OCTOBER 2018

Fidelity **Investment** Ideas

Helping you find investment opportunities

IN THIS ISSUE...

Now you can buy shares with Fidelity

Stuart Welch
Head of Personal Investing and Wealth Solutions

You won't be surprised to hear that we're fans of funds at Fidelity. After all, we offer these investments from over 100 companies and manage our own range as well.

However, we also think there's a lot to like about selecting shares for yourself. All our fund managers are stock-pickers and there are advantages to choosing your own shares, as Tom Stevenson explains on page 3. If you're a beginner, you could hold them alongside funds, at least to start with, while more experienced investors tend to hold a portfolio of shares in its own right.

This issue of *Investment Ideas* tells you more about this opportunity and how Fidelity can help you make the most of it through our share dealing platform, which was launched earlier this year.

You'll find out much more on the following pages, but here are a few highlights. Fidelity share dealing gives you access to over 500 companies from the UK stockmarket, including investments featured on the FTSE 100, FTSE 250 and FTSE All-Share.

In addition, there are some companies from the Alternative Investment Market (AIM), which is home to up-and-coming businesses that might have more growth

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potential, though they also involve more risk. There are also investment trusts, exchange-traded funds (ETFs) and some shares from the Irish Stock Exchange, which are featured on the ISEQ 20 index.

In the coming months, we plan to add a host of new investments – from bonds to European and US shares – but there's still a lot to choose from right now. What's more, you have the option of holding these shares in our tax-efficient ISA and our Investment Account. We even make it easy for you to transfer shares you already have into these accounts. In time, you'll also be able to hold shares in our Self-Invested Personal Pension (SIPP), as we're currently putting in place everything we need to offer this option.

Over the next pages, our team will tell you more about share dealing in general and what we offer in particular. We know that one of the big challenges with choosing shares is deciding where to look, so Emma-Lou Montgomery explores the benefits of investing in what you know and we highlight all the tools, articles and insights available on our website to help make your decisions easier.

For those who haven't bought shares before, Emma-Lou also has a step-by-step guide to take you through the basics and, of course, we tell you why we think our share dealing platform is the one to choose.

Finally, while the taxman may claim that tax doesn't have to be taxing, it does tend to be complicated. We look at some of the rules you have to keep in mind when investing in shares, including a reminder that many of them don't apply when you invest through an ISA.

If you already invest in shares, we can make them easier to manage. Just use our transfer service to move them over to our ISA and Investment Account. See back page for more details.

Important information: Please note that investment performance is not guaranteed and the value of investments can go down as well as up, so you may get back less than you invest. You should regularly reassess the suitability of your investments to ensure they continue to meet your attitude to risk and investment goals. Direct share investment is not right for everyone. Direct shareholdings should generally form part of a well diversified portfolio of other investments. This information and our guidance tools are not a personal recommendation for any particular investment. If you are unsure of the suitability of an investment, you should speak to an authorised financial adviser. The views expressed may no longer be current and may have already been acted upon by Fidelity. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for illustration purposes only. Tax treatment depends on individual circumstances, and all tax rules may change in the future.

Why I choose to invest in shares

By Tom Stevenson,
Investment Director

There are many ways to use the stock market to build a better future for you and your family. Over the years, I have used all the main investments – mutual funds, shares, investment trusts and ETFs. And let's not forget some cash and the various houses in which we've brought up our kids. All have their pros and cons and a well-balanced portfolio will very likely hold a mixture of some or all of them.

As I've experienced the ups and downs of the market, I've come to appreciate the value of the best professional managers and the diversified portfolios they manage on my behalf. With the best will in the world, I know that my busy life doesn't leave me enough time to compete with their expertise, experience and resources. That's why my portfolio is built around a core of the funds I, and the fund selection experts I work with, believe are the best – most of them, of course, are to be found on our Select 50 list of our favourite funds.

But working towards my and my family's investment goals is too important to me to sub-contract completely to someone else. It's a bit like looking after my garden – it's nice to have some expert guidance on the planting scheme, and maybe get someone in to do the dull bits like trimming the hedges, but sometimes I want to get my hands dirty too. That's how I feel about investing and it's why there will always be a place in my portfolio for some individual shares which I have researched and chosen myself. For me, this is the real deal – where I get to really engage with my finances.

