InvestLikeAPro

Passive Investing Blueprint

Pro-Grade Rules for Passive Compounding & Income

Manish Kataria CFA
InvestLikeAPro.co.uk

Welcome to this guide to Passive Investing - written especially for investors looking to deploy their capital in a passive, profitable, but prudent way.

I'm Manish Kataria, founder of InvestLikeAPro which exists to help investors discover, de-risk and diversify their passive investments.

When I talk to private investors, amongst the various topics of discussion, the most common questions I get asked usually involve the following:

- *How to invest effectively for capital and income?*
- *Is now the right time?*
- *How to reduce risk?*

The principles covered in this guide will steer you towards answering these big questions. These are principles I practice and implement daily in my own personal investing.

At InvestLikeAPro, our aim is to show how **simple** investing really is. I have professionally managed money for two decades and earned the CFA qualification in the process. Despite that, and having managed numerous strategies in equities, fixed income, derivatives and property, one lesson stands out for me: *simple strategies always outperform complex ones*.

So why does investing seem so complex? Well, the investment industry is highly competitive, so wealth and fund managers **need** to create perceived complexity to set themselves apart. Believe me, the complexity is just clever marketing designed to make them sound clever and make you buy. The investment firms I worked with, including JPMorgan, all had *excellent* marketing skills!

John Bogle, founder of Vanguard (world's second-largest investment manager) summed it up perfectly: *"Investing is not as difficult as it looks. Successful investing is doing a few things right, and avoiding serious mistakes"*. He went on to say *"The greatest enemy of a good plan is the dream of a perfect plan"*.

At InvestLikeAPro, we don't want to manage your money. Our goal is to **guide** you to invest with the highest standards - consisting of diversified, low-cost, de-risked investing to provide long-term passive compounding.

I've condensed the most important things I've learnt in my 18-year career as a pro, into an easy-to-implement Investment Academy programme. You'll not only learn professional-grade insights, but save thousands £pa in excessive fees. All in a simplified, step-by-step way.

I want to equip as many investors as I can with the same knowledge and tools that I personally use to manage my own investments and also enable you to "**Invest Like a Pro**".

Rules of the Blueprint

1. Before Driving, Set your GPS:
   Know Your Objectives

2. Einstein's 8th wonder of the World:
   Max your Compounding

3. Don't line the pockets of your Fund/Wealth Manager:
   Minimise Fees

4. Make Friends with the Taxman:
   Utilise Tax breaks

5. Grab your Free Lunch:
   Diversify to lower risk

6. Time **in** the Markets, not **timing** the market:
   Beware of sitting on Cash

7. Return OF your Capital before Return ON your Capital:
   Do your own DD

"Risk reduction means focusing on the Return OF your Capital before considering the Return ON your Capital"

From Rule 7: Do your own independent due diligence

1. Know Your Objectives

Be clear on your objectives before making your investment choices. Otherwise, it would be like getting in your car and driving off without a destination in mind. Know what you need then work backwards.

Two real examples illustrate this (their names have been changed):

1. Tim is an IT manager working for a global firm. He earns £160k pa which is more than enough to cover his monthly outgoings. Tim wants to build his BTL property portfolio at a faster pace but struggles with the capital required for the deposits.

It turned out that a large part of Tim's portfolio was in income-producing investments such as cash ISAs, P2P loans and corporate bonds. When asked why, Tim said the higher rates looked attractive.

But did he **need** those higher rates and the additional income? No, because his salary was more than sufficient. What he really **needed** was to generate capital growth. After this *aha moment* he restructured his portfolio towards capital gains, focusing more on stocks, property development and private equity - all of which can enable a faster route to the required capital growth.

2. Priya left her corporate role a couple of years ago and was now fully focused on building a property portfolio. She had accumulated a large savings pot which helped to sustain her before the property business got off the ground. Although her savings pot was sizeable, it was being drawn down due to a lack of regular income.

Looking at the composition of Priya's portfolio, around 65% of it was in higher-risk capital generative investments such as private equity, start-up venture capital and emerging market equities. What Priya really **needed** right now was an income replacement strategy that relieved pressure on her savings. She began to look at higher-yielding HMOs, lending on bridging loans and other asset-backed debt investments, and Options that can generate regular cashflow income. Moving into these investments helped provide two-thirds of Priya's income requirements and allowed her to use her savings to grow her property portfolio rather than funding her living expenses.

