

PRACTICAL LIFE SKILLS

Investing Fundamentals

Growing what you have — compound interest and inflation, asset classes, risk and diversification, stock market basics, funds (index funds, ETFs, active vs. passive), real UK tax-advantaged accounts, bonds and fixed income, behavioral finance, building a portfolio, and a closing capstone building a full, real worked investment plan. Framed around real UK concepts throughout.

The sibling course, Personal Finance Fundamentals, covers managing what you have.

10 Chapters

Philip Osztromok

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CHAPTER 1: WHY INVEST? COMPOUND INTEREST & INFLATION

Investing Fundamentals

Chapter 1 · Why Invest? Compound Interest & Inflation

This course covers the practical skill of growing money over the long term — stocks, bonds, funds, diversification, and tax-advantaged accounts. Its sibling course, **Personal Finance Fundamentals**, covers managing money you already have — budgeting, debt, credit, banking, insurance, and tax. The two are genuinely different skills, covered separately, but this first chapter answers the question that sits underneath both: why bother investing money at all, rather than simply saving it?

A Real, Worked Example: Cash vs. Invested, Over 20 Years

The standard formula for compound growth on a lump sum, at annual rate i over n years, is:

$$FV = P \cdot (1+i)^n$$

P = starting amount

i = annual rate

n = number of years

Take a real, independently-computed comparison: £10,000, held for **20 years**, at the Bank of England's own real 2% inflation target (covered directly in Personal Finance Fundamentals Chapter 8) against an **assumed** 7% average annual investment return (the same commonly-cited, never-guaranteed long-run figure the sibling course's own Chapter 1 uses):

INDEPENDENTLY CALCULATED (NOT QUOTED FROM AN EXTERNAL SOURCE)

- **Held as cash** for 20 years: inflation alone erodes £10,000 down to roughly **£6,730** of real, today's-money purchasing power — a real loss of about a third of its value, with the nominal number on a bank statement never actually changing.
- **Invested** at 7% nominal for 20 years: grows to roughly **£38,697** nominal — which, once that same 2% inflation is factored back out, is still worth roughly **£26,042** in today's real purchasing power.

The real difference between doing nothing and investing the same £10,000 for 20 years is roughly **£19,312** in today's actual purchasing power — not from a lucky bet, but from the plain arithmetic of a return that consistently outpaces inflation, compounding year over year. Every one of these figures was computed directly from the formula above, not taken from an external claim, so the real math can be checked independently.

WHAT THIS EXAMPLE IS — AND ISN'T

This is a real, verifiable illustration of how compounding and inflation interact over time — it is **not** a promise of any specific real return, and a 7% average is exactly that: an average masking real, sometimes severe year-to-year swings. This course covers that volatility directly and honestly in Chapter 3 (Risk, Return & Diversification), rather than pretending the smooth 20-year curve above happens in a straight line.

What This Course Actually Covers

2

Asset Classes

Stocks, bonds, cash & real estate

3

Risk & Return

Diversification, and why 7% is never guaranteed

4

Stock Market Basics

Shares, exchanges, indices

5

Funds

Index funds, ETFs, active vs. passive

6

Tax-Advantaged Accounts

Stocks & Shares ISAs, workplace pensions, SIPPs

7

Bonds

Fixed income basics

8

Behavioral Finance

Common, costly investing mistakes

9

Building a Portfolio

Asset allocation by risk & time horizon

10

Capstone

Building a real investment plan

This Course vs. Personal Finance Fundamentals

THIS COURSE	PERSONAL FINANCE FUNDAMENTALS (SIBLING COURSE)
Growing what you have	Managing what you have
Stocks, bonds, funds, diversification, tax-advantaged accounts	Budgeting, debt, credit, banking, insurance, tax
Mostly long-term decisions	Mostly short-to-medium-term decisions

Why This Course Uses Real UK Terms and Figures

Matching its sibling course, this course is built around the real UK financial system rather than defaulting to US concepts (a 401(k), an IRA) — Stocks and Shares ISAs, workplace pensions and SIPPs, and the FCA as the UK's real financial regulator all get their own real treatment in Chapter 6. Universal principles (compound interest, diversification, risk vs. return) apply everywhere and are covered the same way regardless of country — only the specific account names and tax figures are UK-specific.

Hands-On Exercises

EXERCISE 1

Using the same compound growth formula from this chapter, calculate the approximate nominal value of £10,000 invested at 7% for 30 years instead of 20. Compare it to this chapter's own 20-year figure of roughly £38,697 and explain, in your own words, what the size of the difference tells you about how compounding behaves over a longer time horizon.

 [View solution](#)

EXERCISE 2

A friend says, "Holding cash is completely safe — investing is the risky choice." Using this chapter's own real, worked comparison, explain in your own words why this framing overlooks a real risk that holding cash carries too.

 [View solution](#)

EXERCISE 3

This chapter's own finding-box shows £10,000 growing to roughly £38,697 nominal, but only about £26,042 in real, inflation-adjusted terms. Explain, in your own words, why both numbers are correct at the same time, and why the real (inflation-adjusted) figure is the more meaningful one for judging actual purchasing power.

 [View solution](#)**CHAPTER 1 QUICK REFERENCE**

- Real, independently verified calculation: £10,000 held as cash for 20 years loses real value to roughly **£6,730** (at 2% inflation); the same £10,000 invested at an assumed 7% grows to roughly **£38,697** nominal, or roughly **£26,042** in today's real purchasing power
- This course (Investing Fundamentals) = growing what you have; the sibling course (Personal Finance Fundamentals) = managing what you have
- Course roadmap: asset classes → risk & return → stock market basics → funds → tax-advantaged accounts → bonds → behavioral finance → building a portfolio → capstone
- Framed around real UK concepts (Stocks & Shares ISAs, workplace pensions/SIPPs, the FCA) rather than US defaults — universal principles apply everywhere regardless

CHAPTER 2: ASSET CLASSES: STOCKS, BONDS, CASH & REAL ESTATE

Investing Fundamentals

Chapter 2 · Asset Classes: Stocks, Bonds, Cash & Real Estate

An **asset class** is a group of investments that share similar characteristics — how they generate return, how their value tends to move, and how easily they can be turned back into cash.

Chapter 1 already introduced one of these four classes directly, showing exactly how it behaves over time; this chapter covers all four properly, side by side.

Cash

Cash — money sitting in a bank account or similar — is the asset class Chapter 1's own real, worked example already covered in detail: £10,000 held as cash for 20 years lost real purchasing power to roughly £6,730, purely from ordinary 2% inflation. Cash carries essentially zero volatility risk (the number never suddenly drops) but a real, near-guaranteed erosion risk over any meaningfully long time horizon. It remains genuinely useful for short-term needs and emergency funds — covered in full in the sibling Personal Finance Fundamentals course — precisely because that erosion barely matters over a few months, only over years.

Stocks (Equities)

A share of stock represents real, partial ownership of a company. Stockholders can profit two real ways: **dividends** (a company distributing a portion of its own profits directly to shareholders) and **capital gains** (selling the share for more than it cost, if the company's own value has grown).

REAL HISTORICAL FIGURES

The S&P 500 index's own average annual growth rate has historically been around **10% nominal** over the long run. Over the more recent 2012–2021 decade specifically, the real average annual return was **14.8%** — genuinely higher than the long-run historical average, a useful reminder that any single decade can run well above or below the long-term figure.

