy to focus on achieving your short-term goals rather than your ambitions in later life, because they're the clearest and most relevant right now. It helps to be prepared.

Here are some questions to ask yourself…

1. What do I want to accomplish in life?

When planning your finances, try to think beyond the numbers and focus on your goals. For example, in the short term, maybe you'd like to buy a home, pursue a passion or build up an emergency fund. Over the longer term, you might want to purchase a second property or work towards a comfortable retirement. Knowing where you want to go makes it easier to plan how to get there.

2. Who matters most to me?

It's only natural to want to look after the people you love. But don't forget to balance their needs and yours. For example, if you have children, you might want to fund their education. However, you'll also need to protect yourself and your family from financial risks, should things go wrong. So think about safeguarding your finances, for instance, with insurances.

3. What do I want my legacy to be?

There's more to life than looking out for yourself. What if you could make a lasting positive difference to the world and your loved ones, in your lifetime and beyond? It's all possible if you manage and protect your wealth properly. So think about the changes you'd like to see in the world. Maybe you'd like to help eliminate poverty. Or even create an art collection that enriches people's lives. The choices are endless.

4. What are my biggest concerns?

How do you feel about the possible risks of investing? Does the prospect of losing your job, getting divorced or falling ill keep you awake at night? Make a note of the things that play on your mind. And remember, while you can't eliminate risks completely, you can reduce them by managing your finances properly.

5. How will I plan to achieve my goals?

This is where a financial advisor can really help. They can support you in working out a financial plan reflecting your goals and the money you need to achieve them. For example, calculating what you'll need when you retire; your options for investing; how your money could grow over time; how to protect your finances; and even how best to pass on your wealth to the people you love.

Don't forget, what's important today can change tomorrow. So revisit your plan at least once a year, or whenever your situation has changed significantly (like moving home, getting married or having kids). This will help you stay on track to achieve your goals; avoid problems; and explore more options for growing your money.

The UBS Wealth Way*

It's natural to have lots of goals in life. But it can be tricky knowing which to tackle first. At UBS, to make life easier for our clients, we help them organize their plans into three areas: liquidity, longevity and legacy.

We call it the 'UBS Wealth Way'.

Liquidity
The next three to five years
Maintaining your lifestyle

Liquidity is about having the money to pay for things you may need in the short term.

Longevity
Five years – lifetime
Improving your lifestyle

Longevity covers your longer-term needs, from five years and beyond.

Legacy
Now and beyond your lifetime
Making the world a better place

Legacy is about using your wealth to do more and consider giving back.

The UBS Wealth Way helps you think about your short and long-term investments, and the things you're passionate about. There are many ways to make an impact – and they can all work together to achieve a bigger result.

*UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Global Wealth Management and our advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

Next steps

Things to discuss with a financial advisor:

Short-term goals (liquidity)
What do I want to do or achieve over the next three to five years? For example, maintaining your lifestyle, buying a home or building an emergency fund.

Medium-term goals (longevity)
What do I want to achieve five years ahead and beyond? For example, retiring comfortably and buying a second home.

Long-term goals (legacy)
What do I want to achieve now and beyond my lifetime? How might I help leave the world in a better place? Or provide for the next generation in my family?

2
Getting your bearings
Working out where you are financially

Only when you understand your goals can you work out the money you'll need to reach them. Getting from A to B involves knowing what you have, the money you need to cover your costs and how much you can save.

The essentials

- To help you understand your current finances, create a budget plan.
- From this budget plan, you can work out what you can save and invest to achieve your goals.
- Revisit your budget plan at least once a year, to make sure it still reflects your life and situation.

Preparing a budget plan
A budget plan is a short-term (usually 12-month) plan that details all your income and expenses. It can help you check your earnings and spending – and plan for the future.

How do you create a budget plan? Start by gathering your recent bank and credit card statements (which should show most of your money coming in and going out); details of your salary; and any other income and expenses.

Next, go online and search for a 'personal budget template'. There are plenty to pick from. Or you can use the quick budget plan on the next page. Enter your income and expenses. And bear in mind that while your budget plan might be a monthly (or biweekly) plan, you may have income and costs that only arise once a year or every quarter (like an annual bonus or car insurance). Include these as well, by breaking them down into monthly or biweekly figures.

Working out what you can save
Once you've entered your income and expenses, your budget plan should give you a clear picture of your finances over the next 12 months. Subtract your regular expenses from your earnings over that time, and you'll see how much you can save. That's the money you can use to work towards your goals.

Generally, you shouldn't spend more than 30% to 40% of your income after taxes on 'fixed costs', like your mortgage, rent, and regular costs like energy bills and credit card payments. You should be able to spend a third of your income on 'variable costs', like leisure activities, trips and eating out.

If you can stick to this, a third of your income should be available for saving. It might not be the same for everyone. For example, if you live in an expensive city, you might need to spend 50% of your income on fixed costs (so, the split might be 50% for fixed costs, 30% for variable costs, and 20% for saving). Whatever your situation, your budget plan can help you work out if you're saving enough or spending too much.

Making room for savings
If it turns out you don't have enough savings to achieve your goals, drill down into your budget plan. Look for ways you can save more by adapting your lifestyle and spending.

Staying one step ahead
As your life, needs and circumstances change, it's worth revisiting your budget plan as often as you can – at least every 12 months. This will help you make sure your current finances are on track for reaching your goals.

Quick budget plan

My income

How much I earn from things like…

- regular paid work
- interest payments
- investment income
- business income
- pension payments
- other regular sources of income

Amount: ....

My expenses

How much I spend on…

Fixed costs
Things I **need** to pay…

- mortgage/rent
- car payments
- transportation
- phone/utilities
- groceries
- repayments
- other regular costs

Amount: ....

Variable costs
Things I **choose** to spend my money on…

- eating out
- sports and hobbies
- vacations and travel

Amount: ....

My savings

How much I have left to save or do other things with, for example…

- planning for retirement
- charity/ philanthropy

Amount: ....

Quick plan for your financial situation

For a detailed description, please see page 31.

What I own (assets):

Liquid assets

Non-liquid assets

Other assets

What I owe (liabilities):

Current and future liabilities

Free assets

Mortgage not to be amortized

3

Preparing for the ups and downs

Protecting your finances

Life can be unpredictable. And while nothing should stop you enjoying the journey, it's good to know you're ready for obstacles along the way. When it comes to your finances, this means thinking about – and preparing for – whatever's around the corner.

The essentials

- Your personal life – just like your career – will have ups and downs. These can affect your finances.
- It pays to have a plan to protect your finances should something bad happen.
- Think about how much life events might cost you and how they could affect your earnings.
- It's a good idea to start an emergency fund. You can also have insurance to protect yourself from the unexpected.

The highs and lows
You're likely to experience highs and lows in your career and life. You can usually plan for the highs, like starting a family or buying a home. But the lows can take you by surprise, such as falling ill or losing a loved one. Our human instinct is to focus on how such events affect us emotionally. But to avoid more heartache and uncertainty later, it's important to address how they might affect us financially.

When illness or disability strikes
If you or a loved one is diagnosed with an illness or disability, it can affect the whole family's financial wellbeing. There are the potential costs of medical treatment, equipment and care. But it's only when you realize how it can affect everyone's earnings and ability to save, that you fully appreciate the harm to your finances.

When you or your partner dies
Losing a partner can be devastating emotionally and financially. Especially if they were the main income provider and still working up until they died. Whatever their role and responsibilities in the home and family, the surviving partner will need to adapt. They'll still need to earn enough to live on, maintain the home, and pay for additional costs like childcare.

Going your separate ways
When a relationship breaks down, both people – and their children, if they have any – might need to accept a lower standard of living than they're used to. Even when couples separate later in life, dividing what was once a single nest-egg can be difficult. And many expenses, such as housing and utilities costs, will increase when there are two separate residences to support.

All this can seriously harm your finances. It can reduce your household's income and see you paying for things you haven't planned for. And it can stop you saving or even force you to dip into money you've set aside for achieving your goals.

Changing goals and priorities
It's not just the ups and downs that can affect your finances. So will your changing goals and priorities. Even the most independent and adventurous person can reach a point where they feel being financially secure for the long term is more important than living for today. And that's when they'll need to start saving for the future.

Hoping for the best, planning for the worst
It can be tricky thinking about and planning for all these possibilities. The truth is, most of us shut our eyes and hope for the best. But failing to plan for the worst (or your changing goals and priorities) can mean you struggle financially later.

So it's wise to be practical and act early. It also means you can easily change your plans when you need to. The result? You'll protect yourself and your loved ones financially when life doesn't go to plan.

Next steps

Things to do and discuss with a financial advisor:

Build up an emergency fund
Would it make sense to regularly put money aside for the unexpected?

Look into insurance
How would your family cope financially if you weren't around? And what if you, or the main breadwinner in your family, became ill and couldn't work? Insurance (like life and critical illness cover) can help cushion the blow of losing an income.

4

Choosing your path

Understanding how big decisions can affect your finances

Maybe you think it's time to start a business or take a break to pursue other goals. They're all big decisions. And how might they affect your finances now and in the future?

The essentials

– Every big decision you make will affect your finances in the long term.

– It's great being your own boss – but remember to protect your finances in case things go wrong.

– Taking a break from your career might mean you need to think about investing or working a little longer.

Every big thing you decide to do will affect your finances. Understanding how and why this happens will help you act wisely.

Starting your own business
More and more people are becoming entrepreneurs. However, starting your own business can put your finances at risk. If you're thinking about launching your own venture – or you've already done it – consider how you can protect your finances, should your business not be as successful as you hoped.

The main things to consider are:

1. Protecting your retirement plans
2. Protecting your family's assets in case of legal or financial problems
3. Not relying on selling your business to pay for your retirement
4. Getting additional financing, such as a loan, can be more difficult if you're self-employed
5. Speaking to a financial advisor well before you plan to exit or sell your business, to make sure it doesn't harm your personal finances.

Even if your business is doing well, it can be hard getting a loan when you're self-employed. So you might find it tricky buying a home if you don't have another reliable source of income.

Taking a career break
There are many reasons to take a career break. For example, you might want to further your studies, spend more time with your family or help your local community.

Career breaks can be incredibly rewarding. But they can eat into your savings, especially over the long term. You'll need to find money to pay for your living costs. And you probably won't be saving for retirement while you're not working. What's more, the longer you're away from work, the less opportunity you'll have to develop your skills and career. That might harm your future earnings.

So is taking a career break right for you? Think about how important the time is to you and how you might use it. Work out if you're on track to achieve your retirement goals. And if not, will you be willing and able to work longer than you planned? There may be other ways to avoid harming your finances, for example, by investing.

Next steps

Questions to think about and discuss with a financial advisor:

I'd like to start my own business. But how can I protect my finances if my business fails?

If I take a break from my career, how would I cover my living costs? And what can I do to maintain my earning potential while I'm away?

If I have children or take a career break, how might I give my money the chance to grow, so I can still achieve my goals?

5
Taking in the landscape

Understanding the big economic factors

Before traveling abroad for a few weeks, you might want to check the long-term weather forecast for that country. The same goes for managing your finances. What's the forecast for the global economy? And how might it affect your wealth?