How to start with your end-objectives and work backwards:

1. Sit down and detail what you have today and what you actually **need**

2. **Quantify** what you need and **when** - eg: £250k in 5 years or £5,000 pm income in 5 years. Or it might be a target for your children's long-term future

3. This then tells you **WHY** you are investing

4. Now work backwards for **HOW** to achieve your **WHY**. DOWNLOAD THIS CALCULATOR TO HELP YOU. Now you're ready to make investments consistent with your objectives. Eg if you need 7% pa you won't reach it with a cash ISA. On the other hand, if you need 2.5% pa you won't need to take on a risky acquisition dependant on planning gain.

5. Investments may include stocks, ETFs, funds, bonds, options, property, development, higher-yielding debt investments etc. The investment choice is large but your **why** dictates your need for capital growth, income, security, liquidity or some combination.

2.Maximise Your Compounding

This one is a biggie! It’s all about the power of **compounding** which Einstein called the 8th wonder of the world. **Your wealth will be magnified by reinvesting and compounding your returns.**

A common mistake is to **spend** your investment income/dividends instead of reinvesting. That limits your compounding. An example using simple maths illustrates the power of compounding:

Let’s say you have £50,000 to invest. Now let’s compare what happens to your capital in 4 different scenarios:

a) you spend all your income

b) reinvest your income but don’t make further new investments

c) reinvest income and make further investments of £5k pa

d) reinvest income and make new investments of £20k pa to maximise your ISA allowance.

The results are summarised in the table below:

The magic of compounding: Starting Capital £50k	**Income Spent**	**Income Reinvested**		
	a	b	c	d
	7% income pa, Income Spent	7% income pa, Add £0 pa	7% income pa, Add £5k pa	7% income pa, Add £20k pa
Year 0	50,000	50,000	50,000	50,000
Year 5	50,000	70,128	98,881	185,142
Year 10	50,000	98,358	167,440	374,687
Year 25	50,000	271,372	587,617	1,536,352
Years taken to double capital		10	5	2

Comparing those scenarios:

Scenario a): You spend all your income. Your capital constantly stays the same.Of course, the real value of your £50k, after inflation, is much reduced after several years.

Scenario b): By reinvesting your income, the magic of compounding starts to appear. Your capital **doubles in 10 years**.

Scenario c) becomes more interesting. Making regular annual investments of £5k, coupled with reinvestment, compounds your initial £50k into £167k after 10 years. **It doubles after 5 years**.

Scenario d) utilises your full annual ISA allowance. Here, your £50k **doubles after only 2 years**.

These outcomes are incredible, but the financial principles are very simple: **reinvestment, regular investment** and **compounding**. The assumed 7% annual return is actually lower than the historical trend for equities, for example.

How? Always reinvest your income. And don't sit in cash. Moreover, maximise your additional regular investments as much as possible - even ahead of paying your other bills (a reference to Richard Kiyosaki's, *Rich Dad, Poor Dad*). Then, let compounding work its magic!

3. Minimise Fees: Make Your Investing Low-Cost

Very few people realise just how much in fees are given away to fund and wealth managers - trust me, I used to be one! Some fees are transparent (annual management fees, OCF or TER) whilst many others are harder to decipher - eg entry and exit costs, admin and custody fees, trading transaction costs, trading commissions etc.

Management costs can total up to 2% pa – that's the "leakage" from your capital. Often, it can be much more than 2% pa. What does that equate to in money terms? Imagine you have £100k invested that returns an average of 6% pa. Compounded over 25 years, your capital would ordinarily grow to £430k. However, after leaking 2% pa in fees (which results in negative compounding) for 25 years, you are left with only £260k. That's **£170k of your capital eaten away in fees and costs**.

On our Investment Academy programme we teach you, step-by-step, how to take control of your investments through simple low-cost passive funds and ETFs. That would generate a vastly better result, as shown in the chart below (Blue is what you keep, Pink is what you leak).

How? Having been a fund manager and knowing all the costs, I always advise investing via low-cost **ETFs and tracker funds**.

The largest providers include Vanguard and iShares, made possible through most investment platforms within an ISA, SIPP or SSAS.

4. Let the Taxman be your Friend

Many investors don't utilise the generous tax breaks on offer. Pensions and ISAs are two obvious ways to invest in a tax-efficient way. Outside of these shelters you could be liable for **income tax** (up to 45% on interest and 38% on dividends) and **capital gains tax** (CGT) of up to 28%.

In property, there are other taxes including tax on received rents (previously, this was a tax on profits), corporation tax on development profits within a company or CGT on disposals.