Of course, it's not for everyone, and that's why we offer a range of managed investment solutions like the multi-asset funds in our PathFinder range and our one-stop way to access our preferred funds via the Fidelity Select 50 Balanced Fund. But if you are anything like me you will also enjoy pitting your wits against the market – and that is why I'm so pleased that our new investment platform allows investors to hold individual shares and other exchange-traded instruments like ETFs alongside our funds.

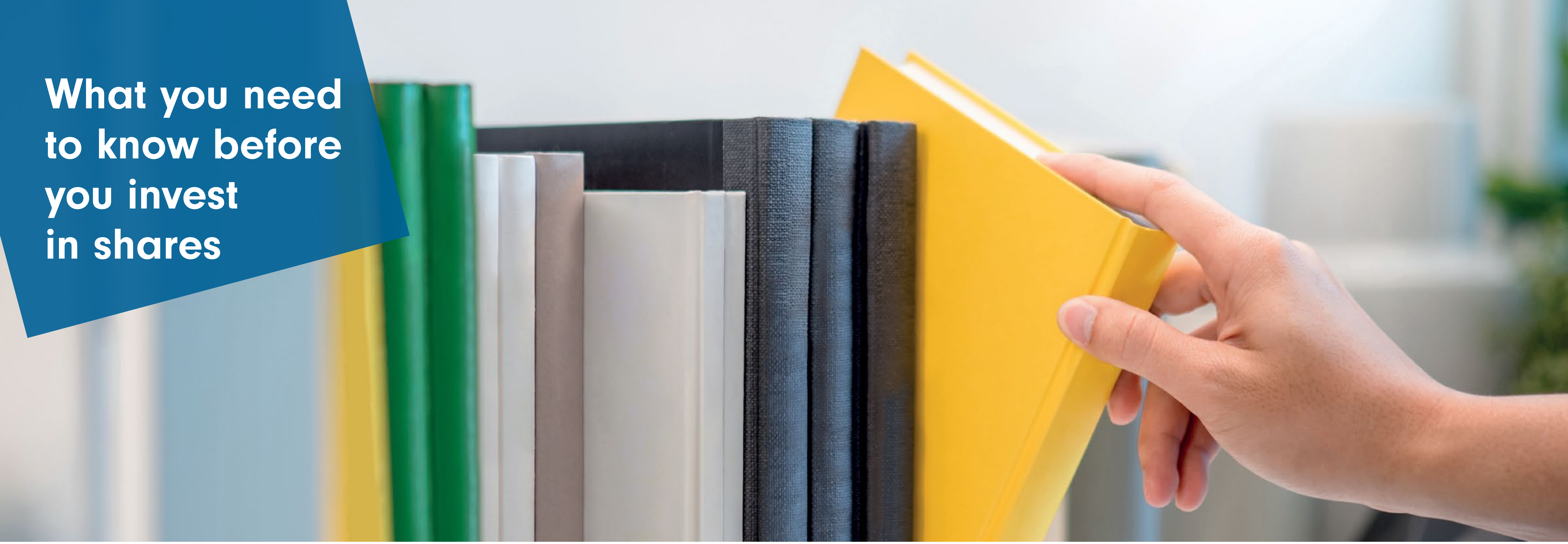
Warren Buffett and his many followers – investors in the UK like Select 50 manager Nick Train – say that they see investing as part-ownership in a business. That's how I see it too. Being a part-owner is much more engaging than simply buying and selling a share certificate (or these days an entry on an electronic register). It's a lot more fun too.

When you get it right, there's nothing quite so satisfying as being right about a share. I remember 15 years or so ago, watching the rapid growth in coffee shop chains across the UK and backing my judgement by investing in Caffe Nero. It turned out to be a very good investment, although of course I've made some regrettable decisions too along the way – that goes with the territory, I'm afraid. More recently, I have kicked myself on numerous occasions for always buying Fever Tree tonic water but not making the obvious connection and investing in the AIM-listed manufacturer of these high-quality mixers.