The essentials

- Major economic factors like inflation and interest rates can affect your finances significantly.
- A country's Gross Domestic Product (GDP) is a good sign of economic health.
- A little inflation is natural in a growing economy. But too much can devalue your savings and reduce what your money can buy (spending power).
- Most savings products advertise a 'nominal' interest rate. For the 'real' rate (which shows how your money's spending power will grow) you need to subtract inflation.

Seeing the big picture
Macroeconomics is a discipline that forecasts how an economy will perform over the long term. 'Macro' comes from the Greek word 'makro', meaning 'large'. So macroeconomics deals with large-scale (think countries and regions) economic factors, like national growth and interest rates. But how can it help you manage your finances? Here's a quick example.

Say you want to invest in property. The financial markets and your personal finances seem healthy. And it looks like you'll grow your investments. But maybe things don't appear so bright in the national economy. Perhaps unemployment is rising? Or optimism is propping up the property market, so there's a risk the bubble might burst? Knowing this, you might decide to look elsewhere for opportunities. Or you might wait for the market to cool off so you're not paying too much for the property.

To stay ahead, you don't need to be a macroeconomics expert. But to decide wisely, it helps to have a general idea of the economic factors that can affect your money.

Knowing what to look for
So what major economic factors should you keep an eye on? And what can you learn from them?

Gross domestic product (GDP) and economic growth
GDP is the total value of all goods and services produced by all the people and companies in a country. Why does it matter? GDP provides a great way of measuring the health and progress of a country's economy, which in turn affects financial markets. Governments usually calculate GDP every three months. They report quarterly and annual figures, and compare them to the previous period to determine the rate of change.

When people talk about economic growth, they're usually talking about a percentage increase in GDP over the previous year. Economies can contract when the percentage change is negative.

It's natural to think growth is always a good thing. Experience shows that a healthy rate of economic growth is between 2% to 3% a year. And a country is generally thought to be in recession if its GDP contracts for two consecutive quarters. But if it grows too fast, the price of goods and services can spiral (see 'inflation' below), canceling out any increase in spending power.

Inflation
Inflation is the average rate that prices are rising. It's generally expressed as a percentage and determined by a 'consumer price index' (CPI). This index is based on the cost of a typical 'basket' of goods and services, which is checked every month. Comparing these figures over time reveals how quickly average prices are rising.

A little inflation is usually seen as a good thing, as it's a sign of healthy economic growth. But when the economy is growing very quickly, inflation can spiral out of control. That's bad news for savers, as it devalues their money faster over time, reducing its spending power.

Interest rates
Interest is the price you pay for using someone else's money or assets (for example, loans, mortgages, or even vehicles and buildings). It's also the return you earn for lending your money to other people (for example, when you buy a bond). It's usually expressed as a percentage. If the person or business lending to you trusts you to pay it back on time and without trouble, they consider you 'low risk' – and usually charge you a lower interest rate. If they consider you 'high risk', you'll be charged a higher rate. Savings interest is what you earn on your money – because the company you're saving with can lend it to other people looking to borrow.

It's important to remember that the interest rate advertised on savings accounts is almost always a 'nominal' rate. This means the rate doesn't necessarily reflect how much your money will grow, because it doesn't account for inflation.

To work out the 'real' interest rate, subtract the rate of inflation from the nominal interest rate. If the result is positive, your money's spending power will still grow over time. If it's negative, its spending power will diminish.

6

Reading the terrain

Understanding how the economy affects your finances

Household costs. Mortgages and loans. Returns on your savings and investments. All this can affect how you manage your money. But other important economic factors are also at play.

The essentials

- Keeping track of the business cycle can help you decide more wisely about your money.
- The policies of governments and national banks can affect your finances significantly.
- 'Fiscal policy' is how governments adjust their spending and taxes to achieve their big economic goals.
- 'Monetary policy' is how national banks influence interest rates and the supply of money to try and keep the economy healthy.

What's the 'business cycle'?
In a relatively stable economy, you might think that the Gross Domestic Product (GDP) would rise steadily. (GDP is the total value of all goods and services produced by all the people and companies in a country). The reality is, in any economy, GDP rises and falls naturally over time. It's called the 'business cycle'. These are its phases:

Expansion
In the 'expansion' phase, real GDP increases relatively quickly, and a country's employment figures and profits increase. However, wages and prices can start rising as the unemployment rate falls and the country uses more of its productive capacity. Labor also becomes more expensive with employees demanding higher wages. This can lead to higher prices.

Boom
During the 'boom' phase, GDP growth reaches its maximum. Unemployment falls to its lowest point, and consumer spending and business investment rise. Inflation may become a problem, due to increased prices, such as higher wage costs. That's why many central banks aim for a 2% inflation rate. At this highest point in the business cycle, economies can start contracting.

Downturn
After a boom, economic activity might cool down. GDP growth will slow and eventually turn negative. If the period of negative growth lasts for two or more consecutive quarters, it's called a recession. In a recession, company profits decline, unemployment starts rising quickly, and business investment and consumer spending slows down. The inflation rate usually declines. If things get really bad, a recession can turn into a depression. This happens when real GDP declines more than 10% or when a recession lasts more than three years (like the 'Great Depression' in the 1930s).

Trough
The bottom of the business cycle is called a trough. At this point, the unemployment rate peaks and business sentiment (confidence) is at its lowest. This phase marks the shift from a downturn to recovery. The economy picks up speed and the cycle starts again.

What might this mean for your money?
Market forces push the business cycle along. But governments and national banks can do some things to try and stabilize the economy. Their actions can affect your finances, so it's good to understand a bit more about them.

Fiscal policy
Fiscal policy is essentially how governments adjust their tax rates and spending to achieve their big economic goals (macroeconomic goals). The policies often aim to kick-start a slow-moving economy or slam on the brakes if GDP is growing too fast.

For example, if an economy is in recession, the government might choose to lower taxes. This is called an 'expansionary fiscal policy', and it aims to grow the economy by encouraging people to spend more. This increases demand, which leads to companies hiring more people. And as demand for labor increases, wages rise – giving people more money to spend and invest.

On the flipside, if an economy is growing out of control, the government might increase taxes. This is called a 'restrictive fiscal policy'. It's based on the idea that if people are paying higher taxes, they'll have less money to spend and invest. This can help reduce competition in the labor market and slow growth until the economy is healthier.

Monetary policy
Monetary policy involves national banks trying to keep the economy strong by controlling the supply of money and influencing interest rates. To ensure growth and prosperity, it's important to keep prices stable. This is known as 'price stability', which is measured as the rate of inflation. Most industrialized countries' monetary policies aim to stabilize prices in the medium to long term.

For many central banks, price stability means inflation of around 2% a year. If inflation is forecast to rise above this, the central bank might choose to slow down the economy by raising interest rates. This is called 'restrictive monetary policy', because it restricts the supply of money by making mortgages and credit cards more expensive. While this can help cool things down, central banks must make sure inflation doesn't fall too low or even slip into deflation.

If a central bank forecasts deflation (which often happens when an economy is in the contraction phase of the business cycle), it might lower interest rates. This is called an 'expansionary monetary policy'. It can stimulate the economy in the short term by boosting demand for goods and services, encouraging investment and making exports more competitive. But there's a risk it will lower the value of the currency (depreciation) – and increase inflation in the longer term.

To balance and benefit from all these factors, it could be worth 'diversifying' your investments. For more about this, please see page 42.

7 Plotting a course

Planning to grow your money with investments

This chapter explains investing in simple terms. But that doesn't mean investing is simple. Allocating money to assets in the best-possible way requires expert skills and knowledge. So it's always worth speaking to a financial advisor before deciding how and where to invest.

The essentials

- Risk, return (how much your money might grow) and liquidity (how easily you can access your money) are three characteristics of any investment.
- Your investment portfolio should always reflect your feelings about investing and your long-term goals.
- Spreading your money across different investments (diversifying) can make your investment portfolio more stable and less risky.
- You should understand how much it costs to buy, hold and keep different investments – and only choose investments you really understand.

Exploring your feelings about investing
To invest wisely, first work out how you feel about investing. Generally, three things define an investment: risk, return (how much your money might grow) and liquidity (how easily you can access your money).

How soon might you need to access your money?
Are you happy for your money to be tied up in an investment, making it hard to access straightaway? Will you have enough money to cover you in an emergency? Like most things in life, you don't get something for nothing. So if you want your money to grow a lot (high returns) when investing, you'll probably need to accept there will be more risk of losing it. And if you want less risk, you may have to accept lower returns.

Building your investment portfolio
Think about what you want to achieve with your portfolio. For example, would you like to be able to afford a comfortable retirement? Pay for your children's education? Buy a house? Or have extra money to grow your business?

Structuring your portfolio for the long term
Once you know your goals, the next step is to allocate your money into groups of investments that are similar to each other and behave in similar ways (asset classes).

The most common asset classes are:

- **Equities:** Investments in shares of a company – also known as stocks or shares.
- **Bonds:** Investments that pay you a regular income.
- **Real estate:** Investments in property and vacant land.
- **Commodities:** Investments in basic goods and raw materials, such as precious metals, oil, natural gas, agricultural or mining products.
- **Alternative investments:** Investments – such as hedge funds – that are outside the traditional asset classes. To perform well, they usually need investment specialists to manage them carefully.

For more information on asset classes, see page 38.

You'll need to decide how you'll split your money between asset classes. For example, 20% in one, 40% in another, 30% in another and 10% in another.

Next, to make your portfolio more stable and less risky, you may need to diversify your investments so they're not too similar. You can do this by defining the countries, industries or topics you want to invest in within each asset class.

The industry term for a well-diversified asset class mix is 'strategic asset allocation'.

Reacting to market changes
Being flexible and adapting your portfolio regularly can help protect your investments – keeping them on track when economies and markets change. For example, at times, you might tweak the asset allocation slightly to benefit from certain situations, then adjust it back to its long-term allocation. The industry calls these short-term changes to your portfolio 'tactical asset allocation'.

The strategic asset allocation is usually responsible for around 80% of an investment portfolio's results – while the tactical asset allocation accounts for around 20%.

Deciding on investments
So you've decided on the long-term shape of your portfolio. And to keep it on track, you know you can adapt it occasionally to changes in the markets. Your next step is to choose your portfolio's investments. To help you decide, here are some questions you can ask about each investment.

- How might the worst possible loss in the investment affect my financial situation?
- How much will it cost me to buy, hold and sell the investment?
- How easy is it to buy or sell the investment?

Here's the main thing. Before choosing an investment, you need to feel comfortable with it. Don't sign anything if you don't understand the investment or big parts of it, like the risks and how much it costs.

Ask yourself these questions:

How do I feel about risking my money? (investment preferences)

How much would it affect me if my investment dropped in value? And how long would I be happy to wait for it to go up again?

How important is it to me that my investment grows a lot? (high returns)

How much do I need my money to grow to achieve my goals? Do I want it to grow quickly? Or will I be happy just knowing it's not losing value?

How soon might I need to access my money? (liquidity)

How do I feel about tying my money up in an investment where I can't access it quickly? Will I have enough money to cover myself in an emergency?

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Striking the right balance

Reducing debt, saving money

Debt can be easy to take on and hard to pay off. The longer you take to clear it, the more it costs. On top of all of this, it's important to save too. But how? Here are some tips.

The essentials

- Your priority should be able to pay the minimum on all your debts.
- You should pay off high-interest debts first.
- Building up savings can help you avoid needing to borrow money if things go wrong.
- The interest you might earn on investments can be greater than the interest you pay on things like mortgages and student loans.
- Sometimes, bringing debts together in one place (consolidating) can make them cheaper and easier to manage.