HISTORICAL, NOT GUARANTEED

These are real, documented historical figures — not a promise about the future. Stocks are also the most volatile of the four asset classes covered in this chapter: real, sometimes severe short-term price swings are the trade-off for their real, historically higher long-run returns. Chapter 3 covers this risk/return relationship directly.

Bonds (Fixed Income)

A bond is fundamentally a loan — the investor lends money to a government or company, which agrees to pay it back at a set future date (maturity), plus regular fixed interest payments (the coupon) along the way. In the UK, government bonds are called **Gilts** — a real, literal name, originating from the Bank of England's own historical practice of issuing debt certificates whose paper had a genuinely gilded edge.

Who Issues Them

The UK Government, via HM Treasury and the Debt Management Office. Gilts are considered very low credit risk — a real "safe haven" asset historically.

Real Maturities

Short (0–7 years), medium (7–15 years), long (15+ years) — with some ultra-long gilts stretching to 50+ years.

The Fixed Coupon, Worked

A holder of £1,000 nominal of a 4.5% gilt receives £45 a year, paid as two real £22.50 instalments six months apart, until maturity.

Bonds generally offer lower long-run returns than stocks, in exchange for genuinely lower volatility and a real, contractually fixed income stream — the opposite trade-off from equities.

Real Estate

Real estate can be accessed two genuinely different ways. **Direct ownership** — buying a physical property — offers full control but comes with real illiquidity (a house can't be sold in minutes) and a large minimum capital requirement. **REITs** (Real Estate Investment Trusts) let an investor buy tradeable shares in a company that owns and operates income-producing

property instead — offices, warehouses, shopping centres, apartments — gaining real property exposure without ever directly owning a building.

REAL UK REIT HISTORY

UK REIT legislation was established by the **Finance Act 2006**, taking effect in **January 2007** — nine property companies, including five FTSE 100 members, converted to REIT status at launch. UK REITs are required, by law, to distribute **90% of their income** to investors, which is exactly why REITs are widely used by investors seeking regular income rather than only capital growth.

The Four Asset Classes, Compared

ASSET CLASS	TYPICAL RETURN	TYPICAL VOLATILITY	LIQUIDITY
Cash	Lowest (often below inflation)	Essentially none	Instant
Bonds	Moderate, fixed coupon	Low-to-moderate	High (tradeable)
Stocks	Highest long-run average (~10% nominal, S&P 500)	High	High (tradeable)
Real Estate (direct)	Moderate-to-high, plus rental income	Low day-to-day, but hard to exit fast	Very low
REITs	Similar drivers to direct property	Moderate-to-high (trades like a stock)	High (tradeable)

WHERE THIS GOES NEXT

No single asset class is simply "best" — each trades return against volatility and liquidity differently, which is exactly why Chapter 3 covers combining several of them together (diversification) rather than picking just one, and Chapter 5 covers funds — the practical, real-world way most investors actually hold a mix of stocks, bonds, and property without picking individual companies or gilts by hand.

Hands-On Exercises

EXERCISE 1

A 4.5% UK Gilt with a £1,000 nominal value pays £45 a year in two instalments. Calculate the total coupon income received over a real 10-year holding period (assuming the gilt is held to maturity and coupon payments don't change), and explain in your own words how this differs structurally from a stock's own dividend, which a company can raise, cut, or stop entirely.

 [View solution](#)
EXERCISE 2

A friend says, "REITs are basically the same thing as just owning cash in the bank, since both pay you money regularly." Using this chapter's own real material, explain in your own words at least two genuine ways REITs differ from cash as an asset class.

 [View solution](#)
EXERCISE 3

Using this chapter's own compare-table, explain why a real, worked example showing a single stock's real return over one specific decade (like the 14.8% figure cited in this chapter for 2012–2021) shouldn't be treated as a reliable prediction for the next decade.

 [View solution](#)
CHAPTER 2 QUICK REFERENCE

- **Cash** — near-zero volatility, but real, near-guaranteed erosion to inflation over time (Chapter 1)
- **Stocks** — real ownership; S&P 500's own historical average is ~10% nominal annually (14.8% over 2012–2021 specifically); highest volatility of the four
- **Bonds/Gilts** — a loan with a fixed coupon; UK Gilts issued by HM Treasury, considered very low credit risk; e.g. a £1,000 nominal 4.5% gilt pays £45/year
- **Real Estate** — direct ownership (illiquid, high capital) or REITs (tradeable; UK REITs, established by the Finance Act 2006/January 2007, must distribute 90% of income)

- No single asset class is "best" — each trades return against volatility and liquidity differently, setting up Chapter 3 (diversification) and Chapter 5 (funds)

CHAPTER 3: RISK, RETURN & DIVERSIFICATION

Investing Fundamentals

Chapter 3 · Risk, Return & Diversification

Chapter 2's own compare-table already showed the pattern in outline: stocks carry the highest typical return of the four asset classes and the highest volatility; cash carries the lowest of both. This isn't a coincidence particular to those two — it's the central relationship this whole chapter is about. Higher potential return, as a rule, comes bundled with higher real risk. The genuinely useful question isn't how to escape that trade-off, but how to manage it.

Two Real, Different Kinds of Risk

Not all investment risk behaves the same way — and the distinction matters enormously for what an investor can actually do about it.

Unsystematic (Company-Specific) Risk

Risk tied to one specific company or investment — poor management, an accounting scandal, a failed product. This kind of risk genuinely can be reduced by diversification.

Systematic (Market) Risk

Risk affecting the entire market at once — a recession, an interest rate shock, a real, broad crisis of confidence. This kind of risk cannot be diversified away, no matter how many different stocks are held.

A Real, Concrete Example of Each

Enron, once one of America's largest energy companies, collapsed under a real, documented accounting fraud scandal. Its stock fell from **\$83.13** in January 2001 to just **\$0.12** by 11 January 2002, before the company filed for Chapter 11 bankruptcy on 2 December 2001 — a near-total loss for anyone holding only Enron stock. This is unsystematic risk in its most dramatic real form: the wider stock market wasn't collapsing at the same time — Enron's own business was.

Black Monday, 19 October 1987, is the real, opposite case. The Dow Jones Industrial Average fell **22.6% in a single day** — still the largest one-day percentage drop in its own history — while the S&P 500 fell 20.47% and all twenty-three major world stock markets fell sharply on the same day. This was systematic risk: no amount of picking different individual stocks would have protected an investor, because essentially the entire market moved together at once.

THE REAL, PRACTICAL CONSEQUENCE

Someone who held only Enron stock in 2001 had no defense against its collapse except *not holding only Enron stock* — genuine diversification across many companies would have limited that one holding's damage to a small fraction of a real portfolio. Someone invested broadly across the entire stock market in October 1987 had no equivalent defense at all, because the risk that materialized that day was market-wide by nature. Diversification is a real, powerful tool against one kind of risk — and genuinely useless against the other.