It's now nearly 30 years since I started out as a reporter at Investors Chronicle, the private investor's weekly bible. And for three decades, I've never lost my fascination for investing. I hope our new share dealing service will help you enjoy it as much as I have.

Find out more about our share dealing service at **fidelity.co.uk/sharedealing**

What you need to know before you invest in shares



Emma-Lou Montgomery shares her do's and don't's when it comes to being a successful share investor.

If the idea of buying and selling shares online conjures up images of day traders glued to their screens for eight hours a day, you might need to press the reset button. It's not about feverishly buying and selling shares in fast-moving stocks in quick succession. Even less is it the testosterone-fuelled world of the 2013 movie "The Wolf of Wall Street".

The reality of investing in stocks and shares online is that it can be one more way to get your money working hard for you. Alongside the cash savings and fund investments you're probably already familiar with, shares could be another way to reach your financial goals. If you are new to share dealing it may seem a bit daunting, but follow a few simple rules and you can find it a lot easier to get started.

1. Take your time

Investing in individual shares takes time. First of all, you need to be able to dedicate time to select the companies you invest in, because when you invest in individual shares you become your own fund manager.

You also need to give these investments time to really see them thrive. Investing in individual shares can be riskier than investing in a fund. Not only because you make all the choices, but also because all the money you have invested in a stock is reliant on that one company's fortunes. You need to bear in mind that businesses often need time to grow and can also face their own ups and downs along the way. They may take time to achieve what they want and for the share price to grow as you wish.

You should really aim to hold shares for a minimum of five years, in order to iron out the inevitable ups and downs in the share price and to give your money the best chance to grow. And longer is generally better. Some volatility along the way is to be expected, which is also why you shouldn't see investing in shares as a short-term activity.

History has shown that shares deliver better returns in the long run than other assets like bonds or cash, though there are no guarantees when it comes to investing, so this may not happen in future.

2. Don't be put off by the lingo

Sometimes it can feel like the world of shares has a language all of its own. Yes, investors who are familiar with PE (price/earnings) ratios and au fait with dividend yield may have a head-start. But not always.

Try "kicking the tyres". It might sound like yet another bit of investment jargon, but it's actually the simple process of looking up close at the companies you're interested in investing in. Some of the shrewdest investors are those who invest in what they know.

What you've got to remember is that when you buy shares you're buying a very small piece of that company. If you have a good understanding of the type of business you're investing in and the prospects for the sector that business operates in, you probably know all you need to know to get started.

As I've just mentioned, when you invest in a company, you're actually buying a small stake in that business. Its fortunes and failures will help shape your own investment success, while understanding what you're investing in and why can help you manage the ups and downs that come with stock market investing. It's also why investing in a number of companies and adding funds and other assets into the mix is the best way to build a diversified investment portfolio.

3. Don't try to time the market

Banish those visions of frenzied day traders, hitting the buy and sell button day in, day out. Investing in shares is a longer-term activity. Yes, in an ideal world you buy when prices are low and sit and watch them rise, but you should resist the urge to tinker. Sell at the wrong time, in the hope of buying some more at a cheaper price, and you could end up kicking yourself if you miss the boat.

It's far better to spend your time doing your homework and investing in a company that you believe in, than trying to second-guess the market and incurring the cost, and potential frustration, of getting it wrong.

Don't think of investing in shares as a "get rich quick" scheme. If it is thrills and spills you're after, you're probably better off taking a bungee jump or going parachuting in your spare time.

4. Understand risk

When it comes to any sort of stock market investing you'll hear risk talked about. A lot. Strictly speaking, there's no such thing as a risk-free investment. Not even cash comes without risk, because over time inflation can eat away at the value of the pound in your pocket.

However, it's more prominent when you invest in stocks and shares because you are immediately exposed to any fluctuation in the share price of the companies you invest in. Aside from individual risks, companies can face sector-specific ones and industry-wide ones too. And don't forget political and economic factors, which can also affect share price performance.

When choosing companies to invest in, you'll come across all sorts, from industry stalwarts that have stood the test of time, to shiny newcomers that have everything to prove. And some may not last the distance. That's why you must always do your homework before investing, so you understand exactly what you're investing in and are comfortable with the risk you are taking with your money.