It's usually better to pay off debts before you start to save. That's because the interest you pay on debt is generally higher than the interest you'll earn when saving. But it's not always quite that simple.

Good debt, bad debt?
Debt generally comes in two camps: good and bad. Good debt enables you to buy assets that can become more valuable over time, like a house or business. It will generally make you wealthier, because the amount you can earn from the asset will usually be higher than the interest you pay on the debt.

Bad debt? Think credit cards or car loans. They enable you to purchase items that become less valuable over time. In other words, the amount you can earn selling the items will be less than the original cost, plus interest, than you pay on the debt.

So you should generally pay off bad debts first. That's because the interest rates on bad debts are usually higher than the returns you might get investing on the stock market – and definitely higher than the interest you could earn on typical savings accounts.

When it pays to save
There are some situations where it make sense to save while you're paying off debt.

Getting a safety net
Building up savings (an emergency fund) that help you cope with unexpected events in life can be more important than paying off debt. It's generally a good idea to have savings that cover between three-to-six-months' income. And it helps you avoid borrowing money if things go wrong.

Having cash on the side
For example, if you're paying a mortgage, you might want to put some money aside. Because once you pay money into a mortgage, you can only get that cash back by selling or remortgaging your home. That takes time and money. Putting some cash aside can mean you don't need to take out more loans.

Putting your money to work
It can make sense to invest your spare money. You might consider this when the amount you could make investing over time is higher than the interest on your debt. That's often the case with mortgages and student loans. But remember that interest rates that aren't fixed can change rapidly. If they rise, so will the cost of your debt – and the minimum you'll need to pay to clear it. So before investing, think about how interest rates could change.

Support from the government or employers
Depending on where you live, you might find government or employer schemes that match your savings up to a certain level, or give you tax credits for retirement savings. Saving can be really attractive with these schemes.

Leverage
Remember, some investments have a 'leverage' component, which means your money will be much more exposed to an asset than the amount you first invested.

Next steps

Here are some things to think about:

- **Which debt has the highest interest rate?** You'll generally want to repay the debt with the highest interest rate first.
- **Do I need to pay a minimum amount each month on my debts?** You should always pay the minimum amount.
- **Is the interest on any of my debts tax-deductible?** Your debt is effectively cheaper if the interest is tax-deductible. Depending on where you live, this may be the case for a mortgage or student loan. Assuming the interest rates are the same on your debts, you should first repay debts that aren't tax-deductible.
- **Should I combine my debts into one (consolidation)?** You could reduce your debts and make them easier to repay by bringing them together. This often reduces the total interest you pay.

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Picking a travel companion

Getting support from financial experts or advisors

It's great knowing people are looking out for you. Especially when it comes to your finances. Having a good partner by your side can save you time, give you peace of mind, and help you build the wealth you need to achieve your goals.

The essentials

– Some financial firms specialize in certain areas, while others (often bigger firms) offer a broad range of services.

– Good advisors will have the right qualifications and credentials – check them before you meet.

– Any reputable advisor or investment firm will do some sort of assessment to identify your 'risk tolerance' to understand your aversion or appetite for taking risks in the context of investing.

– Financial companies with strong brands generally invest more to protect your data and privacy.

– When comparing the costs of different financial advisors, ask if there are any additional or hidden charges.

Knowing your advisor

A lot comes down to their qualifications, experience, and expertise in different areas. An insurance specialist won't be able to advise you on investments. And an investment bank can't help you manage your money. So who does what? Here's a quick overview to help you work out who to contact first.

Retail banks

They're usually just called 'banks' in everyday conversation. They offer basic advice and services for your daily banking needs, like current and savings accounts, deposits, mortgages, and credit cards. Most offer online banking. But many also have branches that you can visit to meet advisors or perform transactions.

Independent financial advisors

These are qualified financial advisors who advise people and companies without receiving commission for recommending products. This means you can feel sure they're not steered by financial incentives when they advise you. Many charge a fixed fee or by the hour. And in many countries, independent financial advisors have their own associations, credentials and memberships.

Wealth managers

Banks with wealth managers are often known as private banks. They specialize in advising wealthy people (including those with complex finances) on their money and investments. To help people with every area of their life and finances, they often tackle lots of topics – such as investments, passing on wealth to the next generation, retirement, and charitable work.

Corporate banks

Corporate banks serve businesses with complex needs, such as managing large lines of credit, and dealing with complicated import and export transactions. Businesses often work closely with investment banks to make sure transactions run smoothly.

Investment banks

Investment banks serve businesses, institutions, hedge funds, governments and, in some cases, individuals. They offer advice and research on financial markets, and support on complex transactions like mergers and acquisitions (M&A), initial public offerings (IPO), hedging, and debt financing.

Online banks

These generally give you the services of retail banks – but only online. This means they can often charge lower fees than larger banks that employ advisors and run branches. However, it can mean they're less able – or unable – to support or advise you. With more and more online banks launching, fraudsters can pose as advisors or even create convincing websites to trick you into trusting them. So do your research before putting your money into any kind of online bank or company.

Things to look for when choosing a financial advisor

Before you approach any financial advisor or company, find out if they're licensed in your country – or you may not be protected by regulations if something goes wrong. Check their financial strength, history and reputation. And find out if their claims are credible by checking trustworthy sources like associations and government websites.

Qualifications and credentials
Every country has different rules on the qualifications and credentials people need to work as a financial advisor.

To understand the rules in your country, check government or association websites. These sites usually have lists of accredited advisors that may help you find the right person to work with. To see how advisors work in your location, ask them for documents such as FAQs (frequently asked questions) and codes of conduct.

Good advisors will list their qualifications and credentials on their website, in a brochure, or on a business card. You can also check the quality of an advisor's company by looking at the grades rating agencies have given them.

Capital strength
A large, established firm is more likely to be able to secure your wealth, because it's strong enough to handle adverse events and negative market conditions.

In particular, they can protect your money by investing heavily in detecting and stopping fraud. And they have the resources to protect your data and privacy from growing online threats. So when looking at a financial advisor's company, it's worth checking their financial ratings, how well they protect data and secure customers' money. You can do this by checking the firm's financial ratings from companies like Moody's, Fitch, and Standard & Poor's.

Access
Make sure you can easily contact your advisor and that they have people covering for them when they're away. You'll want to be able to reach someone if markets take a negative turn while your advisor is on holiday.

Costs
It's important to find an advisor with the right fees. They might charge you for each transaction they complete, for example, investing in an asset or setting up a service. They may also charge an ongoing fee, such as every month or year. Or they might charge a percentage of the money you want to invest. So ask different financial advisors to let you know their fees. You can then compare their offers.

Financial products and advice have specific prices. They're usually expressed in 'basis points' (bps), where 100 bps equals 1%.

Personality and ethics
Ultimately, a good financial advisor is a professional, who listens to you, understands your needs, and helps find solutions that are best for you. They should also help you become more financially confident, by giving you all the information you need to choose the right solutions.

One bank or more?

Your accounts might be with just one bank. That keeps things simple because there's only one place to go when you need to do or check anything. But there are times it might pay to put your money in more than one place…

– **Thinking twice:** If your savings are with another bank, you might think twice about dipping into them – especially if it takes a while to access the money.

– **Getting a better deal:** Your current account bank might not offer the best rate on your savings. So it's worth looking around for a better rate.

– **Spreading your money:** Some schemes protect people's deposits and savings up to a certain limit, should the bank go out of business. If your savings total more than the limit, to protect all your money, it could be worth spreading it across different accounts.

– **Specialized services:** You might need specialists to help with certain types of services.

Making sense of investment factsheets

Here are some of the terms you'll find in an investment factsheet – and what they mean.

- **Fees:** Before investing, you'll need to know the fees the company will charge you for transactions and managing the investment (if it's a 'managed fund').
- **Risk assessment:** This shows you the risk of losing your money. A fund may be too risky for you depending on your age, feelings about risk and financial situation.
- **Returns:** You can usually see how much or little the investment has grown over the last five to ten years. This can give you an idea of what you might get for your money (but remember, past performance doesn't indicate future performance).
- **Performance of the current year (or 'performance overview'):** This can give you a feel for how well an investment is performing. The factsheet will usually show you the results for each month during the year.
- **Performance since inception:** This shows you how the investment performed over a longer time (since it started). The factsheet might also show how it compares with another investment or benchmark.
- **Average yearly return since inception:** This shows an average of how the investment has performed each year since it started.
- **Volatility:** Volatility shows how much an investment's price has changed over a certain time. Investments are considered less risky if they have low volatility. Double-digit volatility numbers can be a sign of a risky investment.
- **Maximum drawdown:** For an idea of how risky an investment is, this shows you the investment's biggest loss in one month since it started.
- **Ratings:** It's worth checking the ratings of official rating agencies. Usually, ratings with multiple letter As or plus (+) signs describe less risky investments. Letters B and below usually describe riskier investments. The most famous rating agencies are Moody's, Fitch, and Standard & Poor's.

Next steps

Questions to ask a financial advisor:

What does your business focus on?
For example, brokerage, retail banking, corporate banking, wealth management or investment banking?

What areas do you specialize in?
For example, investments, mortgages and insurance?

How strong is your company, financially?
What financial ratings have you received from Moody's, Fitch, and Standard & Poor's?

How will you charge me for your services?

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Asking for directions

Getting the best from your financial advisor

A good financial advisor will always take the time to understand your financial situation and goals before recommending what to do. The first step is usually to gather information on your situation, finances, goals, and feelings about investing.

The essentials

– Your financial advisor should fully understand your financial situation.

– They should appreciate how much or little you know about money and investing, and do all they can to ensure you understand.

– They must understand your goals for your investment, capacity for losing money and feelings about risk.

– They should never try to pressure you down a particular path.

Why have a financial advisor?
A financial advisor is a qualified professional who can set up and manage your finances in a way that enables you to achieve your goals. This involves helping you think about your needs and ambitions, and creating a financial plan to meet them.

Preparing for your meeting
It's worth thinking about your financial situation before meeting a financial advisor. It will help make everything clear, and give you an idea of how much you can save and invest.

Completing a budget plan can also help (there are lots online). But for the full picture, ask yourself these questions too:

- What assets do I own? (such as property)
- How much of my money is tied up in things like property, cars and other investments?
- What debts and obligations do I have (liabilities)? For most people, a mortgage is the obvious one. But do you have any more?

To help you get the most out of your meeting, gather this information and perhaps even share it with the financial advisor before you meet.

Questions to ask in the meeting
There might be lots you want to ask as the meeting progresses. Remember, there are no silly questions, so don't hold back. A good financial advisor will answer all your questions clearly and patiently.

Do they usually look after people like you?
To help you achieve your goals, a financial advisor needs to understand your world and the things that are important to you. They're more likely to recommend the right things to do if they're experienced helping people in similar situations to yours. Ask what kinds of client they have experience with. This is particularly important if your family situation covers multiple nationalities and jurisdictions.

What will they charge you?
Before taking you on as a client, a financial advisor should be clear about the fees they charge – whether it's an hourly rate, a fixed fee or a percentage based on the value of your investment. They may not be able to give you an exact figure upfront. But they should be able to give you an estimate – or at least an upper-limit figure. And once they've proposed investments, they should be absolutely clear about their costs. Always ask to see the total costs, not just percentages or basis points (fractions of a percentage).