An accountant or tax advisor can provide much more detailed advice on tax efficiency.

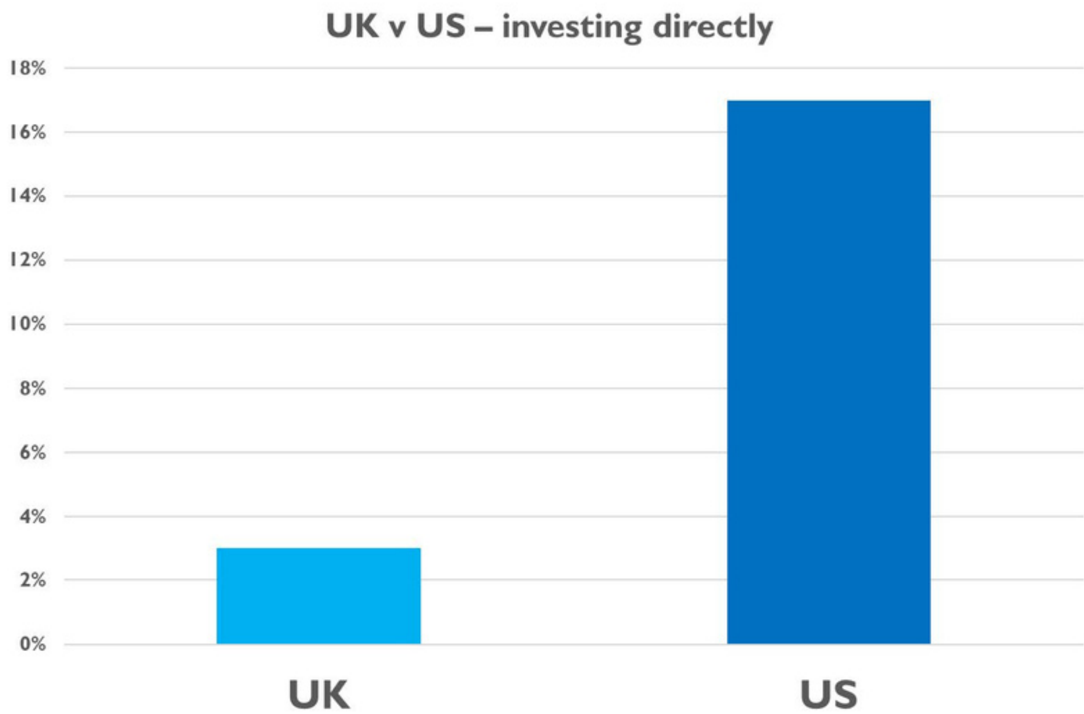
Stocks & Shares ISA

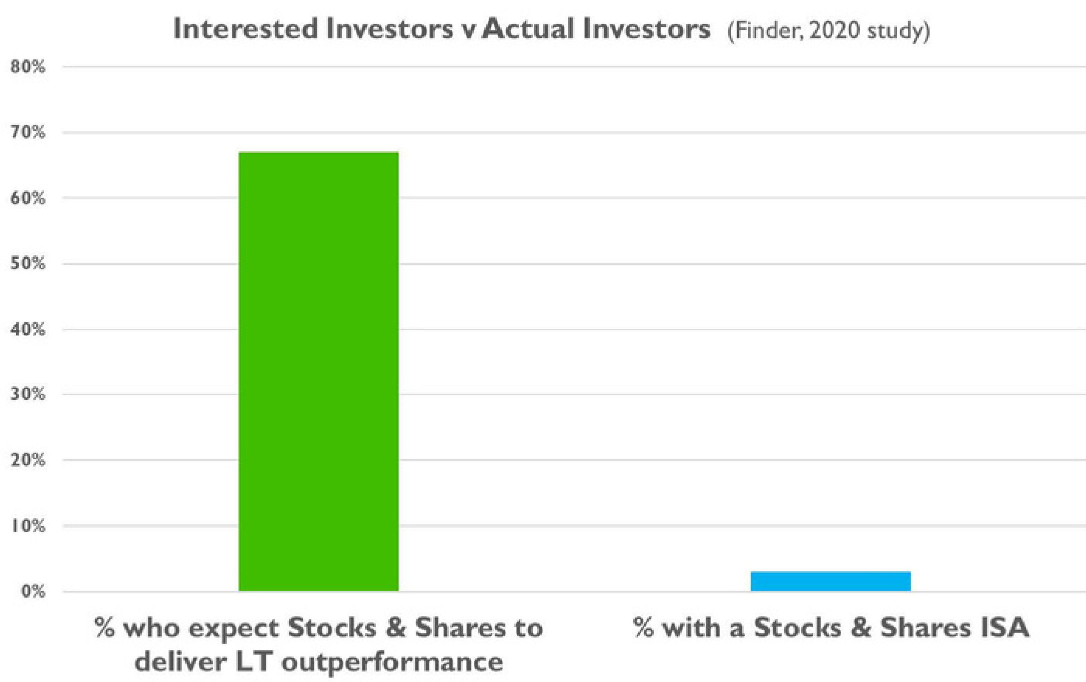
However, the easiest and most immediate way to save tax is to fully utilise your ISA each year. Any investment made through an ISA will **never** pay income tax or CGT so it really is a no-brainer to maximise this tax efficiency, if possible. With your annual ISA allowance, it's a "use it or lose it" situation - on April 6th each year the new tax year begins and you lose the previous year's allowance if it hasn't been used.