5. Don't put all your eggs in one basket

For that reason too, it pays to stay diversified. That means keeping a range of assets in your investment portfolio. Ideally across different sectors and geographies too.

Shares should be seen as one part of your overall portfolio. And even then you would be wise to keep your share investments as diverse as possible. For instance, investing in a restaurant group, a food supplier and even a commercial property company is likely to be better than investing all your money in three restaurant chains operating in the same market.

By investing in a number of companies and adding funds and other assets into the mix as well, you'll be on your way to building a balanced and diversified investment portfolio.

Making good investing easy

We won't give you advice about what shares to choose, but we can make it easier for you to find what you want, with ideas about where to look and tools to help you search.

Market insights and investment opportunities

The market perspectives page on our website (fidelity.co.uk/marketperspectives) brings together all of our team's latest views about what's happening in the markets and the potential implications for your investments. This includes a **daily insight** that rounds up key topics from the news and a **market week** video that contains our expectations for the coming week.

We also have more detailed **viewpoints** on key market topics. In September 2018, these have included lessons from the financial crisis, ways to capitalise on change and opportunities in Japan and the emerging markets.

Alongside these articles is our investment ideas page (fidelity.co.uk/ideas) which is more focused on specific opportunities. For share investors, there are three elements that could be particularly interesting.

Our **Stock Watch** series provides investor briefings on specific companies, while **Stock Watch Live** is a weekly video where a member of our team gives their views on the stocks to watch in the coming weeks. We then take a wider view with our **Sector Watch**, which covers specific market areas, such as telecoms and retail.

For those who prefer to get away from their screens, we also have two free weekly podcasts that look at a range of investment issues. Tom Stevenson's **Market Week** reviews the stories that have been moving the markets, while the **MoneyTalk** podcast features a range of investment topics, including interviews with fund managers about the ways they manage money.

You can get an even longer-term perspective with Tom Stevenson's **Investment Outlook**. This quarterly report contains all his thoughts on the prospects for global markets and key asset classes over the next 12 months.

This exclusive analysis is free to read on your screen or download as a pdf at **fidelity.co.uk/outlook**

Finally, you can choose to receive expert financial insights from us by visiting your preference centre when you log in to your secure online account.

Meet the team

Our market insights and analysis are produced by Tom Stevenson and his team, which is made up of Ed Monk, Jonathan Wright, Emma-Lou Montgomery and Daniel Lane. They specialise in different areas of finance, so together they can give you a broad view on the current market and economic situation, as well as prospects for the future.