What influences their recommendations?
Find out whether they're independent. Some financial advisors are linked to certain companies and will only recommend their products. But an independent financial advisor can offer you many more products from different financial companies. Most big brands also have an 'open architecture' approach, which means they can offer products from their own business and other companies.

Do they understand your financial situation?
Any good financial advisor will get the full picture of your financial circumstances. The more open and honest you are about your situation, the better they can advise you.

Do they know what you want to achieve?
You might have a goal for your investments – like saving for retirement or buying a holiday home. Or you might just want to protect and grow your money. Your goals and wishes can affect the way you invest (your investment strategy). So it's important your advisor knows what you want to do with your investment.

Do they know how much you can afford to lose when investing (personal loss capacity)?
Your financial advisor should be able to work out your personal loss capacity by discussing your financial situation. Your personal loss capacity is your ability to cope with the risk of losing money through falls in financial markets.

Most financial advisors will base your personal loss capacity on the ratio between your 'free assets' and your total liquid assets. Your free assets are calculated by deducting foreseeable future financial liabilities from your total liquid assets. This ratio indicates the maximum relative loss you could bear without it directly affecting your current lifestyle.

Do they know your feelings about risk?
They should understand your thoughts about risk when investing. It's important to work out how much risk you're willing to take to get the returns you expect. This is called your 'risk tolerance'. In other words, how much risk are you willing to accept that you might lose money while trying to grow it? To make things easier, some financial advisors use 'reference portfolios' that show different levels of risk and match your feelings against them. Any reputable advisor or investment firm will do some sort of assessment to identify your 'risk tolerance' to understand your aversion or appetite for taking risks in the context of investing.

Do they account for how much or little you know?
A good financial advisor should work out how much you understand about investing. They should provide you with all the information you need to fully understand a product and its risks.

After the meeting
Remember, you're in the driving seat. Don't rush into anything during your meeting. Don't feel pressured into deciding then and there. Take your time to reflect on the information, and whether you'd be happy following the advisor's suggestions.

Most importantly, if you feel the meeting didn't go well, ask for another financial advisor. You need to find someone you trust and feel comfortable with.

11 Minding your step

Protecting yourself online

Billions of us are spending more time on the internet, using our phones, laptops, tablets, computers and smart TVs. With cyber criminals becoming ever more sophisticated, there's a growing threat to your personal information and finances.

The essentials

– Shred any printed material you don't need.

– Update your passwords regularly (such as every three months) – and use strong passwords that mix capital letters, lower-case letters, numbers and symbols.

– Provide companies with alternative contact details, so they can get hold of you if necessary.

– Use two-factor authentication (an online security process that requires two pieces of identifying information) for important accounts.

– Only check your online accounts in a secure setting, not a public place (like a café).

Secure your devices
Cyber criminals love hacking into devices that connect to the internet like laptops, tablets and smartphones. So you need to secure them. You'll also need to make sure people can't access your devices if you lose them.

Only install software from trusted sources, and keep the software up to date. The same goes for anti-virus software. Make sure it's good quality, and look for features such as 'virus scanners'. To stop dangerous attachments reaching your email inbox, choose software with a feature called 'spyware detection'.

Always lock your devices when you're traveling. And to stop important information falling into the wrong hands, avoid doing business on public devices like computers in hotel lobbies and conference centers.

Stay safe
Here's how to protect yourself on the internet.

– Update your passwords regularly, for example, every three months. Use strong passwords and don't re-use old ones.
– Create passwords that mix capital letters, lower-case letters, numbers and symbols.
– Use different passwords for different websites, so criminals can't access all your accounts if they find one of your passwords.
– Consider using 'password manager' software to store and manage the passwords on your non-financial accounts.
– Only go to sites that are secure – look for 'https' at the start of the website address.
– Use 'two-factor authentication' (2FA) if it's available, for example, on Gmail and iTunes.
– Don't leave passwords near your computer, for example, on post-it notes.
– Use a secure portal to access and share your financial documents. Their extra layer of security helps protect your identity and information.
– Only check your online accounts in places you know are secure. Avoid checking them in public places.

It's not online, but it's still important to remember – shred any printed material you don't need, especially if it contains personal and financial information.

Don't give anything away
Criminals can learn a lot about you by looking at your social media, such as Facebook, Twitter and LinkedIn. Because they know so much about you, they can find ways into your accounts. They might also trick you into telling them personal information. For example, you might receive an email asking you to click a link urgently and provide account information. However, at the end of the link is likely to be software that grabs your passwords and passes them onto criminals. Some software can even record which buttons you press.

– Choose the highest privacy settings you can when using social media. For example, choose which people can see your posts and information.
– Watch out for emails asking you to click links and provide information (these are known as 'phishing' and 'social engineering' attacks).
– Be careful not to discuss personal information in public places – you never know who's listening.

If in doubt, call

A professional financial advisor will never ask you to email them confidential information or passwords. If this happens, or anything looks suspicious, call them to make sure they sent you the email.

A professional advisor should also provide a 'call back'. For example, if they receive an email from you instructing them on an investment, they should call to check it came from you.

12
Navigating the digital landscape
Knowing the trends and risks

Shopping, socializing, banking… it's all in easy reach from your computer and smartphone. There are new ways to manage your money online too. Here's a snapshot of the big developments in the digital world – and the risks to look out for.

The essentials

- Cryptocurrencies are a form of digital money, like Bitcoin. The technology behind them is called 'blockchain'.
- Robo advisors are online services that invest people's money automatically in investment portfolios. Check they're genuine before using them.
- Crowdfunding is a way of raising money online, for example, to launch products, offer shares in companies, ask for donations to charities, and lend to people and companies.
- Never click on an email link or attachment from a person or address you don't know or trust.
- Keep an eye out for 'phishing' emails, which often have poor formatting and spelling, and come from unusual email addresses.
- Beware of emails that appear to be from bosses in your business, asking you to do things like transfer money.

The trends

New digital technologies, services and currencies are appearing online all the time. What are they? And what should you consider before exploring them?

Cryptocurrencies
Cryptocurrencies are digital currencies (Bitcoin is the most famous) that have attracted much media attention. As people become increasingly attracted to investing in cryptocurrencies, there's a risk of a 'bubble' bursting. This happened in the 2018 cryptocurrency crash, when values grew to unrealistic levels then collapsed soon after.

The technological system that drives them – blockchain – is likely to significantly benefit industries such as finance, manufacturing and healthcare. A blockchain is an enormous digital database of transactions. Instead of each member of the network having their own list of transactions, there's just one list – the 'distributed ledger' – which everyone shares. This makes blockchain systems virtually unhackable and indestructible. Unless every computer in the network is destroyed, there will always be a valid version of the database somewhere to keep the system going.

While it's almost impossible to commit fraud on blockchain systems, hackers can still break into online 'wallets' and exchanges. And mistakes can be made, for example, sending assets to the wrong address. Errors like this can't be reversed, and stolen or lost assets can't be recovered.

It's not clear whether cryptocurrencies will ever become useful or stable forms of storing and exchanging value. While their prices might increase, it's hard to estimate a fair value for them. There's also a risk that investors lose everything they've invested.

So it pays to be very cautious. If you're going to invest in them, it's wise to limit your investment to an affordable amount. And think about how you'll exit your investment. To make sure you're secure, just like any financial account, never share your passwords or backup keys with anyone. Plus, with so many cryptocurrency scams doing the rounds, only access information from well-known and trustworthy sources.

Robo advisors
Robo advisors are digital services that invest people's money automatically into investment portfolios. They can be attractive to new investors, as they can invest a relatively small amount for a low fee, compared to traditional funds. However, unlike a financial advisor, they can't advise you individually, based on knowing about you, your life and situation.

As robo advisor services are launching all the time, you should check they're genuine before using them. Find out where the business providing the service is based and whether it's a certified financial company licensed to operate. Before handing over your money, you should also research the company's reputation, financial strength and brand.

Crowdfunding
Crowdfunding is a way of raising money online for different goals. It allows people, groups and companies to ask for money from supporters. Usually, the person or company using a crowdfunding service ('platform') will set an amount they want to raise and the date they need the money. There are four main types of crowdfunding platform:

- **Rewards-based:** Individuals and groups run campaigns to raise money, for example, for a product (such as a band's new album or a new digital device). Those asking for donations then offer rewards, for example, a signed copy of the album or, for a higher donation, a house concert.
- **Equity:** Investors can buy equity (shares) in a company. This can help the company fund new ideas. However, investing this way can be risky. So make sure you're comfortable with everything before going ahead.
- **Donations:** Individuals and groups can ask for donations to charitable causes – such as raising money to build a school for a community or paying the medical expenses of someone who can't afford them.
- **Lending:** Investors can lend money to people or companies that need it. The borrowers can often repay the loans using the same crowdfunding service.

The risks

What goes online doesn't always stay online. The data behind everything you do – like online banking and shopping – can end up in the hands of hackers. Here are a couple of the biggest risks around and tips on how to stay safe.

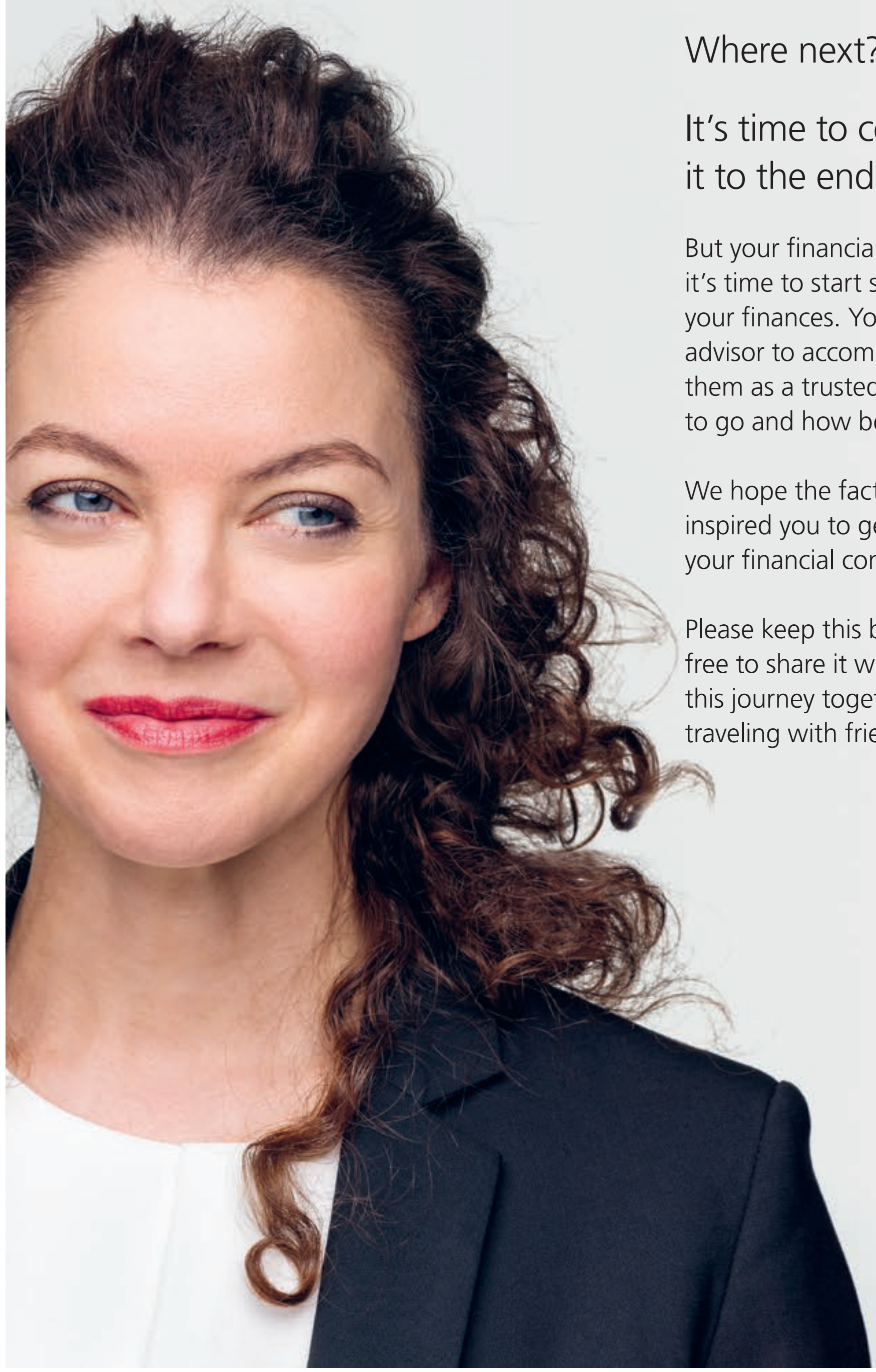
Held to ransom
One day, you're happily using your computer. The next, you can't access your files. A message pops up saying you can only access them by paying a ransom – usually in a digital currency like Bitcoin, because it can't be traced. If this happens, you've been hit by 'ransomware': malicious software that locks data on computers and devices connected to the internet (including phones and smart TVs). They can strike at any time, especially through 'phishing' emails (fraudulent emails that trick you into revealing personal information).