The limit on how much you can invest in an ISA is £20,000 per person. So a couple can invest £40,000 per annum into an ISA and, if you have children, you can separately invest into their ISA.

On pensions, utilise your annual contributions where possible (via your work pension scheme, or into your SIPP or SSAS). The maximum annual contribution into your pension is £40,000 pa.

These tax breaks would appear to be a "no-brainer". Yet, when you look at who's taking advantage, the results may surprise you. The charts below are the findings of a survey, showing a high percentage of people that expect stocks will outperform over the long term, yet only 3% of adults have a stocks and shares ISA. Comparing that to the US participation rate in the next chart, the UK has some catching up to do.





How? These tax breaks are very generous so maximise your annual allowances whenever possible. Taxes, like wealth management fees, have a negative compounding effect. So minimise both wherever possible to maximise your compounding. In short, take advantage of the tax shelters that ISAs and Pensions offer.

5. Be Diversified

Diversification is the first rule in finance. Done properly, it results in lower risk ***and*** better returns: i.e. a “free lunch”. In investing jargon this is known as the *Efficient Frontier* which gives lower risk for higher returns. This lower risk comes from having a **balanced** portfolio of investments.

The pros are balanced across geographies, sectors and different risk levels.

Many investors in the UK have a large % of their wealth in property, making them highly concentrated in the UK market. The UK economy, and property within it, is relatively stable but nothing is guaranteed. Back in the 1980s **Japan** was seen as a super-stable economy, attracting global investment inflows and was a poster child for how an economy should be run. A few years later its banking system and economy imploded and Japan has stagnated ever since.

This doesn’t mean the same will happen to the UK but the example highlights the importance of global diversification to mitigate our risks.

Diversifying globally is easy and effective with a global equity ETF. An ETF is a diversified, low-cost way to invest in hundreds of established companies from around the world, across different sectors.

How? Diversify across numerous asset classes including stocks, bonds, property and commodities. With the exception of residential property, one can invest across ETFs and funds to gain exposure to most asset classes in a diversified and balanced way.

6. Don't sit on cash for too long: Do Time in the Markets, not Timing the Markets

There are always more excuses to **not** invest than reasons invest. **History shows this thinking to be a long-term mistake.** In a nutshell:

Not *investing means your cash loses value on a daily basis through inflation. Inflation, by the way, is much higher than the official government number – see my article about the nonsense of official inflation data.*

Using realistic inflation, a balance of £100k **loses** £32k over 5 years and £54k in 10 years. Just by sitting in cash.