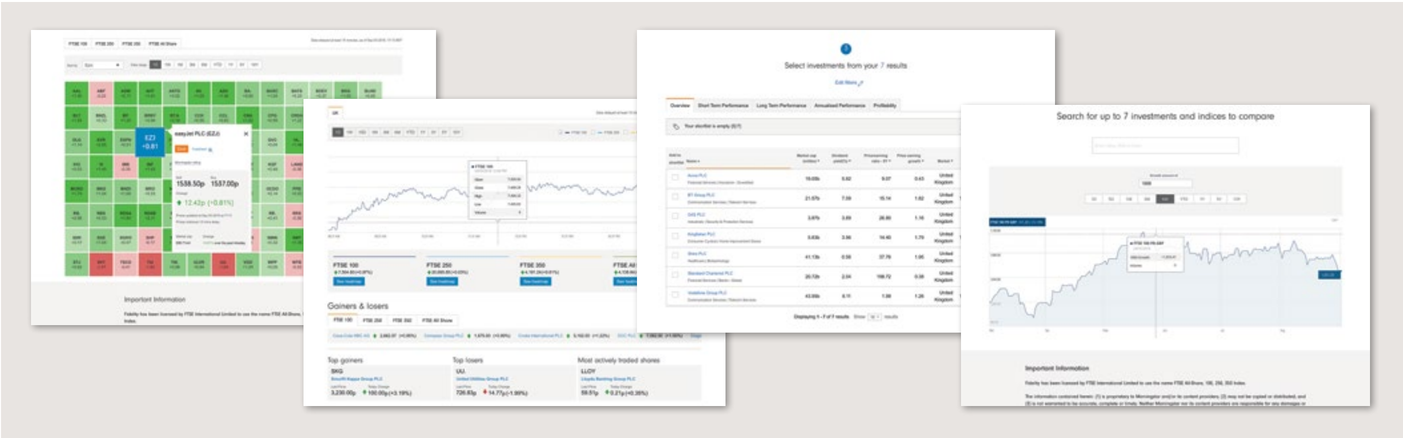
Tools and market data

There are lots of ways we can help you choose shares. Our **market & shares data** page (fidelity.co.uk/data) gives you an easy way to see how the UK market and major indices have performed over different time periods. It also tracks the top gainers and losers in the FTSE 100, FTSE 250 and FTSE All Share.

Alternatively, if you'd like to drill down into an index, our **heat map** (fidelity.co.uk/heatmap) shows how every company it contains has performed over a range of time periods – from one day to ten years. They can be ordered by performance, company code or sector, which means it can be a powerful way to identify risers and fallers, as well as seeing broader market trends much more visually.

Another way to look for shares is by particular categories. That's where our **Investment Finder** (fidelity.co.uk/finder) comes in. You can search our full investment selection of over 500 shares using filters that range from sector, size and industry to dividend yield, price-earnings ratio and Morningstar rating. Once you've found something you're interested in, just click on its name to open up a detailed **factsheet** with all sorts of share statistics and company details; all the way down to its key personnel, director dealings and major shareholders.

Finally, if you'd like to see how several investment opportunities stack up against each other, you can use our **Chart and Compare** tool (fidelity.co.uk/compare). This allows you to compare up to seven shares, funds and indices, over a selection of time periods; from the short to very long term.



Why you should invest in what you know

Emma-Lou Montgomery explains why following your instinct can set you on the path to successful share investing.

How often have you read the financial news and spotted a profit warning from a retailer you used to shop with regularly? Or watched a new business take off and kicked yourself because you had the chance to get on board before its profits and share price started to fly?

Investment opportunities are all around us. Taking note of what is and isn't selling, where people are eating or buying property, what sort of cars they're driving or even noticing a pattern at dinner party conversations can give you the information edge you need to invest successfully.

You will hear it time and again, but investing in what you know can pay dividends. Both metaphorically and in reality.

The "art" of successful investing does not always lie in solely keeping a close eye on share price patterns or poring over profit and loss statements. Well certainly not exclusively so, in any case. Sometimes having a gut instinct or a feel for a company is the best way to pick a winner. And it's certainly a good starting point.

As consumers and customers ourselves we often – sometimes without realising it – occupy a prime viewpoint when it comes to spotting investment opportunities. Something as simple as watching what people around us are buying – or not buying – can put us on the path to investment success.

Legendary investor Warren Buffett is a fan of investing in what you know and has said time and again that his investment success has come from staying within his "circle of competence".

Another famed proponent of the "invest in what you know" approach is Fidelity investment star Peter Lynch. Investing folklore has it that the former fund manager invested in undergarment manufacturer Hanes after his wife commented on the quality of its tights and stockings. When a competitor introduced a competing brand, Lynch is said to have taken samples of each and asked for his colleagues' opinion on them. When they confirmed his wife's opinion, he bought shares in the company.

Another story tells how Lynch profited from an early investment in Flying Tiger, an air freight company, because he had a hunch that air freight was the transportation mode of the future. His hunch paid off and he profited tremendously when the Vietnam War began and the company began transporting troops and supplies overseas.

Of course, there is no substitute for really getting to grips with the ins and outs of the companies you are thinking of investing in. As Lynch once said: "Never invest in any company before you've done the homework on the company's earnings prospects, financial condition, competitive position, plans for expansion, and so forth."

Sometimes a business can look more successful than it actually is. A great example of this is the airline industry. If you find yourself battling the crowds at a busy airport you might conclude that the airlines are making money hand over fist. Over the 100 years or so of commercial flying, however, the losses have probably exceeded the profits in aggregate.

The reality of the airline business is that, despite more people taking more flights every year, it is a cut-throat industry with wafer-thin profit margins, vulnerable to the ups and downs of the oil price, regulation and powerful unions. Sometimes appearances can be deceptive.