Modern Portfolio Theory: The Real Foundation

The formal case for diversification traces to a real, specific source: Harry Markowitz's paper "*Portfolio Selection*," published in *The Journal of Finance* in March 1952. Markowitz later won the **1990 Nobel Memorial Prize in Economic Sciences** for this work. His core, real insight: an individual asset's own risk shouldn't be judged in isolation, but by how it contributes to an entire portfolio's combined risk and return — and combining assets that don't move in perfect lockstep with each other can reduce a portfolio's overall volatility **without necessarily giving up any expected return**.

WHY CORRELATION IS THE REAL MECHANISM

Two assets that always move in exactly the same direction, by exactly the same amount, offer no diversification benefit at all when combined — one might as well just hold more of either one. The real benefit comes specifically from combining assets whose returns aren't perfectly correlated: when one zigs, the other doesn't necessarily zig with it, smoothing the combined portfolio's own path even when neither asset's own individual volatility has changed at all.

Why This Reaches Back to Chapter 2's Asset Classes

Diversifying across many different companies genuinely reduces unsystematic risk — but if every one of those companies is still a stock, the whole collection remains fully exposed to the same systematic risk that hit the market on Black Monday. Real diversification, in the fuller Markowitz sense, means combining Chapter 2's own genuinely different asset classes together — stocks, bonds, cash, real estate — since these don't all move in lockstep with each other the way individual stocks tend to. Bonds, in particular, have real periods of history where they've

held their value or even risen while stocks fell sharply, precisely the low-correlation behavior Markowitz's own theory is built around.

WHAT DIVERSIFICATION DOESN'T DO

Diversification reduces risk — it does not eliminate it. A genuinely diversified portfolio still carries real systematic risk, and still lost real value during systematic events like Black Monday and the real 2008 financial crisis. Diversification is honestly a tool for managing the specific kind of risk it's actually good at managing, not a guarantee against loss altogether.

Hands-On Exercises

EXERCISE 1

Using this chapter's own real Enron figures, calculate the approximate percentage loss for an investor holding only Enron stock from January 2001 (\$83.13) to 11 January 2002 (\$0.12). Then explain, in your own words, what specifically diversification would (and wouldn't) have protected against in this scenario.

 [View solution](#)

EXERCISE 2

A colleague says, "I own shares in 30 different companies, so my portfolio is fully diversified and protected from any real crash." Using this chapter's own real Black Monday example, explain in your own words why this claim is only partly true.

 [View solution](#)

EXERCISE 3

Explain, in your own words, why two assets that always move in exactly the same direction by exactly the same amount provide no real diversification benefit when combined into one portfolio — using this chapter's own Modern Portfolio Theory material to support your answer.

 [View solution](#)

CHAPTER 3 QUICK REFERENCE

- **Unsystematic (company-specific) risk** — e.g. Enron, \$83.13 → \$0.12 in one year; genuinely reduced by diversification
- **Systematic (market) risk** — e.g. Black Monday, 19 Oct 1987, Dow -22.6% in one day; cannot be diversified away
- **Modern Portfolio Theory** — Harry Markowitz, 1952 paper, 1990 Nobel Prize; combining imperfectly-correlated assets can reduce portfolio risk without sacrificing expected return
- Real diversification means combining genuinely different asset classes (Chapter 2), not just many different stocks — stocks alone all still share exposure to the same systematic risk
- Diversification reduces risk; it does not eliminate it

CHAPTER 4: STOCK MARKET BASICS (SHARES, EXCHANGES & INDICES)

Investing Fundamentals

Chapter 4 · Stock Market Basics (Shares, Exchanges & Indices)

Chapter 2 introduced stocks as an asset class; this chapter covers the actual machinery that turns "buying a stock" from an abstract idea into a real transaction — the exchange it happens on, how a company gets there in the first place, and the indices used to track how it's all doing.

Stock Exchanges: A Real, Organized Marketplace

A stock exchange is simply a real, regulated marketplace where shares are bought and sold. The **London Stock Exchange (LSE)** has a genuinely charming, real origin story: in the 17th century, stockbrokers were excluded from the Royal Exchange itself over their "perceived rude manners" and instead traded out of nearby coffee houses — a broker named **John Castaing** began listing commodity and stock prices at Jonathan's Coffee-House in **1698**, the earliest real evidence of organized securities trading in London. The exchange wasn't formally established until **30 December 1801**, when "The Stock Exchange" was inscribed above its own entrance. Today the LSE lists over 1,900 companies from more than 60 countries.

A REAL, ENDURING MOTTO

In 1923, the LSE received its own coat of arms bearing the Latin motto "*Dictum Meum Pactum*" — "My Word Is My Bond" — a real reflection of how the exchange's own early trading relied on trust and reputation as much as formal contracts.

How a Company Gets Listed: The IPO

A company doesn't simply appear on an exchange — it goes through an **Initial Public Offering (IPO)**, selling shares to the public for the first time and converting from a private company into a publicly traded one. This is genuinely how a company raises real capital directly from investors, and it's the real moment shares in that company first become available to buy on an exchange at all.

Market Capitalization

A company's **market capitalization** ("market cap") is simply its share price multiplied by the total number of shares outstanding — a real, direct measure of what the market currently values the entire company at.

Large-Cap

Typically the largest, most established companies — the kind that dominate indices like the FTSE 100 and S&P 500.

Mid-Cap

Genuinely smaller than large-cap giants, but past the earliest, riskiest growth stage — often a real middle ground of risk and growth potential.

Small-Cap

The smallest publicly traded companies — real potential for faster growth, paired with real, typically higher volatility and risk.

Indices: Tracking the Market as a Whole

An **index** tracks a defined basket of stocks together, giving a single, real number that summarizes how that whole group is performing — rather than following one company's own share price alone.

THE REAL FTSE 100

The FTSE 100 — the UK's own headline index — began trading on **3 January 1984**, at a real starting base value of exactly **1,000 points**. It tracks the 100 most highly capitalized companies on the LSE, weighted by **free-float market capitalization** (so larger companies move the index more than smaller ones). It reached a real all-time closing high of **10,910.55** on 27 February 2026 — roughly a tenfold increase from its own 1984 starting point, a real, concrete four-decade demonstration of Chapter 1's own compounding theme.

A GENUINE, IMPORTANT NUANCE

It's a common, reasonable assumption that the FTSE 100 tracks "how the UK economy is doing" — but this is genuinely only a loose approximation. Many FTSE 100 constituents are large, internationally focused multinationals earning most of their revenue abroad, which is why the index is

real, documented as "a fairly weak indicator" of the UK's own domestic economy specifically, and is substantially influenced by pound sterling exchange rate movements rather than UK economic conditions alone.

Comparing Two Real Indices

	FTSE 100	S&P 500
Launched	3 January 1984	4 March 1957 (at its current 500-company size)
Tracks	100 largest companies on the LSE	500 large-cap companies on US exchanges
Weighting	Free-float market-cap weighted	Free-float market-cap weighted
Starting base	1,000 points	Not a round starting base in the same way — set by its own underlying constituent prices

WHERE THIS GOES NEXT

An index itself isn't something an investor buys directly — it's a real benchmark. Chapter 5 covers **index funds**, the actual, practical vehicle that lets an ordinary investor own a real, proportional slice of an entire index like the FTSE 100 or S&P 500 in a single purchase, rather than buying all 100 or 500 individual companies by hand.