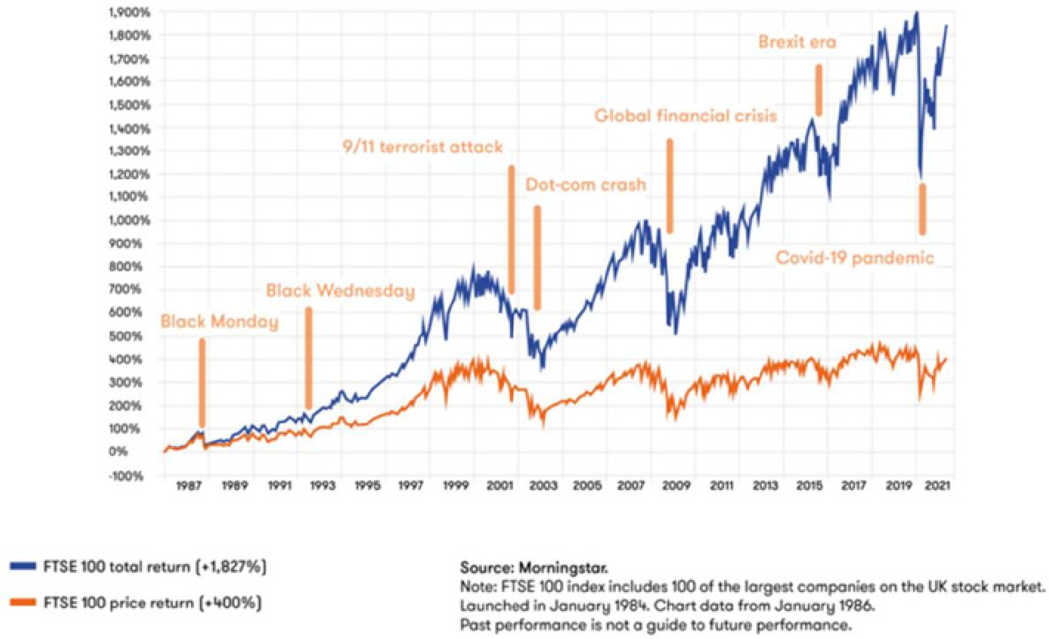
The most common excuses for not investing are:

1. Not knowing where to start
2. Unsure if now is the right time
3. The market is about to crash
4. It's too complicated
5. Investing is too risky

These are really just excuses. As a result, the default action tends to be "do nothing".

On the investment academy we challenge the excuses to give you full confidence and knowledge to consistently beat inflation and compound your returns over the long term.

This sums it up…



I love this chart which demonstrates, in a nutshell, the following core principles:

- No matter what, markets always recover – even if you invested right at the peaks
- Reinvesting and compounding your dividends makes a massive difference
- It's about *Time in the Markets* **not** *Timing the Markets*
- Stocks have proven to be an inflation-beating, compounding machine
- Historically, equities have returned an average of 8-10%pa, even taking into account recessions, wars, pandemics and crises. Financial markets are a passive compounding machine - every investor should have some part of their portfolio in markets.

7. Do independent Due Diligence (DD)

Risk reduction means focusing on the Return OF your Capital before considering the Return ON your Capital.

Investors often neglect proper DD because they either don't have time or they convince themselves it's not necessary. Due Diligence is a critical part of any investment decision and avoiding it will be costly. Conversely, doing proper DD allows you to genuinely understand the most profitable opportunities versus ones that don't stack up.

Look at it this way: If you don't carry out proper **independent** DD, how can you be sure your capital will be returned? Oh, and that word **independent** was highlighted for good reason: many investors diligently read literature sent out by the company promoting the investment. Sadly, they mistake this for "due diligence" when, in fact, the literature is mostly just a sales document.

How? Do you own independent DD, outside of what the promoter / company has told you. By all means read the supplied literature but only your own DD.

Secured Loans can be an attractive asset class with property-backed security and fixed returns – if you do the DD and the right loans are selected. At **InvestLikeAPro** our DD on property-backed loans consists of the following aspects:

1. DD on the , broken down developer into these areas:
    - on the individual(s)
    - on their approach to risk management
    - on their wider team of professionals used
2. on the security backing the investment and structure of the investment vehicle
3. on the project itself

How else? [This article shows how you can do your own independent due diligence.]

For more guided action from me …

I want to equip as many investors as I can with the same knowledge and tools that I personally use to manage my own investments on a day-to-day basis. I've condensed the most important things I've learnt in my 18-year career as a professional investor into an easy-to-implement Investment Academy programme.

The Investment Academy will give you the knowledge and confidence to create your own globally diversified, set-and-forget, passive, inflation-beating compounding machine!
Click here for further information …

InvestLikeAPro

The Investment academy will help:

Create your own passive set-and-forget inflation-beating compounding machine.

Save you thousands in excessive wealth management fees AND do a better job.

Generate regular cash income via equity Options - monthly returns of 1-3% PER MONTH

Super simple, step-by-step guidance from Manish himself.

Gain the inside track on how the pros make money and what they never do

"A great course which will save me a lot of money in fund manager fees going forward. I really like Manish's presentation style, no shouty rah rah sales stuff. Very clear, concise and has de-mystified the whole process of getting exposed to the stock market with low fees. This gives me the confidence to manage my own investments – just what I was hoping to get from the course."
Andrew Perry

Click here to see the Investment Academy