If you fall prey to ransomware, there's software that can help you retrieve your data without paying a fee. However, it can be tricky to do. So it's best to be careful: never click or open anything you're unsure of (especially in emails); and always back up your data, for example, to an external hard drive. Phishing emails usually look unprofessional, with poor formatting and spelling. And some arrive from odd-looking email addresses. But not always, so be vigilant.

The big risk
'Whaling' is another major threat, especially for businesses. It usually involves a hacker pretending to be an executive of a business – and emailing an employee, asking them to transfer money. The hacker either has access to the executive's email inbox or sends emails from a fake domain name. The emails can escape spam filters and reach employees, because they're written by humans and have no attachments.

You can protect yourself from whaling by installing special software. But as with any online threat, beware. Hackers are always creating new domains for sending emails. So check the email addresses carefully. And only act on email instructions when you're sure it's from someone you trust. If in doubt, call back on a number you know is genuine (not the one in the email).

Congratulations



Where next?

It's time to celebrate – you've made it to the end of this workbook…

But your financial journey is just beginning. Now it's time to start setting up the right plan for your finances. You might also want to choose an advisor to accompany you on your travels. See them as a trusted guide helping you decide where to go and how best to get there.

We hope the facts and ideas in these pages have inspired you to get started. Most of all, we hope your financial confidence continues to grow.

Please keep this book close at hand and feel free to share it with others. Because we're on this journey together. It's good to know you're traveling with friends.

Before you go, ask yourself…

How can I have even more impact with my wealth?
It's a great feeling when you take control of your wealth. And the more financially confident you become, the more you might consider your purpose.

Your purpose is the reason you get out of bed every morning. It's the thought that quickens your pulse whenever it crosses your mind. For some, it could be starting a business. For others, buying a dream home. Starting an art collection. Or changing the world for the better. Yours might be unique to you. There are as many reasons as stars in the sky.

So whatever your purpose, how can you achieve yours? By ensuring that everything you do with your wealth and across your various roles – as an individual, family member, entrepreneur, investor, philanthropist and more – focuses on reaching it. With every area of your finances and life aligned towards the same ambition, you can achieve more than you ever thought possible.

That takes careful planning. But you don't have to do it alone. At UBS, we can join you on your journey, from helping you define your purpose to steering your wealth towards it.

So not only can you make life better for yourself and your loved ones. You can make your purpose a reality. Now that's really something to be proud of.

> "Some people dream of success, while other people get up every morning and make it happen."

Wayne Huizenga,
American business magnate (1937 – 2018)

Appendix

Appendix 1

About us

UBS

UBS provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as private clients in Switzerland. UBS's strategy is centered on our leading global wealth management business and our premier universal bank in Switzerland, enhanced by Asset Management and the Investment Bank. The bank focuses on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook.

Headquartered in Zurich, Switzerland, UBS has offices over 50 regions and locations, including all major financial centers, and employs over 68,000 people around the world. UBS Group AG is the holding company of the UBS Group. Under Swiss company law, UBS Group AG is organized as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

UBS Global Wealth Management

As the one of the world's largest wealth managers, UBS Global Wealth Management provides comprehensive advice, solutions and services to wealthy families and individuals around the world. Clients who work with UBS benefit from a fully integrated set of wealth management capabilities and expertise, including wealth planning, investment management, capital markets, banking, lending and institutional and corporate financial advice.

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Appendix 2

Joe and Jane's wealth journey

As the following illustration shows, Joe and Jane can both achieve their goals, assuming their investments deliver an average 3% return each year. After buying their homes, and before retiring, their investable assets increase significantly. This is due to compounding (investment earnings are also reinvested); and their net income increasing during their most productive years.

Jane

Joe

Assumptions:
- Jane's starting salary is slightly lower than Joe's due to the gender salary gap.
- Jane's salary will grow less than Joe's because she takes a short career break and starts part-time work.
- Jane's expenses will grow less than Joe's.
- Our assumptions about their pension and real estate are the same.

Jane's and Joe's individual wealth

Source: UBS

Joe and Jane, age 25

Starting salary: 110,000 US dollars (inheritance of 1 million US dollars at age 24)
Salary increase: 1% (25-30 years), 4% (31-51 years), 2% (52-64 years)
Starting expenses: 70,000 US dollars
Expenses growth: 0% (25-30 years), 2% (31-51 years), 3% (52-64 years)

1. Pay gap

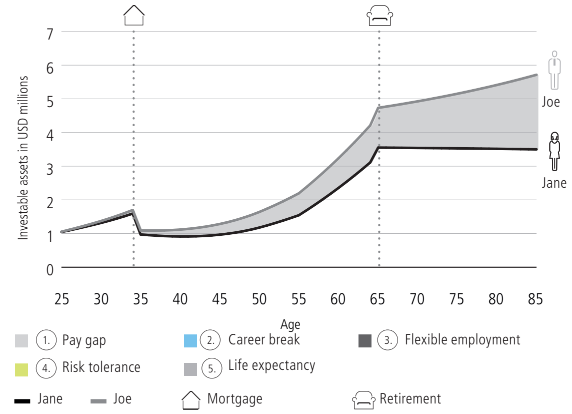
The result of pay gap

The pay gap will significantly affect Jane's cash flow. The gap creates big differences between Joe and Jane's wealth – driven by how the difference in salary compounds over their lifetimes. As listed in the appendix, we assume Joe's salary is 10% higher than Jane's, since Jane works in an industry that pays less (based on the average gap across developed economies). This implies that Jane will earn around 800,000 US dollars less than Joe over her working life. Jane will therefore have 38% less wealth by age 85 than Joe. The following figure illustrates these differences.

Buying a home, age 35

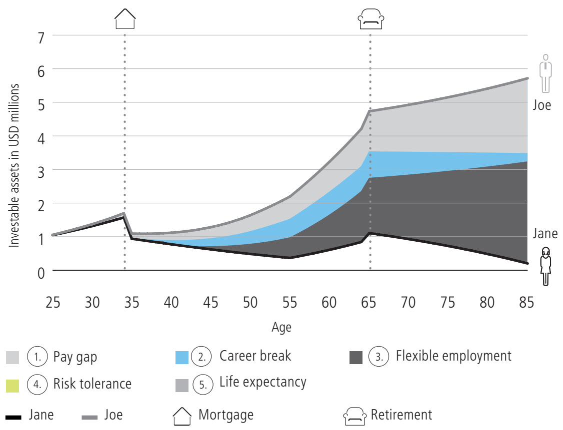
Value: 2 million US dollars
Mortgage: 1.3 million US dollars
Annual interest rate: 1.50%
Amortization (time of paying back the mortgage): 20 years

The result of pay gap discrepancy



Source: UBS

Lower net income diminishes Jane's wealth dramatically



Source: UBS

3. Flexible employment

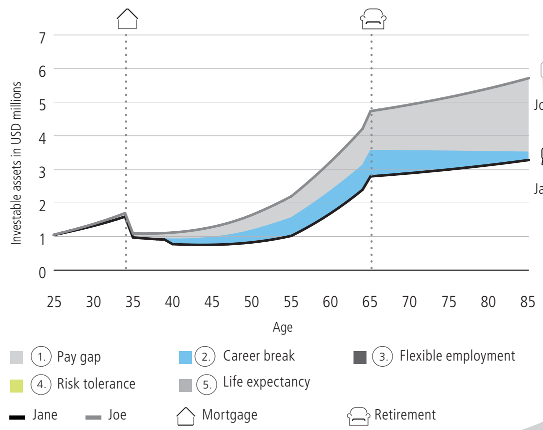
Jane's lower net income diminishes her wealth dramatically

We also assume Jane has a flexible work arrangement where she works part-time. This stalls her career further and results in a 96% decrease in the value of her wealth, as illustrated.

Retirement, age 65

Pension: 10% salary contribution
Pension payout versus annuity: 50%
Pension conversion rate: 6.8%
Effective tax rate: 15%

The result of Jane taking a short career break



Source: UBS

2. Career break

The result of Jane taking a short career break

We also assumed that Jane had a break in her earnings because she takes a year off unpaid, at age 40. This means she has forfeited a year's salary, with no net savings from this period to invest over time.

Additionally, this stalls her career progression slightly. When these assumptions are included in the model, Jane's wealth at age 85 is 43% less than Joe's.

4. Life expectancy

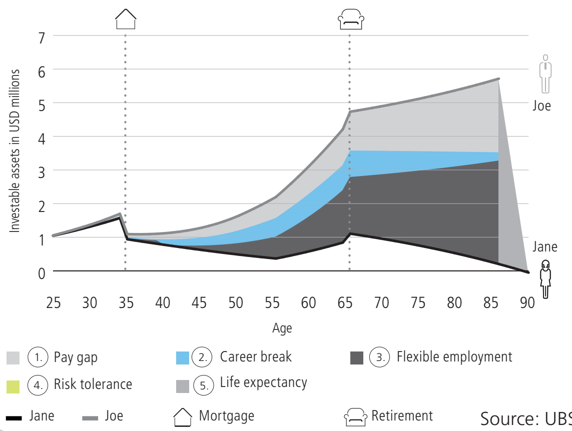
Impact of Jane's longer life expectancy

As expected, Jane's lower net income harms her wealth significantly over her lifetime.

The following example shows that Jane would not be able to achieve her goal of passing wealth to the next generation.

Even more importantly, because women typically live longer than men, Jane will also struggle to maintain her lifestyle.