Hands-On Exercises

EXERCISE 1

Using this chapter's own real figures, calculate the approximate total percentage growth of the FTSE 100 from its 3 January 1984 launch (base value 1,000) to its real all-time closing high of 10,910.55 on 27 February 2026. Then explain, in your own words, why this real growth figure connects directly back to Chapter 1's own compounding material.

 [View solution](#)

EXERCISE 2

A relative says, "The FTSE 100 fell today, so the UK economy must be doing badly." Using this chapter's own real material, explain in your own words why this conclusion doesn't reliably follow from the FTSE 100's own movement.

 [View solution](#)

EXERCISE 3

Explain, in your own words, the real difference between a company's IPO and a stock exchange itself — specifically, what real role each one plays in a share becoming something an ordinary investor can buy.

 [View solution](#)

CHAPTER 4 QUICK REFERENCE

- **LSE** — real origin at Jonathan's Coffee-House (1698), formally established 30 December 1801, "Dictum Meum Pactum" motto (1923), 1,900+ companies listed today
- **IPO** — how a private company first sells shares to the public and becomes listed
- **Market cap** = share price × shares outstanding; tiered into large/mid/small-cap
- **FTSE 100** — launched 3 Jan 1984, base 1,000, real all-time high 10,910.55 (27 Feb 2026); a genuinely weak UK-economy indicator due to heavy multinational constituent revenue
- **S&P 500** — 500 large-cap US companies, current size since 4 March 1957, free-float market-cap weighted

CHAPTER 5: FUNDS: INDEX FUNDS, ETFS & ACTIVE VS. PASSIVE INVESTING

Investing Fundamentals

Chapter 5 · Funds: Index Funds, ETFs & Active vs. Passive Investing

Chapter 4 closed on a direct question: how does an ordinary investor actually own a slice of the FTSE 100 or S&P 500, rather than buying every one of their 100 or 500 constituent companies by hand? The answer is a **fund** — a single, pooled investment vehicle holding many underlying securities at once, bought and sold as one unit.

Index Funds: A Real, Named Origin

An index fund simply, mechanically holds the same securities as a target index, in the same proportions — it doesn't try to beat the index, only to match it as closely as possible. This idea has a real, specific inventor: **John Bogle** founded The Vanguard Group in **1974**, and in **1976** launched the First Index Investment Trust (later renamed the Vanguard 500 Index Fund) — one of the first index funds ever made available to ordinary individual investors, tracking the S&P 500 directly.

REAL, DOCUMENTED EARLY RIDICULE

Bogle's idea was not welcomed at first. Critics genuinely dismissed it as "**Bogle's Folly**" and called it "un-American" for deliberately settling for average market returns rather than trying to beat them. History judged it rather differently: economist Paul Samuelson, in a real 2005 speech, ranked "this Bogle invention along with the invention of the wheel, the alphabet, [and] Gutenberg printing" — among the most consequential financial innovations of the century.

ETFs: Trading Like a Stock

An **ETF (Exchange-Traded Fund)** works on the same core idea as an index fund — a single, pooled basket of underlying holdings — but with one real, structural difference: an ETF trades on an exchange throughout the day, with its price moving continuously, just like an individual stock. A traditional index (mutual) fund, by contrast, is priced only **once per day**, after markets close. The first ETF, **SPY** (nicknamed "Spiders," tracking the S&P 500), launched in **January**

1993 — designed by Nathan Most and Steven Bloom — and went on to become the largest ETF in the world.

Active vs. Passive: What the Real Data Shows

A **passive** fund (an index fund or a passively-managed ETF) simply tracks an index. An **active** fund pays a professional manager to pick and choose investments, attempting to beat the market. The real, ongoing question is whether that active effort is actually worth what it costs.

REAL, CURRENT DATA (SPIVA)

S&P's own SPIVA (S&P Indices Versus Active) report tracks exactly this question. The real SPIVA U.S. Mid-Year 2025 report found that **54% of actively managed large-cap US equity funds lagged the S&P 500** in just the first six months of 2025 alone — a genuine, documented majority underperforming the very benchmark they were trying to beat, in a single real, recent period.

Bogle's own real fee philosophy follows directly from this kind of finding: once an active fund's own higher fees are subtracted from its returns, he argued it becomes genuinely unrealistic to expect consistent outperformance over long periods — a claim SPIVA's own real, ongoing data keeps testing against actual results.

Why Fees Matter So Much: A Real, Worked Comparison

Using Chapter 1's own compound growth formula, compare £10,000 invested for **30 years** at an identical assumed 7% gross annual return, but with two genuinely different real fee levels subtracted — a low-cost index fund/ETF at a 0.1% annual expense ratio (net return 6.9%), against a typical active fund at a 1.0% annual expense ratio (net return 6.0%):

Low-cost (net 6.9%): $FV = 10000 \times (1.069)^{30} \approx £74,017$

Higher-cost (net 6.0%): $FV = 10000 \times (1.060)^{30} \approx £57,435$

Real difference: approximately £16,582 — purely from a 0.9 percentage-point annual fee gap, compounded over 30 years.

INDEPENDENTLY CALCULATED (NOT QUOTED FROM AN EXTERNAL SOURCE)

A fee difference that sounds small on paper — 0.9 percentage points a year — compounds into the lower-cost investor ending up with roughly **29% more money** after 30 years, from the exact same starting amount and the exact same gross market return. Every figure above was computed directly from Chapter 1's own formula, not taken from an external claim.

Comparing the Real Options

	INDEX FUND	ETF	ACTIVE FUND
Goal	Match an index	Match an index (usually)	Beat an index
Pricing	Once daily	Continuous, intraday	Once daily
Typical fees	Low	Low	Higher
Real track record vs. benchmark	Matches by design	Matches by design	Majority underperform (SPIVA)

Hands-On Exercises

EXERCISE 1

Using this chapter's own real formula, recalculate the 30-year ending value of £10,000 at a net 6.9% return if the annual fee were instead 0.05% higher (i.e. a net return of 6.85%). Compare this to the chapter's own £74,017 figure and explain, in your own words, what even a small further fee difference does over three decades.

 [View solution](#)

EXERCISE 2

A friend says, "An active fund manager with a good track record is clearly worth the higher fee." Using this chapter's own real SPIVA figure, explain in your own words why a single fund's past track record doesn't settle this question the way the friend assumes.

 [View solution](#)

EXERCISE 3

Explain, in your own words, the real structural difference between how an ETF is priced during the trading day versus how a traditional index fund is priced — and describe one real, practical situation where that difference could actually matter to an investor.

 [View solution](#)

CHAPTER 5 QUICK REFERENCE

- **Index funds** — John Bogle, Vanguard founded 1974, first index fund 1976 (tracking the S&P 500); once dismissed as "Bogle's Folly," later compared by Paul Samuelson to the invention of the wheel
- **ETFs** — trade continuously like a stock (vs. mutual funds' once-daily pricing); first ETF, SPY, launched January 1993
- **SPIVA (2025)** — 54% of active large-cap US equity funds lagged the S&P 500 in just the first six months of 2025
- **Real fee-drag example** — a 0.9-point annual fee difference on £10,000 over 30 years is worth roughly **£16,582** — about 29% more for the lower-cost investor

CHAPTER 6: TAX-ADVANTAGED ACCOUNTS (STOCKS & SHARES ISAS, WORKPLACE PENSIONS, SIPPS)

Investing Fundamentals

Chapter 6 · Tax-Advantaged Accounts (Stocks & Shares ISAs, Workplace Pensions, SIPPs)

Everything covered so far in this course — asset classes, funds, indices — can be held in an ordinary, fully taxable account. This chapter covers three real UK "wrappers" that shelter the same underlying investments from tax, often substantially, and are one of the most concrete real reasons this course is deliberately framed around UK rules rather than a generic international approach.

