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SPOTLIGHT ON:

Managing risk in your investment portfolio

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TIPS FOR A BALANCED INVESTMENT APPROACH

Investment markets rise and fall, yet the goals that matter to you – retirement security, children's education, a comfortable buffer against the unexpected – remain constant. Managing risk means giving each goal the best chance of success while avoiding avoidable shocks. You can do that by holding the right mix of assets for your timeframe, using tax wrappers efficiently, and controlling costs and emotions.

The 2025/26 UK tax year brings unchanged ISA and pension allowances. This guide explains the key steps, such as diversifying sensibly, rebalancing with discipline, safeguarding cash, and monitoring allowances, so you can stay on track whatever the markets deliver. It is an information resource, not personal advice.

START WITH A CLEAR PLAN

Define goals and timeframes: Decide what each pot of money is for (for example: house deposit in three years, retirement in 20 years). Time horizon drives how much short-term volatility you can accept. Short-term goals usually need more cash and high-quality bonds; long-term goals can justify more equities.

Set your risk level in advance: Ask yourself two questions.

- **Risk capacity:** How much loss could you absorb without derailing plans (linked to your time horizon, job security and other assets)?
- **Risk tolerance:** How do you feel about market swings? Use a more cautious mix if you are likely to sell in a downturn.

Ring-fence cash needs: Keep 3-6 months' essential spending in easy-access cash before you invest. This reduces the chance of selling investments at a low point to meet bills.

Choose simple, diversified building blocks: Broad index funds and exchange-traded funds (ETFs) covering global equities and high-quality bonds provide instant diversification at low cost. Avoid concentration in a single share, sector or theme unless you are comfortable with higher risk.

DIVERSIFICATION: SPREAD RISK ACROSS ASSETS, REGIONS AND ISSUERS

Diversification reduces the impact of any single holding. Practical ways to diversify include the following.

- **Assets:** Use both growth assets (equities) and defensive assets (investment-grade bonds, some cash).
- **Regions:** Combine UK and global holdings. Many UK investors hold too much domestically; global funds spread company and currency risk.
- **Issuers:** In bonds, mix UK gilts and investment-grade corporate bonds to diversify credit exposure.
- **Currencies:** Equity funds are commonly unhedged (currency moves add volatility but can offset local shocks). For bonds, many investors prefer sterling-hedged funds to lower currency risk.

A diversified core helps the portfolio behave more predictably across different market conditions. You can add small "satellite" positions if you wish, but keep any higher-risk ideas to a modest percentage of the whole.

USE TAX WRAPPERS TO REDUCE AVOIDABLE TAX AND TRADING FRICTIONS

Efficient use of ISAs and pensions is one of the most effective risk-management tools because it protects more of your return from tax.

ISAS (INDIVIDUAL SAVINGS ACCOUNTS)

- **Annual ISA allowance:** £20,000 for 2025/26. You can split this across cash, stocks & shares and innovative finance ISAs. Lifetime ISAs (LISAs) are capped at £4,000 within the overall £20,000.
- **Junior ISA (for children under 18):** £9,000 for 2025/26 (unchanged).

ISAs shield interest, dividends and capital gains from tax. Rebalancing inside an ISA does not create capital gains tax (CGT), which helps you maintain your chosen risk level at lower cost.

Note: There has been public discussion about potential ISA reforms, but the current 2025/26 allowance is £20,000. If government policy changes later, we will let you know.

PENSIONS (WORKPLACE PENSION, PERSONAL PENSION/SIPP)

- **Annual allowance:** £60,000 for 2025/26 (subject to tapering for higher incomes; see below). You may be able to carry forward unused annual allowance from the three previous years if eligible.
- **Tapered annual allowance:** If your adjusted income exceeds £260,000 and threshold income exceeds £200,000, the annual allowance tapers down (to a minimum of £10,000 for 2025/26).
- **Money purchase annual allowance (MPAA):** £10,000 for 2025/26 once you've flexibly accessed defined contribution benefits (for example, taking taxable drawdown income).
- **Tax-free lump sum limits:** The lifetime allowance has been replaced. From 6 April 2024, the lump sum allowance (LSA) caps total tax-free pension lump sums at £268,275 for most people, and the lump sum and death benefit allowance (LSDBA) is £1,073,100.