Impact of Jane's longer life expectancy



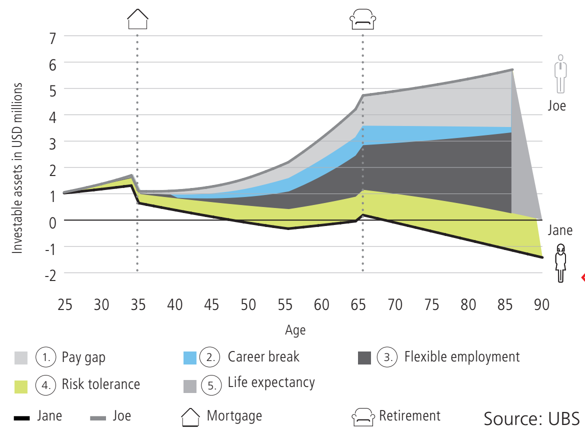
Source: UBS

5. Risk tolerance

Jane's conservative investment approach may damage her investment portfolio

Jane's situation becomes even worse if she invests too conservatively. Women sometimes have a lower risk tolerance. The following illustration shows the effect of Jane's investment portfolio delivering returns of 1% a year rather than the previously assumed 3%.

Jane's conservative investment approach may damage her investment portfolio



Source: UBS

As Jane chose an investment that is less risky (lower volatility), she cannot achieve her goals and is unable to support herself in retirement.

For illustrative purposes only. Forecasts do not reliably indicate future performance/results. Readers should not rely on the assumptions and outcomes detailed above to determine any investment strategy or draw any conclusions on investments.

Appendix 3

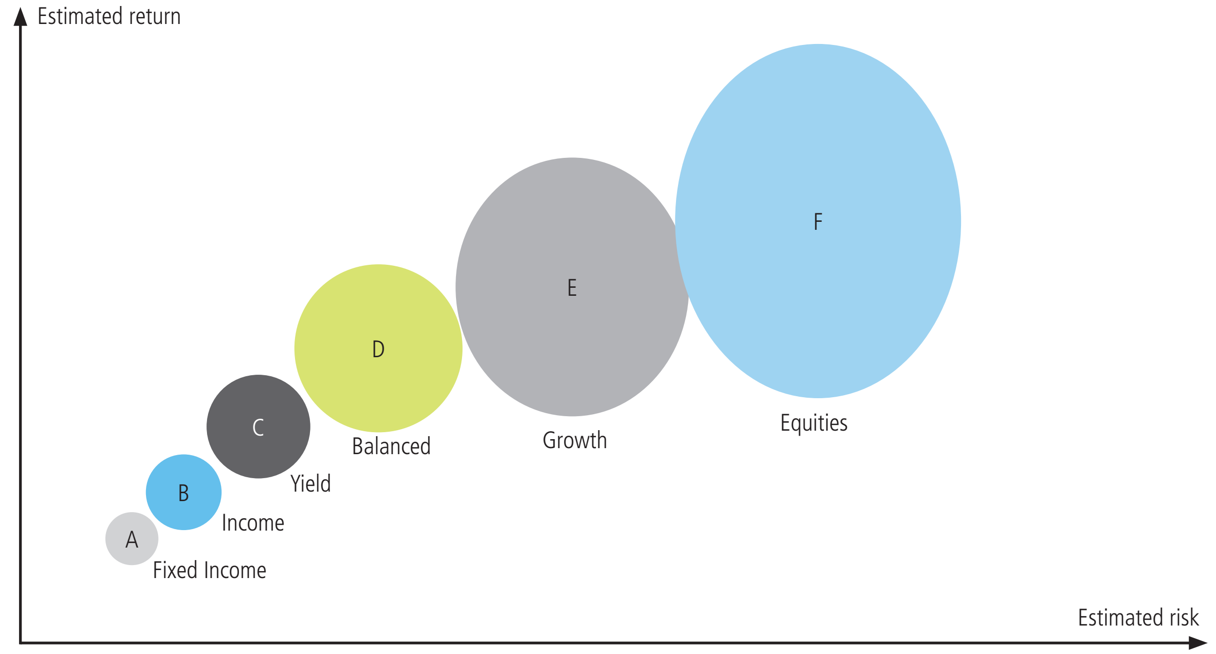
Risk and return in investment portfolios

When investing, it's important to work out how much risk you're willing to take to get the returns you expect. This is called your 'risk tolerance'.

It can be tricky picturing the risks of investments. So the chart should make it clearer. It shows six reference portfolios, from A (very low risk tolerance) to F (very high risk tolerance). And it indicates the level of risk an investor can expect for the returns they want, and vice versa.

Any reputable advisor or investment firm will do some sort of assessment to identify your risk tolerance to understand your aversion or appetite for taking risks in the context of investing.

The figures are based on a long-term analysis of the underlying reference portfolios. While historical data can never predict the future, it intends to indicate risk and return characteristics as accurately as possible. Financial modeling of risks and returns involves considering historical data and market expectations, which UBS investment specialists provide.



For illustrative purposes only. Forecasts do not reliably indicate future performance/results.

Simulated historic annual returns from best to worst

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Best	80.5%	21.9%	14.3%	29.2%	32.6%	13.4%	13.3%	17.5%	37.8%	10.2%	33.6%	21.4%	4.9%
	79.0%	19.2%	11.2%	22.3%	30.0%	11.8%	9.9%	13.3%	29.3%	6.7%	31.6%	18.7%	3.1%
	58.1%	15.6%	7.6%	21.5%	27.6%	11.3%	5.6%	11.6%	24.4%	2.2%	24.2%	14.9%	0.4%
	43.4%	15.4%	7.3%	18.6%	27.3%	7.4%	2.3%	11.6%	23.6%	1.1%	21.1%	12.8%	0.0%
	38.6%	15.1%	5.5%	17.4%	21.5%	5.7%	1.3%	11.4%	22.4%	-0.2%	20.1%	12.0%	0.0%
	32.5%	13.5%	4.4%	17.0%	20.7%	5.5%	1.2%	10.4%	21.9%	-1.7%	18.9%	10.8%	0.0%
	29.8%	13.1%	3.2%	16.1%	15.0%	4.3%	1.2%	10.2%	21.5%	-2.3%	17.6%	9.4%	-0.1%
	27.1%	12.9%	2.0%	15.5%	11.0%	3.4%	1.2%	8.0%	18.0%	-4.0%	15.0%	8.5%	-0.2%
	26.6%	12.2%	0.3%	15.3%	9.0%	2.5%	1.1%	5.9%	10.3%	-4.3%	14.4%	7.5%	-0.3%
	18.6%	9.0%	-1.2%	13.5%	7.4%	0.7%	0.4%	4.0%	7.9%	-4.5%	13.9%	7.3%	-0.3%
	13.5%	8.8%	-2.5%	10.5%	0.3%	0.2%	-0.3%	2.7%	7.8%	-8.2%	13.6%	6.1%	-0.4%
	13.4%	8.3%	-5.7%	8.8%	0.1%	-1.8%	-0.6%	2.3%	7.5%	-8.3%	10.1%	5.3%	-0.9%
	11.5%	8.1%	-5.7%	8.4%	-1.2%	-3.7%	-4.6%	2.1%	7.0%	-12.6%	9.3%	1.6%	-1.0%
	6.4%	6.8%	-6.0%	5.9%	-1.7%	-5.4%	-7.5%	0.8%	5.8%	13.8%	8.9%	0.7%	-1.0%
	4.2%	5.7%	-14.2%	4.8%	-1.8%	-7.4%	-9.5%	0.6%	3.9%	-14.1%	8.4%	-1.6%	-1.1%
	0.9%	0.3%	-16.9%	0.4%	-2.3%	-7.8%	-14.6%	0.0%	3.2%	-14.2%	6.4%	-10.4%	-2.0%
Worst	-16.8%	-3.2%	-18.2%	0.1%	-5.3%	-33.1%	-32.9%	-4.0%	1.2%	-16.4%	2.4%	-23.7%	-2.0%

- FTSE USD Euro Deposits 3M
- ICE BofA Euro High Yield
- BBG Barclays Euro$ AA+ 5-7y
- BBG Barclays US Intermediate Corp.
- ICE BofA US HY Master II Cnstr.
- JPM CEMBI Diversified
- JPM EMBI Global Diversified
- MSCI EMU
- MSCI Emerging Markets
- MSCI Japan
- MSCI Switzerland
- MSCI United Kingdom
- MSCI USA
- CAPE US Private Equity Index
- HFRI Fund of Funds Composite
- NCREIF Property Index
- GSCI Commodity Index

Source: UBS Quantitative Investment Solutions (QIS). Time horizon: 30 December 2008 to 29 January 2021

Simulated Historical Performance

- Historic risk/return simulations are based on the theoretical performance of the standard benchmarks or indices underlying the portfolios over the specific time horizon. The historical performance shown does not reflect your actual performance but, rather, was calculated by the retroactive application of historic index results to the asset allocation(s) analyzed. Because the asset allocations were structured with the benefit of knowing how each asset class performed during the period shown, the hypothetical returns may be higher than the returns of a portfolio that would have been recommended during the time period shown. In addition, backtested performance does not reflect the impact that past economic and market factors might have had on investment decision-making. The results shown reflect realized and unrealized gains and losses and the reinvestment of income, but do not include the impact of transaction costs, taxes and inflation. If these were included, the results shown would be lower. Please note that the historic backtest analysis assumes that the asset allocation was rebalanced at the beginning of each month back to the initial asset allocation. This rebalancing frequency does not necessarily reflect how an actual portfolio would have been managed. There is no guarantee that these backtested results could, or would, have been achieved had this asset allocation been used during the years presented.
- These hypothetical, past performance results are not an indicator of how this strategy will perform in the future. Actual results will differ and may be better or worse than those shown. Market and economic conditions will change over time and these and other future developments will impact the future risks and returns of different asset classes.
- In addition, as noted above, these results are based solely on the historical performance of certain broad-based indices, which are identified and described in this presentation. Client accounts to be managed employing this asset allocation strategy will not be invested in all securities comprising any index or in the same proportions as those securities are represented in the index and a client's holdings within any asset class will be significantly less diversified than the corresponding index.
- The graphs and charts do not represent the investment performance results of any actual client accounts that were invested employing this asset allocation strategy.

These are the indices underlying the table:

FTSE USD Euro Deposits
Captures short-term cash deposit rates.

ICE BoFA Euro HY Constrained
Captures the performance of below investment grade (higher risk) corporate debt, issued in the markets in Euros.

BBG Barclays Euro$ AA+ 5-7y
Invests in lower-risk corporate bonds that have a remaining life between five and seven years; and are in US dollars but not held in America.

BBG Barclays US Intermediate Corp
Measures the performance of debt from American and non-American industrial, utility, and financial institutions; lasting one to ten years; and issued in US dollars.

ICE BofA ML US HY Master II Const
Measures the performance of corporate debt, which is below investment grade (higher risk), and issued in America in US dollars.

JPM CEMBI Diversified
Measures the performance of corporate debt across emerging markets. However, it limits the amounts from single countries to capture performance from a wider sample of emerging market countries.

JPM EMBI Global Diversified
Measures the performance of the debt markets across emerging markets worldwide. However, it limits the amounts from single countries to capture performance from a wider sample of emerging market countries.

MSCI EMU
Measures the performance of stocks based in the Economic and Monetary Union of the European Union (EMU).