The Stocks & Shares ISA

Personal Finance Fundamentals already established the real, shared UK ISA allowance — **£20,000 per tax year**, split however an investor chooses across ISA types. A **Stocks & Shares ISA** is where the investing side of that same allowance lives: any stocks, bonds, funds, or ETFs from Chapters 2 and 5 held inside it grow completely free of UK income tax and capital gains tax — no matter how large the real gain turns out to be.

WHY THIS MATTERS IN PRACTICE

Outside an ISA, dividends and capital gains from Chapter 2's own stocks are potentially taxable once they exceed relevant allowances. Inside a Stocks & Shares ISA, none of that applies at all — the entire real gain, however large, belongs to the investor tax-free. This is exactly why a Stocks & Shares ISA is usually the first real wrapper considered for money not earmarked specifically for retirement.

Workplace Pensions & Auto-Enrolment

UK workplace pension **auto-enrolment** began in **2012**, automatically placing eligible employees into a workplace pension unless they actively opt out. The real minimum total contribution is **8% of qualifying earnings**, typically split between a required employer contribution and the employee's own contribution (which itself benefits from tax relief). For the 2025–26 tax year, the real earnings trigger for auto-enrolment is **£10,000**, with the qualifying earnings band running from **£6,240 to £50,270**.

THE REAL REASON THIS USUALLY COMES FIRST

An employer's own required pension contribution is genuinely free money added on top of an employee's own salary — money that simply doesn't exist at all if the employee opts out. No tax wrapper covered elsewhere in this chapter can replicate that specific real advantage, which is exactly why contributing at least enough to receive the full employer match is often the very first real step recommended, before any other investing decision.

SIPPs: Self-Invested Personal Pensions

A **SIPP** is a UK government-registered personal pension that lets the holder make their own investment decisions from a genuinely wide range of options — the same stocks, funds, and ETFs covered earlier in this course, held inside a pension wrapper instead of an ISA.

A REAL, WORKED TAX RELIEF EXAMPLE

SIPP contributions receive tax relief automatically. A basic-rate taxpayer contributing **£2,880** of their own money has the SIPP provider claim back basic-rate tax relief directly from HMRC — turning that same £2,880 into a real **£3,600** inside the pension, with no further action needed. A higher- or additional-rate taxpayer can claim further relief on top of this through Self Assessment.

The real current SIPP annual allowance is **£60,000**. Growth inside a SIPP is free of income and capital gains tax, matching a Stocks & Shares ISA — but a SIPP adds a real, structural trade-off: the money genuinely cannot be accessed until a real minimum pension age, currently **55**, rising to **57 from April 2028**. Up to **25%** can then be withdrawn as a tax-free lump sum, with the remainder taxed as income on withdrawal.

Comparing the Three Real Wrappers

	STOCKS & SHARES ISA	WORKPLACE PENSION	SIPP
Tax relief going in	None (post-tax money)	Yes, plus a real employer contribution	Yes, automatically at basic rate
Growth	Tax-free	Tax-free	Tax-free

	STOCKS & SHARES ISA	WORKPLACE PENSION	SIPP
Access	Any time	Pension age (55, rising to 57 in 2028)	Pension age (55, rising to 57 in 2028)
2025–26 allowance	£20,000/year (shared across all ISA types)	Set by employer scheme rules; 8% minimum total contribution	£60,000/year

Hands-On Exercises

EXERCISE 1

Using this chapter's own real SIPP tax relief mechanism, calculate how much a higher-rate taxpayer's £2,880 personal contribution is worth inside the SIPP after basic-rate relief is added, in exactly the way the chapter describes. Then explain, in your own words, what real further step this same taxpayer would need to take to claim any additional relief they're entitled to.

 [View solution](#)

EXERCISE 2

A colleague says, "I'd rather put everything into my Stocks & Shares ISA instead of my workplace pension, since I might want the money before retirement." Using this chapter's own real material, explain in your own words the one specific real cost of doing that, assuming the colleague's employer offers a pension contribution match.

 [View solution](#)

EXERCISE 3

Explain, in your own words, the real structural trade-off a SIPP has compared to a Stocks & Shares ISA, even though both shelter investment growth from tax in the same way.

 [View solution](#)

CHAPTER 6 QUICK REFERENCE

- **Stocks & Shares ISA** — real £20,000/year allowance (shared with all ISA types); tax-free growth and gains; accessible any time
- **Workplace pension** — real 2012 auto-enrolment; 8% minimum total contribution; £10,000 earnings trigger and £6,240–£50,270 qualifying band (2025–26); employer match is genuinely free money
- **SIPP** — real £2,880 → £3,600 basic-rate relief mechanism; £60,000 annual allowance; access from age 55 (rising to 57 in April 2028); 25% tax-free lump sum
- All three shelter investment growth from tax — the real differences are in tax relief going in and, critically, when the money can actually be accessed

CHAPTER 7: BONDS & FIXED INCOME

Investing Fundamentals

Chapter 7 · Bonds & Fixed Income

Chapter 2 introduced bonds — a loan with a fixed coupon, and UK Gilts as the real government version. This chapter goes deeper into how a bond's own price actually moves, why it moves that way, and how real credit ratings and duration change the risk picture entirely.

Coupon vs. Yield: Two Genuinely Different Numbers

A bond's **coupon** — Chapter 2's own real £45-a-year example on a £1,000 nominal 4.5% Gilt — is fixed for the life of that bond and never changes. A bond's **yield**, by contrast, reflects that same fixed coupon relative to whatever the bond currently costs to buy on the open market — and a bond's market price can, and does, move even though its own coupon never does.

The Real, Inverse Price/Yield Relationship

When prevailing interest rates rise, newly issued bonds start offering higher coupons than older bonds already in circulation. An older bond stuck paying its own lower, fixed coupon becomes relatively less attractive — so its market price falls until its yield (coupon relative to that now-lower price) becomes competitive with what new bonds are offering. When rates fall, the reverse happens: older, higher-coupon bonds become relatively more attractive, and their prices rise.

A REAL, DRAMATIC RECENT EXAMPLE

In 2022, the US Federal Reserve raised its own federal funds rate from a near-zero range of **0.00–0.25%** in early 2022 to **4.25–4.50%** by December 2022 — a real 4.25 percentage-point increase in under a year, one of the most aggressive rate-hiking cycles in recent Federal Reserve history. Existing bonds paying coupons set under the old, near-zero-rate environment suddenly looked far less attractive next to newly issued bonds paying much higher coupons — and bond prices fell accordingly across the market, a real, concrete demonstration of the inverse relationship in action.

WHY THIS SURPRISES NEW INVESTORS

Chapter 2 described bonds as generally lower-volatility than stocks — genuinely true on average, but 2022 is a real, honest reminder that "lower volatility" doesn't mean "no volatility." A bond held to maturity still pays its own full, fixed coupon and returns its full nominal value regardless of what happens to its market price along the way — but anyone needing to sell before maturity, during a period like 2022, could face a genuine, real loss.