At other times, however, you don't even need to leave your house to see which way the wind is blowing. If you have teenage children, then you will have a front-row seat at the fast-changing world of social media. You may well have seen your kids moving away from Facebook and spending more and more time on Instagram – no wonder then than Facebook now owns Instagram. As an investor, the key question is whether the faster-growing platform can make up for any slowdown in its maturing parent.

My colleague Tom Stevenson describes on page 3 how he spotted the opportunity at Caffe Nero in the early days of Britain's coffee shop boom a few years back. He says: "when I started out working in the City 30 years ago, finding a decent cup of coffee was a hit and miss affair, and the arrival of the likes of Starbucks and Caffe Nero made the whole process more accessible and predictable. It was obvious that the new chains were pushing on an open door. But it required a further bit of lateral thinking to see that Caffe Nero's more European style (and stronger coffee) would be a hit."

He also makes an interesting point about his missed opportunity with Fever Tree. Again, it was not rocket science to spot that the upmarket mixer maker would be a success. But believing something and actually acting on that hunch are not the same thing. Investing is not just an intellectual exercise. It requires confidence and conviction too.

Start with what you know, add some research into the mix and you'll have a head-start on many other investors who are not prepared to roll up their sleeves or back their instincts.

Head to **fidelity.co.uk/marketinsights** for news, views and research tools

Stock Watch Live

Every Friday, Emma-Lou hosts Stock Watch Live, a weekly video looking at some of the companies due to report full year and half year results and those issuing trading updates. You can find it in the Markets & Insights section under "Investment ideas" at **fidelity.co.uk**

Shares and tax

In general, the tax rules on shares are lot more straightforward than you might expect. When you're just beginning to invest, you may not even have to pay tax on your gains or dividends, as they both have tax-free allowances. Here are the basics to help you get started.

Taxes on buying shares

Unlike buying funds, when you buy a share in a company you may have to pay tax. This depends on a few different factors. UK-listed company shares generally have 0.5% stamp duty reserve tax (SDRT), while Irish companies are subject to Irish stamp duty of 1%. European shares also have a tax to pay, though the level varies from country to country.

That said, not all shares will be taxed. For example, the shares of exchange-traded funds are generally exempt, as are those of many smaller companies. In the UK, shares quoted on the Alternative Investment Market (AIM) or the High Growth Segment of the London Stock Exchange are exempt from stamp duty.

Unfortunately, when you have to pay these taxes, they still apply if you buy shares through an ISA. However, if you invest with Fidelity, we will calculate and arrange payment for all these taxes for you and the relevant amounts will be displayed when we confirm each transaction.

Taxes on income from shares

Share dividends paid by most UK companies are generally taxed in the same way as income from dividend-paying funds. This means tax based on your marginal rate once your annual dividend allowance has been exceeded. (It's currently £2,000.)

Real estate investment trusts (REITs) pay a slightly different type of income, known as a Property Income Distribution. These payments do not count towards your annual dividend allowance and they are taxed at 20% when paid outside an ISA. There may be further tax on them at your marginal rate for property income if you pay tax above the basic rate (usually 40% or 45% for UK individuals).

Within an ISA, we will generally receive the Property Income Distribution after 20% UK income tax has been paid and we will then recover the tax from HMRC and credit it to your account at a later date.

Dividends issued by non-UK companies also count towards your annual dividend allowance and you pay UK tax at the same rates as UK company dividends. However, there will often be foreign taxes paid on these dividends before you receive them. For example, Irish dividends have a 20% Irish tax.

These deductions will generally satisfy any foreign tax you might have to pay on the income. From a UK tax perspective, these can be offset in most cases against any UK tax you may be due to pay. As ISAs are only exempt from UK taxes, any foreign company dividends received in an ISA will have the same levels of withholding tax as those received outside an ISA and this tax cannot be recovered.

To help you understand and manage these payments, we will issue an Annual Tax Voucher containing a breakdown of the income you have received and the taxes that have been paid – both in the UK and overseas.

Taxes on selling shares

As with investing in funds, if you sell a share at a profit, UK capital gains tax may apply on the gain – unless you hold it in a tax-efficient account, such as an ISA.