MSCI Emerging Markets
Captures large and mid-cap representation across 24 emerging market countries. It covers around 85% of the free float-adjusted market capitalization in each country.

MSCI Japan
Measures the performance of the Japanese market's large and mid-cap segments. It covers around 85% of the free float-adjusted market capitalization in Japan.

MSCI Switzerland
Measures the performance of the Swiss market's large and mid-cap segments. It covers around 85% of the free float-adjusted market capitalization in Switzerland.

MSCI United Kingdom
Measures the performance of the UK market's large and mid-cap segments. It covers around 85% of the free float-adjusted market capitalization in the UK.

MSCI USA
Measures the performance of the US market's large and mid-cap segments. It covers around 85% of the free float-adjusted market capitalization in the US.

CAPE US Private Equity Index
Captures a portfolio of different private equity funds with different strategies and hedge fund managers.

HFRI Fund of Funds Composite
Captures a portfolio of different hedge funds with different strategies and hedge fund managers.

NCREIF Property Index
Provides returns for institutional grade real estate held in a fiduciary environment in the United States. Institutional investors use it as a benchmark for the performance of real estate.

GSCI Commodity Index
Benchmarks investments in the commodity markets and measures commodity performance overtime. This tradable index is available to market participants of the Chicago Mercantile Exchange. It is a world-production weighted index based on the average quantity of production of each commodity in the index, over the last five years of available data.

User-defined USD
Captures short-term cash deposit rates.

Appendix 5

Financial glossary

Accumulation phase	Your life before you retire when you're building up assets by saving and investing. The accumulation phase involves gathering enough assets to live comfortably during retirement, when you no longer receive income from working.
Aggressive strategy	An investment approach that may involve a higher level of risk which, in turn, may result in a higher gain or loss compared to a conservative investment strategy.
Alpha	A measure of an investment's performance, adjusted for risk. Alpha tells you how much better or worse an investment did, relative to what it was expected to do based on its level of risk. Higher alpha numbers are better than lower, because a 'positive alpha' means the investment exceeded expectations.
Alternative investments	For example hedge funds and private equity. Their risks and performance are mainly a result of people's investment skills and expertise rather being exposed to a certain market. Their liquidity (ease of accessing the money) is generally lower than for traditional investments.
Anti-virus software	Software that regularly scans your computer and files for security risks like spyware and computer viruses. You need to keep it up to date, so the software can spot new types of risks.
Asset	Something of value that you own. This could be property, savings accounts, pensions or other investments. You should include these items in your wealth plan.
Asset allocation	How assets are allocated to make up an investment portfolio. Assets are allocated into different asset classes, geographic areas, currencies and other financial instruments.
Asset class	Any group of assets that react in a unique way to big factors driving the economy. The most important asset classes include cash, equities and fixed income.

Note: This glossary is based on the UBS Dictionary of Banking, and adapted by an editor for easier reading. For the full glossary, please visit ubs.com/glossary

Bad debt	For an individual, bad debt is money borrowed to buy items that decline in value over time, and reduce wealth rather than building it. To work out whether something is bad debt, ask yourself, will the item I've bought increase in value? Or give me an income? If not, it's usually bad debt.
Basis points	A unit of measure. One hundred basis points equal 1%.
Benchmark	This is a reference measurement against which you can compare an investment portfolio's performance (such as a share index or a portfolio of indices).
Bonds	Investments mainly exposed to fixed-income markets, such as interest rate and issuer risks. They include convertible bonds and structured products that guarantee to protect the investor.
Boom	An economic boom is the period in the business cycle when GDP is growing steadily. It's also known as an upturn or upswing.
Budget plan	A personal plan of your future income and expenses during a certain period (usually one year).
Business cycle	All the regular and irregular fluctuations in GDP around a long-term trend level. It comprises these phases: upswing, peak, downturn (or recession) and trough.
Capital	The amount of money you've invested in a particular investment. The money you've invested can increase and decrease as markets rise and fall; or as you invest in or withdraw from your investment.
Commodities	Investments in basic goods and raw materials, such as precious metals, oil, natural gas, agricultural products and mining products.
Compound interest	The interest you earn on interest you've previously earned. Compound interest makes the money you save grow faster, because you're earning interest on a larger amount of money every time.
Compounding	The growth of your money that happens when you earn interest or returns – and that new amount of money earns its own returns.
Conservative strategy	An investment approach that involves less risk – and less opportunity for higher returns, compared to an aggressive investment strategy.
Consumer price index (CPI)	A comparative measure of the overall level of prices in a country's economy, weighted for certain typical consumer goods. The CPI tracks changes in the costs of goods and helps identify inflation or deflation. A 1% increase in the CPI corresponds to an inflation level of 1%.
Cybercrime	A type of crime that involves people using digital devices unlawfully. Cybercrimes are becoming increasingly common, with criminals using computers to steal data, damage systems and break into financial accounts.
Cyber security (also computer security)	A field of security devoted to protecting digital devices and data from theft and damage.

Appendix 5

Decumulation phase (retirement)	The time in life when you're retired and no longer working to earn an income; and you live off your assets, or the income your assets generate.
Deflation (price)	When the overall level of prices in an economy are falling. Deflation can cause a recession. In such times, central banks will usually try to encourage consumers to spend by introducing certain measures.
Derivatives	Types of tradeable assets where the price depends on the value of underlying assets. The most common type of derivative is a futures contract, where the asset's price depends on the expected future price of a stock, bond or commodity at a specific point in time.
Disposition effect	The tendency for investors to hold on to poorly performing assets longer than they should, and sell positively performing assets too early.
Diversification (risk)	Also known as risk spread or risk spreading. It aims to optimally balance risk in an investment portfolio by diversifying across different geographies, currencies, sectors and companies.
Diversified portfolio	An investment portfolio that's been carefully diversified to optimize the return you might receive against the level of risk you take (see diversification).
Dividend	A payment made to shareholders as a distribution of the company's profits. The company's Board of Directors usually proposes the rate of dividend, which is agreed at a company general meeting. Dividends can take the form of a cash payment, an issue of additional shares, and dividends in kind.
Economic growth	This usually refers to growth in a country's output from one period to another. People often use the terms 'GDP growth' and 'expansion' to refer to economic growth.
Emergency fund	An amount of money you've put aside (usually in a savings account) to cover unexpected situations and expenses, like unemployment or car repairs. A rule of thumb is to have three to six months' income in your emergency fund.
Entrepreneurship	The act of starting your own business or pursuing an innovative business opportunity.
Equities	Also called stocks or shares. The value of a share is the total value of the company divided by the number of shares in issue.
Equity risk	A type of financial risk. It refers to the risk you face when holding a certain equity or financial product.

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Expansion	The phase of the business cycle when the economy is growing, following a trough or peak. It's also known as a 'boom' or 'economic recovery'.
Expenses	In the context of your budget, this refer to all the items you need to pay for within a certain time, such as rent, groceries and debts.
Financial advisor	A professional who helps you manage your money, and protect and grow your assets. Their advice can cover many areas, including savings, investments, insurance, mortgages, legacies and retirement. In most countries, financial advisors are regulated and must be licensed to advise people.
Financial crash/crisis	An event in the financial markets when the market prices of assets – such as stocks – decline significantly. Sometimes, a financial crash affects a specific financial market. Other times, it can affect markets worldwide because they're so closely connected.
Financial forecast	Provides an estimate of how your money will grow (or decline) over time. To give you a more accurate estimate, the forecast usually accounts for factors like income, interest, investment returns and expenses.
Financial institutions	Organizations that conduct financial transactions such as payments, investments, loans and deposits. Banks, investment banks and insurance companies are typical examples of financial institutions.
Financial market instrument	Any standard tradable financial product that can be traded on financial markets.
Financial markets	A broad term describing marketplaces where buyers and sellers can exchange financial assets such as stocks, bonds, currencies and commodities.
Financial plan	A combination of a personal budget and financial forecast. The plan takes into account your current assets, income, expenses and savings; and forecasts how your money will grow over time. A good plan also accounts for planned future expenses and your goals, preferences and needs.
Financial situation	The current status of your assets, debts, income and expenses. Understanding your financial situation is a big part of creating a good financial plan.
Fiscal policy	How a government influences its country's economy, by increasing or reducing government spending and tax rates.
Fixed costs	Expenses in your budget that you have to pay in fixed periods, such as rent, energy bills and debts.
Fixed income	A type of financial asset that pays you a predictable return at regular intervals. Bonds are the most common example.
Free assets	The amount of money you can invest and make work for you. They are the liquid assets that are neither reserved to pay back existing expenses or dedicated to a future purpose.

Appendix 5

Futures (contract)	A standardized contract traded on an exchange. The seller promises to sell or buy a quantity or quality of a commodity (commodity future) or a specified amount of a financial instrument (financial future) on a specific date for a specific price.
Gender-lens investing	Investing for financial returns while aiming to improve the lives of women and girls. This is an increasingly popular approach to investing.
Goals-based investing	This involves deciding on investments based on your goals for the future. Thinking about what you want to spend your money on in the future and being realistic about how much you'll spend will help you decide when, where and how much to invest.
Good debt	Good debt enables you to buy assets that can become more valuable over time, like a house or business. It will generally make you wealthier, because the amount you can earn from the asset will usually be higher than the interest you pay on the debt.
Gross domestic product (GDP)	The measure of macroeconomic performance in a domestic economy over a period of time.
Hacker	A cybercriminal who uses various techniques to illegally access computer systems and private data. Ethical hackers sometimes use the same practices to highlight weaknesses in companies' IT systems.
Hedge funds	A private collective investment fund. Hedge funds use various investment techniques, are lightly regulated, and often accept only a very limited number of investors to ensure their investment strategy remains flexible. Hedge funds are categorized according to the asset classes they invest in (such as equities and bonds), geographic and thematic orientation, and strategies.
Home bias	The tendency of investors to prefer investments from their own country or region, despite the fact that diversifying geographically is typical in well-diversified portfolios.
Identity theft	When a criminal or hacker uses illegally obtained personal data to pose as you, and apply for credit and loans.
Impact investing	A form of sustainable investing that invests in companies and initiatives that positively and measurably benefit societies and the environment.
Income	Inflows of capital from work or investments (such as your salary); income from real estate; or dividends from shares.
Index fund	A type of fund where the portfolio follows specific rules. Many index funds track a market index like the Dow Jones or the S&P 500.

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Inflation	A statistically determined measure of price rises and, in turn, the decline in the value of money. The inflation rate shows the percentage change in price levels over a given period (such as a month or year).
Interest	Money an individual or business earns for lending money to a borrower or for holding money as a deposit in a savings account.
Interest rate	The rate of interest for a year expressed as a percentage of the capital saved or invested.
Investing	Placing money in a property, security or other item of value, or in a venture – generally for the long term.
Investment	An asset with a monetary value that you buy and intend to sell for a higher price in future.
Investment advice	Advice given to a potential investor regarding transactions in certain products. Good investment advice always considers the investor's goals, situation, preferences and needs.
Investment fees	Fees an investor pays to conduct a transaction, or for having their money managed.
Investment fund	A place where investors pool their money and invest jointly. A fund management company manages the assets in line with the fund's investment strategy.
Investment horizon	The time period an investor wishes to leave their money invested.
Investment instrument	A specific asset, such as a corporate bond, shares in a company, or another investment product.
Investment objectives	Also known as 'investment preferences'. Investment objectives are the goals you want your finances to achieve in the future – and the portfolios, parameters, currencies, investment horizon, risk tolerance, and service you require to reach those goals.
Investment portfolio	A pool of investments owned by an individual or organization. The owner or a professional portfolio manager can manage the portfolio.
Investment risk	How exposed you are to losing money – for example, should an investment's price fall or a creditor become insolvent. Financial market theory measures the risk of an investment by the degree of potential return fluctuations.
Investment strategy	Investment strategies define target values and ranges for various portfolio parameters, like asset and currency allocation, expected volatility and returns. The investment strategy should match your tolerance to risk – and be the foundation of how a financial advisor advises you on investments.
Investment temperament	How an investor's emotions affect their decisions and preferences.