Credit Ratings: Judging Default Risk

Not every bond issuer is equally likely to actually repay what it owes. Three real agencies — known as the "Big Three" — assess this risk: **Moody's** (founded 1909, originating from John Moody's own real publication rating railroad bonds), **S&P** (tracing to 1916), and **Fitch** (founded 1924). Together they hold roughly **94%** of the global ratings business — S&P alone at around 50%, Moody's at 31.7%, and Fitch at 12.5%.

Investment Grade

Rated BBB/Baa or higher (up to AAA/Aaa).
Considered genuinely lower default risk — UK
Gilts sit firmly here.

Speculative / "Junk"

Rated below BBB/Baa. Real, historically higher
default risk, paying a higher coupon to
compensate — often restricted for regulated
institutions like pension funds.

Duration: How Sensitive a Bond Actually Is

Duration measures how much a bond's own price moves for a given change in interest rates — and it's driven largely by real maturity, the same short/medium/long classification Chapter 2 already introduced for Gilts. A longer-maturity bond generally has a higher duration, meaning its price swings further, in either direction, for the same real interest rate change — which is exactly why long Gilts suffered more than short Gilts during a rate-shock year like 2022.

Government vs. Corporate Bonds

	GOVERNMENT BONDS (E.G. UK GILTS)	CORPORATE BONDS
Issuer	A national government	A company

	GOVERNMENT BONDS (E.G. UK GILTS)	CORPORATE BONDS
Typical credit risk	Very low (for developed economies)	Varies widely — investment grade to junk
Typical yield	Lower	Higher, to compensate for real, added risk

Hands-On Exercises

EXERCISE 1

Using this chapter's own real 2022 Federal Reserve example, explain in your own words why an existing bond issued in early 2022 (before the rate hikes) would have become less attractive to a new buyer by December 2022, and what would have needed to happen to that bond's market price to make its real yield competitive again.

 [View solution](#)

EXERCISE 2

A friend says, "Bonds are supposed to be the safe part of my portfolio, so I was shocked when their value fell in 2022." Using this chapter's own real material, explain in your own words why bonds falling in value during 2022 doesn't actually contradict what Chapter 2 said about them.

 [View solution](#)

EXERCISE 3

Explain, in your own words, why a long-maturity Gilt and a short-maturity Gilt would be affected differently by the same real interest rate change described in this chapter, using the concept of duration.

 [View solution](#)

CHAPTER 7 QUICK REFERENCE

- **Coupon** — fixed for life; **yield** — coupon relative to current market price, which moves

- **Inverse relationship** — rates up, bond prices down (and vice versa); real 2022 example: US rates rose from 0.00–0.25% to 4.25–4.50% in under a year
- **Big Three credit rating agencies** — Moody's (1909), S&P (1916), Fitch (1924); ~94% combined market share; BBB/Baa+ = investment grade, below = "junk"
- **Duration** — how sensitive a bond's price is to rate changes; generally rises with longer maturity
- Government bonds (e.g. Gilts) — lower risk, lower yield; corporate bonds — varies, generally higher yield to compensate for real added risk

CHAPTER 8: BEHAVIORAL FINANCE & COMMON INVESTING MISTAKES

Investing Fundamentals

Chapter 8 · Behavioral Finance & Common Investing Mistakes

Chapter 3 covered risk as a mathematical, structural concept. This chapter covers a genuinely different real risk — the investor's own mind. Behavioral finance studies how real, predictable psychological patterns lead investors to make decisions that hurt their own long-term returns, even when they know better in the abstract.

Loss Aversion

Daniel Kahneman and **Amos Tversky**'s foundational 1979 paper, "Prospect Theory: An Analysis of Decision under Risk," published in *Econometrica*, established a real, now-famous finding: losses are felt roughly **twice as strongly** as an equivalent gain. Losing £100 hurts, psychologically, about twice as much as gaining £100 feels good — a genuine asymmetry that shapes real investor behavior far more than most people realize.

A REAL, GENUINELY POIGNANT DETAIL

Kahneman won the **2002 Nobel Memorial Prize in Economic Sciences** for this work. Tversky, his real, essential collaborator, could not share in it — he died in 1996, aged 59, six years before the prize was awarded. Kahneman himself later wrote that Tversky "would have shared had he not died."

In practice, loss aversion is the real reason investors often hold onto a losing stock far too long — hoping to "get back to even" rather than accept the loss — while selling winning investments too early, locking in a small gain rather than risking it turning into a loss.

Herd Behavior: A Real, Dramatic Case Study

The **dot-com bubble** is one of the most real, well-documented examples of herd behavior distorting genuine investment decisions. The NASDAQ Composite rose a real **400%** between 1995 and March 2000, peaking at **5,048.62** on **10 March 2000**, as investors piled into internet-related stocks largely because everyone else was doing the same, not because of careful individual analysis.

THE REAL, PAINFUL AFTERMATH

By October 2002, the index had fallen **78%** from its own peak, wiping out a real **\$1.755 trillion** in value. It took until **23 April 2015** — a genuine **15 years** — for the NASDAQ Composite to finally reclaim its own March 2000 closing high. Anyone who bought at the herd-driven peak and needed that money before 2015 simply never got it back.

Recency Bias

Recency bias is the real, natural tendency to weight recent events more heavily than the longer historical record — exactly the trap Chapter 5's own real SPIVA material already warned against when discussing a single fund manager's own recent track record, and the same trap Chapter 2's own real 14.8% (2012–2021) figure illustrated directly against the S&P 500's longer-run 10% average. A strong recent run feels like it should continue; the real, historical record shows it frequently doesn't.

Loss Aversion → Holding Losers Too Long

Refusing to sell a losing position, hoping to "get back to even," even when the real, sound decision would be to sell.

Herd Behavior → Buying at the Peak

Piling into an investment because everyone else is — exactly the real dot-com bubble pattern — rather than because of independent analysis.

Recency Bias → Chasing Recent Performance

Assuming a strong recent run (a hot fund, a hot sector) will simply continue, the same trap Chapters 2 and 5 already warned against.

Panic Selling → Locking In Losses

Selling during a real downturn out of fear, converting a genuine, temporary paper loss into a permanent, realized one.

THE REAL, COMMON THREAD

Every bias covered in this chapter shares the same underlying real mechanism: reacting emotionally to short-term price movement rather than sticking to a genuine, pre-decided long-term plan. This is exactly why Chapter 9 covers building a real, structured portfolio in advance, and why the capstone in Chapter 10 builds a complete, written investment plan — a real, concrete defense against exactly the kind of in-the-moment emotional decision this chapter documents.

Hands-On Exercises

EXERCISE 1

Using this chapter's own real loss aversion figure, explain in your own words why an investor might rationally know a losing stock should be sold, but still psychologically struggle to actually sell it.

 [View solution](#)

EXERCISE 2

Using this chapter's own real dot-com bubble figures, calculate roughly how much of the NASDAQ's real 400% rise (1995 to March 2000) was wiped out by its subsequent real 78% fall, and explain in your own words why "it fell 78% after rising 400%" doesn't mean the index simply ended up back where it started.