When you are calculating the cost of buying a share, you can include the brokerage transaction charge and any tax you have paid, such as stamp duty. If you buy and then sell a share in a short space of time, there are specific rules that apply – either the same-day trading rule or the 30-day trading rule (which covers anything between one day and 30 days).

As with funds, it is possible to manage the use of your capital gains allowance before the end of the tax year by deciding whether to sell holdings at a gain.

Where shares are different to funds is in the area of reorganisations, takeovers and mergers. This can be complicated and companies may offer shareholders several options in this situation to help them manage their capital gains position. More information on the calculation of cost and gains, as well as reorganisations, takeovers and mergers, can be found on HMRC's website.

All these details apply to shares in UK and foreign companies that are held by UK residents. However, non-UK taxes may also apply to shares in foreign companies. If you need advice on foreign tax implications of trading shares from companies listed in the UK that are based outside this country, we would recommend you consult a tax adviser.

The ISA alternative

If you're looking for an easier way to hold shares, consider the Fidelity ISA. There's no UK capital gains tax to pay – no matter how much your shares rise in value – and no UK tax on dividends either. You don't even have to declare your shares on a tax return, which can potentially be quite a time saving.

The only restriction is your annual ISA allowance. However, that's £20,000 in the 2018/19 tax year, so you can still build up your tax-efficient share portfolio pretty quickly, especially if you have a spouse or partner, as they get their own allowance as well.

Of course, you do need to keep in mind that the value of tax savings and eligibility to invest in an ISA depend on personal circumstances. All tax rules may change in future.

Find out more at
fidelity.co.uk/ISA

Six benefits of our share dealing service

It's a big decision to start investing in shares so you do need to read the important information on page 2 before you begin. However, it doesn't have to be a difficult one to choose where to buy them from. Here are some of the advantages of opting for Fidelity.

1 You have lots of choice to build your portfolio

We already offer shares from the FTSE 100, FTSE 250, FTSE All-Share and FTSE AIM 100, plus investment trusts, exchange-traded funds and some Irish shares. This range is set to get bigger in the near future, so eventually we'll offer:

- UK and Irish shares
- UK government bonds (gilts) and UK corporate bonds
- European shares via CREST Depository Interests (CDIs), which are UK investments covering companies listed in Europe
- A wide range of exchange-traded funds
- Lots of investment trusts

2 You can see what you're paying with our simple costs

Our typical service fee for holding funds is a low-cost 0.35%, so that's also the typical fee for holding shares in an ISA or Junior ISA. But we make it better value by capping it at £45 a year for your shares – no matter how much you invest with us. There's no service fee at all for holding shares in our Investment Account. Then, we charge just £10 a trade for online share dealing inside an ISA or through our Investment Account, and £1.50 a deal for regular savings and dividend reinvestment. Normal charges apply to any other investments you hold with us. For more information, please visit **fidelity.co.uk/charges**.

3 You'll find it easy to manage your money

You'll see your shares alongside your funds on our secure website, so all you have to do is log in to get a full picture of your portfolio.

4 You can look after everything in one place

Our transfer service makes it easy for you to move shares you hold elsewhere over to us, so you can manage everything in one place.

Just give us the details for ISA and Investment Account holdings and we'll sort it all out for you. (SIPPs are on the way, so you'll be able to do them soon as well.)

Our share dealing transfer service does all this for you – and we'll even cover the exit fees from your current providers by paying up to £500 per person. Terms and conditions apply. See **fidelity.co.uk/exitfeeterms** for more information.

5 It can even be easier for your employer

Some companies have to keep track of staff share dealing. This can be hard work for the employee and the employer. But not with Fidelity. Our duplicate reporting service makes it easy for them to monitor your trading and maintain accurate records. All you have to do is give them permission to access your details.

6 You can get involved with the companies you hold

Just log in to your secure online account for all the latest information about your shares, plus an archive of everything we have sent you. You can also see any corporate actions that are happening on your holdings. (These are things that significantly affect a company and its shareholders, such as a merger or stock split.) Some won't need you to do anything, but you will be able to elect on others through our website.

Head to **fidelity.co.uk/sharedealing** to get started today

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