Appendix 5

Key-logging software	A type of software that hackers secretly install on computers to track everything typed, including account information and passwords. Anti-virus software can usually identify and remove this.
Legacy planning	A service some financial advisors provide to help people plan for allocating and protecting their assets as they age (or after they have passed away).
Leverage	Money borrowed to invest. It increases the amount you can invest and, as such, can increase the potential returns. However, it also increases the downside potential (risk).
Liability	A financial debt that you owe. It could be a credit card balance, loan, or mortgage for a property. You should include liabilities in your wealth plan.
Liquid assets	Assets you hold with a bank, such as current and savings accounts, term deposits, and securities that you can sell within two months without losing too much money.
Liquidity	Pure cash and near-cash investments. Near-cash investments are very short-term deposits or investments, and may provide better rates of interest than pure cash.
Liquidity preference	How important liquidity is to you as an investor. If you think you may need to access your money very quickly, you'll have a high preference for liquidity.
Lombard loan	Also known as securities-based lending, which involves taking a loan that uses securities (for example stocks and bonds) as collateral. These loans typically have lower interest rates.
Loss aversion	How much you prefer avoiding losses to growing your money.
Loss capacity	Your ability to cope with the risk of losing money on your investments.
Macroeconomics	A field of study devoted to the major movements in national and global economies. It deals with topics such as GDP growth, inflation, interest rates and employment.
Market index	The measure of the value of all components in a stock market compared to a base value from a specific start date.
Market indicators	Statistics that professional investors use to predict how a financial market index is likely to develop over time.
Minimum payment	The minimum amount you need to repay regularly on a liability to avoid fees and other penalties.

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Monetary policy	All the measures a central bank takes to control money supply, interest rates, and the exchange rate against foreign currencies.
Money supply	The stock of money that exists in an economy at any time. An important aim of economic policy is to stabilize prices (and inflation) by steering the money supply.
Mortgage (loan)	A loan secured by a contract on real estate. The rates of interest on mortgages are lower than on many other loan types. That's because the bank can sell the security (property or land) to cover the unpaid loan (known as a mortgagee sale).
MSCI	An independent provider of research-driven insights and tools for institutional investors (such as banks, companies and funds). MSCI is most famous for its indexes, for example, MSCI Emerging Markets, which comprises large and mid-capitalization emerging market equities.
National banks (also known as central banks)	Institutions that control a country's money supply. Central banks play a major role in stabilizing countries' economies by regulating and controlling the money supply.
Nominal interest rate	Interest rates that don't account for the rate of inflation, so do not reflect real returns. Interest rates listed by financial institutions are almost exclusively nominal interest rates.
Philanthropy	Donating money, time and services to charitable causes.
Phishing	A type of cyber attack. To access your account illegally, hackers trick you into entering your account details and passwords on websites that appear genuine.
Portfolio (see investment portfolio)	A pool of investments owned by an individual or an organization. The individual or a professional portfolio manager can manage the portfolio.
Privacy settings	Settings you can adjust in your online accounts, such as social media, to protect your personal data.
Purchasing power	The number of units of one or several types of goods that can be exchanged for one unit of money. It's the ratio between money and goods, or how much money can buy within a country.
Ransomware	A type of software that cyber criminals use to lock up data on digital devices, like computers. They then charge the victims a ransom to unlock the data. To avoid ransomware, it's best to install quality anti-virus software and not open files from unknown sources.
Rating agency	A company (such as Moody's, Fitch and Standard & Poor's) that assesses the creditworthiness of securities and the companies that issue them.
Real estate	Investments in property and vacant land.

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Real interest rate	An interest rate that's calculated by subtracting the annual inflation rate from the stated (or nominal) interest rate. If inflation is higher than the interest rate, then real interest rates are negative.
Real return	A nominal return less inflation. This gives you a good idea of the purchasing power of your return.
Recession	The stage in the business cycle when activity declines, characterized by falling GDP.
Return (nominal)	An annualized rate of return on an investment, expressed as a percentage. The return consists of coupon payments plus any capital gains or losses.
Risk appetite (also risk tolerance)	Your feelings about risk when investing. For example, you may be willing to accept financial risks – or not.
Risk-free return	The return on an investment in a first-class treasury bill.
Risk profile	A description of how you view risk relating to your financial assets – and how much risk you're willing and able to take.
Risk-return profile	Also known as risk-earnings profile and risk/reward ratio. It compares the anticipated risk of an investment against the expected return. If the return is greater, then the investment goes ahead.
Share	Also known as stocks and equities. The value of a share is the total value of the company divided by the number of shares in issue.
Share price	The market price of one share in any company traded on the stock market.
Shareholder	A part owner of a company, who holds one or more shares in it.
Sharp ratio	The amount of income from an investment minus the money you could have earned investing in a risk-free investment (such as US Government Treasury bills) – all divided by the investment's cost, and usually shown on an annual basis.
Specific risk	The risk an investor is exposed to in an investment or group of investments. It's also known as diversifiable risk, because the risk can be reduced by diversifying the portfolio to include investments that don't share the same risks.
Strategic asset allocation (SAA)	The basis of long-term investment thinking. It ensures investment strategies are optimally constructed by buying the right amount of the right investments in the right areas of the world at the right time.
Sustainable investing	An investment philosophy that aims to perform comparably to traditional investments while benefiting the environment and society.
Systematic risk	The risk an investor faces when investing in a market or market segment. It's also known as undiversifiable risk or volatility because diversifying can't reduce the risk.
Tactical asset allocation (TAA)	Sometimes, market conditions offer short-term opportunities. To capitalize on them, investors move away from strategic asset allocation. This is known as tactical asset allocation.
Tax deductible	This involves buying an expense that you can subtract from your gross income – so you reduce your taxable income by that amount.
Tier 1 capital	A measure of a bank's financial strength. It refers to the sum of the bank's equity capital and reserves.
Treasury bills	Short and medium-term debt certificates issued in bill or note form by a government.
Trust	A legal agreement in which a person defines how their assets should be managed and held. Trusts are often used to help provide for a family after someone has died. There are many types of trusts for different countries, situations and needs.
Two-factor authentication	A process that requires two ways of confirming a person's identity before they can access an account. This usually means entering a password and a token sent to an email or phone number. It's recommended for accounts containing sensitive data, like bank accounts and email accounts.
Uncertainty aversion	How much you prefer a certain outcome over an uncertain one.
Variable costs	Costs in your budget that may change from month to month or week to week. Spending, such as on eating out or hobbies, are typical examples of variable costs.
Volatility	A measure of the price fluctuations of a product or portfolio over a certain time period. Volatility is usually quoted in percentages. The higher the number, the more volatile the investment.
Wealth planning	An important tool for helping you make financial decisions. It involves looking at your future and forecasting how your wealth might change over time. It's based on your goals, projected incomes and spending, and your current assets and liabilities.
Whaling	A cyber attack related to phishing. Whaling generally targets companies by tricking employees into sending large sums of money to fraudsters, usually by sending invoices that look genuine. To pose as an employee or manager, fraudsters often use email addresses that look very similar to the company's email address.
Yield	The amount of income from an investment divided by the investment's cost. It's usually shown on an annual basis.

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Further reading

Financial confidence

- A Grand Gender Convergence: Its Last Chapter (C. Goldin, 2014)
- A Profile of Financial Planning For Women Participants: Implications For Education And Advising (J. Lown, 2010)
- As More Women Become Leaders, Financial Literacy Is A Key Ingredient (C. Schwab-Pomerantz, 2017)
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- Financial Literacy And Financial Behavior: Assessing Knowledge And Confidence (C. Tokar Asaad, 2015)
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- Financial Literacy: Women Understanding Money (Australian Government, 2017)
- How Ordinary Consumers Make Complex Economic Decisions (A. Lusardi, O. Mitchell, 2017)
- Men vs. Women: Investment Decisions (Blackrock, 2014)
- Own your worth (UBS, 2019)
- Reaching And Retaining The Female Investor, Closing The Gender Gap Of Advice (SSGA, 2017)
- Taking Action: How women can best protect and grow their wealth (UBS CIO WM research, 2017)
- The Gender Wage Gap: Extent, Trends And Explanations (F. Blau, L. Kahn, 2016)
- The Global Gender Gap Report (World Economic Forum, 2016)
- Women And Wealth – The Case For A Customized Approach (EY, 2017)
- Women and Investing: A Behavioral Finance Perspective (Merrill Lynch, 2015)
- Managing the Next Decade of Women's Wealth, Boston Consulting Group, April 2020
- Women as the next wave of growth in US wealth management, McKinsey & Company, July 2020
- True Wealth: Letters on Money, Life, and Love (Diana Chambers, 2016)

Investment and finance

- The ABCs of investing (UBS, 2016)
- UBS Strategic Asset Allocation (SAA) Methodology and Portfolio, (UBS, 2017)
- Investing successfully through analysis, strategy and discipline (UBS, 2016)
- The Little Book Of Behavioral Investing: How Not To Be Your Own Worst Enemy (J. Montier, 2010)
- The UBS Wealth Way (www.ubs.com/privatemarkets)

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- Global Entrepreneurship Monitor Report (Women's Entrepreneurship) (GEM Consortium, 2017)
- Women-Owned Business Report (American Express, 2017)
- Funding to Female Founders, Crunchbase, 2020
- The Alison Rose Review of Female Entrepreneurship, 2019
- Why are women entrepreneurs missing out on funding?, European Investment Bank, 2020
- Why women owned start-ups are a better bet, Boston Consulting Group, 2018
- Nordic startup funding – the untapped potential in the world's most equal region, 2020 (Unconventional Ventures, UBS and others)
- Women's Wealth 2030 – Parity, power and purpose (UBS, March 2021)
- The funding gap – investors and female entrepreneurs (UBS, March 2021)

Financial technology

- Cutting through the blockchain hype (UBS, 2017)
- The evolution of artificial intelligence (UBS, 2017)
- Building the trust engine: how the blockchain could transform finance (and the world) (UBS, 2017)

Social impact

- Gender-lens wealth (UBS CIO WM Research, 2017)
- Mobilizing private wealth for public good (UBS, 2017)
- Doing well by doing good (UBS, 2016)
- UBS Social Investment Toolkit (UBS, 2017)
- Diversity and Equality – Longer term investments (UBS Chief Investment Office, January 2021)
- The commercial case for diversity and inclusion – Executives & Entrepreneurs (UBS Chief Investment Office, February 2021)
- Sustainable finance – 10 trends for 2021 (UBS Chief Investment Office, January 2021)
- www.gendersmartinvesting.com

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