 [View solution](#)

EXERCISE 3

Explain, in your own words, how loss aversion and panic selling can combine to make a downturn worse for an individual investor specifically, using this chapter's own real material on both.

 [View solution](#)

CHAPTER 8 QUICK REFERENCE

- **Loss aversion** — Kahneman & Tversky, 1979 Prospect Theory; losses feel ~2x as strong as equivalent gains; Kahneman won the 2002 Nobel Prize (Tversky died 1996, before the award)
- **Herd behavior** — real dot-com bubble: NASDAQ +400% (1995–Mar 2000, peak 5,048.62), then -78% by Oct 2002 (\$1.755tn wiped out); took until 23 April 2015 (15 years) to reclaim its peak
- **Recency bias** — chasing a recent hot streak (Chapters 2 and 5 both already showed why this is unreliable)
- **Panic selling** — converts a temporary paper loss into a permanent, realized one

- The common thread: emotional reaction to short-term price movement vs. sticking to a real, pre-decided plan (Chapters 9–10)

CHAPTER 9: BUILDING A PORTFOLIO: ASSET ALLOCATION BY RISK TOLERANCE & TIME HORIZON

Investing Fundamentals

Chapter 9 · Building a Portfolio: Asset Allocation by Risk Tolerance & Time Horizon

Every prior chapter in this course built a separate real tool: asset classes (Chapter 2), diversification (Chapter 3), funds (Chapter 5), tax wrappers (Chapter 6), bonds (Chapter 7), and the psychological traps to avoid (Chapter 8). **Asset allocation** is the practical decision that ties them together — how much of a real portfolio goes into each asset class, and why that answer is genuinely different for every individual investor.

Two Real, Different Inputs: Risk Tolerance vs. Risk Capacity

Risk Tolerance

How much real volatility an investor can emotionally withstand without panicking — directly shaped by Chapter 8's own loss aversion material. Someone with low risk tolerance may genuinely panic-sell during a downturn regardless of their actual financial situation.

Risk Capacity

How much real volatility an investor can financially afford to withstand, based on genuine circumstances — income, savings, and especially time horizon — independent of how they feel about it emotionally.

WHY THE DISTINCTION MATTERS

These two real factors don't always point the same direction. A young investor with decades until retirement may have real, high risk *capacity* — genuine time to recover from a Chapter 8-style dot-com-scale crash — while still having genuinely low risk *tolerance*, emotionally. A sound portfolio has to account for both, not just the investor's own stated comfort level.

Time Horizon: Why It Changes Everything

Chapter 8's own real dot-com bubble example showed the NASDAQ taking **15 years** to reclaim its own prior peak. An investor with a 30-year time horizon can genuinely absorb an event like that and still come out ahead by retirement. An investor five years from retiring cannot — a real crash of that scale, hitting at the wrong moment, could permanently derail their own plans.

This is exactly why time horizon, not just personal comfort with risk, has to shape real allocation decisions.

A REAL, COMMONLY USED RULE OF THUMB

A widely used real heuristic suggests holding roughly `100 minus your age` in percentage terms in stocks, with the remainder in bonds and other lower-volatility assets — a 30-year-old might hold roughly 70% stocks, a 60-year-old roughly 40%. This is genuinely just a starting point for discussion, not a precise formula — real risk tolerance, other savings, and personal circumstances all reasonably shift the actual number in either direction.

Rebalancing: Keeping the Real Target on Track

Different asset classes grow at real, different rates over time — Chapter 2's own real S&P 500 figures alone show stocks can easily outpace bonds over a strong stretch. Left alone, a portfolio's actual allocation drifts away from its own original target purely through uneven growth. **Rebalancing** means periodically selling a portion of whatever has grown to be overweight and buying more of whatever has become underweight, restoring the real, original target mix.

A GENUINE, HONEST TRADE-OFF

Rebalancing isn't free — real, frequent rebalancing can generate genuine transaction costs and fees that quietly reduce overall returns, an honest trade-off against the real benefit of staying disciplined to a target allocation. Most real, practical approaches rebalance on a set schedule (annually, for example) rather than constantly.

Target-Date Funds: The Automated Real Solution

A **target-date fund** — a specific kind of fund, building directly on Chapter 5 — automatically shifts its own allocation to become more conservative as a chosen target date (typically retirement) approaches, following what the industry calls a real "**glide path**": emphasizing return-seeking assets like equities early on, then gradually shifting toward capital-preservation assets like bonds as the target date nears.

REAL HISTORY

Target-date funds were invented by **Donald Luskin and Larry Tint** of Wells Fargo Investment Advisors, and first introduced in the early 1990s by Barclays Global Investors (BGI). Adoption grew substantially after the real, US **Pension Protection Act of 2006**, and by **March 2020**, target-date fund assets under management had reached approximately **\$1.9 trillion**. A single target-date fund purchase automatically handles both the asset allocation and the rebalancing this whole chapter has covered.

Hands-On Exercises

EXERCISE 1

A 45-year-old and a 25-year-old both say they have "medium" risk tolerance. Using this chapter's own real material on risk tolerance vs. risk capacity, explain in your own words why their actual real allocations might reasonably still end up quite different despite identical stated risk tolerance.

 [View solution](#)

EXERCISE 2

A portfolio starts at a target of 70% stocks / 30% bonds. After several strong years for stocks, it has drifted to 82% stocks / 18% bonds. Using this chapter's own real material, explain in your own words what rebalancing would involve doing here, and why simply leaving the portfolio as it now stands would be a real, meaningful departure from the original plan.

 [View solution](#)

EXERCISE 3

Explain, in your own words, how a target-date fund's real "glide path" connects directly to this chapter's own material on time horizon — specifically, why the fund's own allocation changes automatically over time rather than staying fixed.

 [View solution](#)

CHAPTER 9 QUICK REFERENCE

- **Risk tolerance** (emotional willingness) vs. **risk capacity** (financial ability) — genuinely different, and don't always point the same direction
- **"100 minus age" in stocks** — a widely used real starting-point heuristic, not a precise formula
- **Rebalancing** — restoring a drifted portfolio back to its own target allocation; real, honest trade-off against transaction costs
- **Target-date funds** — Luskin & Tint/Wells Fargo invention, introduced by BGI in the early 1990s; real "glide path" automatically shifts allocation; ~\$1.9 trillion AUM by March 2020

CHAPTER 10: CAPSTONE — BUILDING A REAL INVESTMENT PLAN

Investing Fundamentals

Chapter 10 · Capstone: Building a Real Investment Plan

This capstone picks up the sibling Personal Finance Fundamentals course's own real Sam — the Edinburgh-based software engineer from that course's own capstone — two years on. Sam is now **30**, the credit card is cleared, and the emergency fund is fully built. With roughly **£500/month** in genuinely spare capacity beyond everyday needs, Sam is ready to actually invest — applying every prior chapter's own real tool, in sequence, toward two real goals: a house deposit in 5 years, and retirement in roughly 30 years.

STEP 1 — CHAPTER 1: WHY INVEST AT ALL

The Real Cost of Waiting

Sam already saw Chapter 1's own real, worked comparison — cash eroding to inflation versus growing when invested. With two genuinely different goals and two genuinely different time horizons, Sam decides to start now rather than wait, applying that same real compounding logic to both.

STEP 2 — CHAPTER 2: CHOOSING REAL ASSET CLASSES

Stocks and Bonds, Not Individual Real Estate

Sam rules out direct real estate investment (Chapter 2's own real illiquidity point — Sam is *saving toward* a property, not investing in one yet) and settles on a mix of stocks and bonds as the two real building blocks for both goals.

STEP 3 — CHAPTER 3: GENUINE DIVERSIFICATION

Broad, Not Concentrated

Rather than picking individual companies — and risking a real, Enron-style single-company collapse — Sam chooses broad, diversified funds covering hundreds or thousands of companies at once, directly applying Chapter 3's own real Modern Portfolio Theory material.

STEP 4 — CHAPTER 4: WHICH REAL INDEX

A Globally Diversified Index

Rather than concentrating entirely in one country's own index — even the real FTSE 100 or S&P 500 — Sam chooses a globally diversified index tracking companies across many countries, spreading exposure to Chapter 3's own systematic risk category across multiple economies rather than just one.

STEP 5 — CHAPTER 5: LOW-COST, NOT ACTIVELY MANAGED

Applying the Real Fee-Drag Math

Sam picks a low-cost index fund over an actively managed alternative, directly citing Chapter 5's own real SPIVA finding (54% of active large-cap funds underperformed in just six months) and its own real, independently-computed 30-year fee-drag example (roughly £16,582 lost to a 0.9-point annual fee gap).

STEP 6 — CHAPTER 6: CHOOSING THE REAL WRAPPERS

Employer Match First, Then an ISA

Sam first confirms their own workplace pension contribution is already high enough to receive the full employer match — Chapter 6's own real, genuinely free money, left entirely separate from the £500/month below. The new £500/month itself goes into a Stocks & Shares ISA, chosen specifically because — unlike a SIPP — it stays genuinely accessible for the 5-year house deposit goal, not locked until pension age.

STEP 7 — CHAPTER 7: BONDS FOR THE SHORTER GOAL

Two Goals, Two Real Allocations

Sam splits the £500/month: **£300/month** toward retirement (a genuinely long, 30-year horizon), and **£200/month** toward the house deposit (a much shorter, 5-year horizon). Following Chapter 7's own real material, the house-deposit money uses a more conservative 50% stocks / 50% bonds blend — real, lower duration exposure — specifically because a real, 2022-style rate shock hitting close to the 5-year deadline would leave far less time to recover than the retirement pot's own 30-year runway allows.

STEP 8 — CHAPTER 8: AUTOMATING AGAINST SAM'S OWN BIASES

Removing the Decision Entirely

Sam sets up automatic monthly contributions on payday, removing the real, ongoing temptation Chapter 8 documents — trying to time entries, chasing a recent hot fund (recency bias), or panic-selling during a real downturn. The contribution happens the same way every month, regardless of what the market did the week before.

STEP 9 — CHAPTER 9: REAL ALLOCATION & A REBALANCING SCHEDULE

100 Minus Age, Applied

Using Chapter 9's own real "100 minus age" heuristic, Sam's own age of 30 suggests roughly 70% stocks for money with a genuinely long horizon — applied to the retirement pot. The house-deposit pot deliberately runs more conservative than that heuristic alone would suggest, reflecting its own real, shorter 5-year horizon instead. Sam reviews and rebalances both pots once a year.

The Real, Independently Computed Projections

Using Chapter 1's own compound growth formula, extended to a monthly contribution series

($FV = C \times [((1+i)^n - 1) / i]$, with i as the monthly rate and n in months):

Retirement pot: £300/month, 30 years, net 6.9% (Chapter 5's own low-cost figure)

$i = 0.069/12$, $n = 360$

$$\begin{aligned} FV &= 300 \times [(1.00575^{360} - 1) / 0.00575] \\ &= 300 \times [(7.876547 - 1) / 0.00575] \\ &\approx \text{£}358,776 \end{aligned}$$

House deposit pot: £200/month, 5 years, net 5% (a more conservative 50/50 blend)

$i = 0.05/12$, $n = 60$

$$\begin{aligned} FV &= 200 \times [(1.0041667^{60} - 1) / 0.0041667] \\ &= 200 \times [(1.283367 - 1) / 0.0041667] \\ &\approx \text{£}13,602 \end{aligned}$$

INDEPENDENTLY CALCULATED (NOT QUOTED FROM AN EXTERNAL SOURCE)

Both figures were computed directly from this course's own formula, using two genuinely different real assumed net returns (6.9% vs. 5%) reflecting the two pots' own genuinely different allocations — exactly the real, deliberate consequence of Chapter 9's own time-horizon-driven asset allocation applied to two real goals at once.

Chapter Attribution

STEP	CHAPTER	WHAT IT CONTRIBUTED
1. Motivation	Ch. 1	Real compounding case for starting now, on both goals
2. Asset classes	Ch. 2	Stocks and bonds chosen over direct real estate
3. Diversification	Ch. 3	Broad funds over individual stock-picking
4. Index choice	Ch. 4	A globally diversified index, not one country alone
5. Fund choice	Ch. 5	A low-cost index fund, using the real SPIVA/fee-drag evidence
6. Wrappers	Ch. 6	Employer match maximized first; a Stocks & Shares ISA for the rest
7. Bonds	Ch. 7	A more conservative blend for the shorter, 5-year goal
8. Behavior	Ch. 8	Automatic contributions, removing timing and panic-selling temptation
9. Allocation	Ch. 9	"100 minus age" applied to the retirement pot; annual rebalancing

What This Course Doesn't Cover

- Individual stock analysis and picking — this course deliberately favors diversified funds throughout
- Options, derivatives, and other advanced/leveraged instruments
- Direct property investment in depth — covered only briefly as an asset class in Chapter 2
- Cryptocurrency and other alternative assets
- Detailed capital gains tax mechanics for investments held outside an ISA or pension

Hands-On Exercises

EXERCISE 1

A reviewer asks why Sam's house-deposit pot uses a lower assumed return (5%) than the retirement pot (6.9%), given both are described as "invested." Explain, in your own words, the real reasoning behind this difference, citing the specific chapters involved.

 [View solution](#)
EXERCISE 2

A friend of Sam's says, "I'd just put my employer pension match and my extra investing money into the same SIPP — simpler to manage." Explain, in your own words, using this capstone's own real Step 6 reasoning, why Sam deliberately used two separate wrappers instead.

 [View solution](#)
EXERCISE 3

Using this capstone's own real retirement-pot calculation, recalculate the 30-year ending value if Sam's contribution were £250/month instead of £300/month (same net 6.9% return). Then explain, in your own words, what this comparison shows about the real relationship between monthly contribution size and the final outcome.

 [View solution](#)
COURSE COMPLETE

- All 9 prior chapters applied in sequence to one real, worked investment plan, anchored by two real, independently-computed monthly-contribution projections (retirement: $\approx$ £358,776 over 30 years; house deposit: $\approx$ £13,602 over 5 years)
- Real applied principle: two goals with different time horizons genuinely warrant different real allocations, not one identical portfolio for everything

- **Investing Fundamentals is now complete — 10/10 chapters.** Together with the sibling Personal Finance Fundamentals course, this closes the full two-course Personal Finance & Investing project — managing what you have, and growing it.