Pensions are long-term wrappers designed for retirement. Contributions usually attract tax relief and investments grow free of UK income tax and capital gains tax while inside the pension.

PERSONAL SAVINGS: INTEREST ALLOWANCES

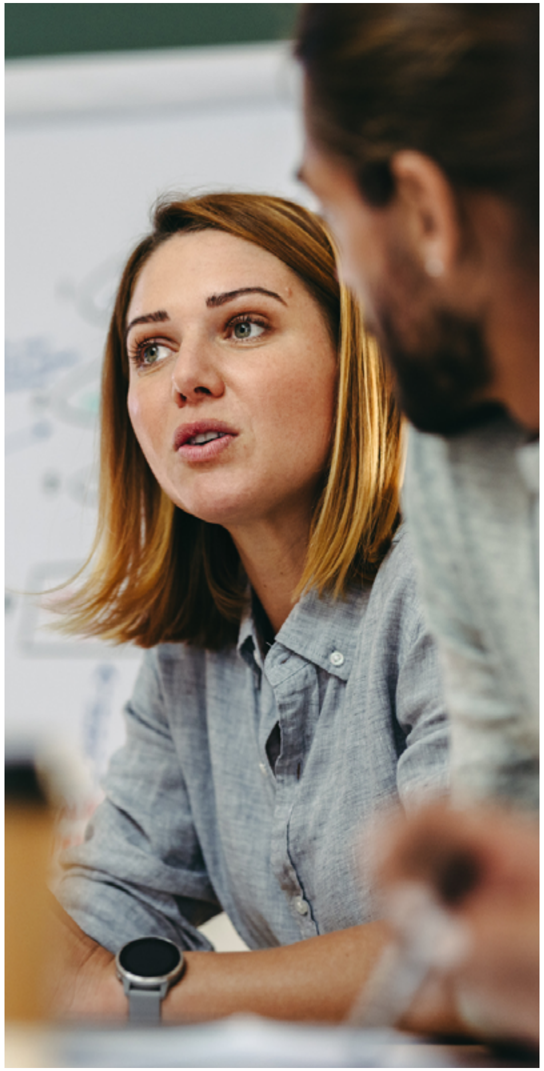
- **Personal savings allowance (PSA):** Basic-rate taxpayers can earn up to £1,000 of bank/building society interest tax free; higher-rate taxpayers up to £500; additional-rate taxpayers do not receive a PSA.
- **Starting rate for savings:** Up to £5,000 of interest may be taxable at 0% if your other taxable non-savings income is below a set threshold. For 2025/26, that threshold is £17,570 (personal allowance of £12,570 plus the £5,000 starting rate band).

DIVIDENDS AND CAPITAL GAINS OUTSIDE ISAS/PENSIONS

- **Dividend allowance:** £500 for 2025/26 (unchanged from 2024/25). Dividend tax rates remain 8.75%, 33.75% and 39.35% for basic, higher and additional-rate bands, respectively.
- **The annual capital gains tax (CGT) exempt amount**, £3,000 for individuals (£1,500 for most trusts).
- **CGT rates from 6 April 2025:** For individuals, 18% within the basic-rate band and 24% above it, on gains from both residential property and other chargeable assets (carried interest has its rate). HMRC examples confirm the £37,700 basic-rate band figure used in CGT calculations for 2025/26.

CGT reporting reminder: UK residents disposing of UK residential property with CGT to pay must report and pay within 60 days of completion. Other gains are reported via self assessment (online filing deadline is 31 January following the tax year; if you want HMRC to collect through your PAYE code, file online by 30 December; payments on account remain due 31 January and 31 July).

Why this matters for risk: Using ISAs and pensions lowers the drag from tax, allowing you to rebalance and compound returns more effectively. Outside wrappers, plan disposals to use the £3,000 CGT allowance and each holder's tax bands and consider transfer to a spouse/civil partner (no CGT on gifts between spouses) before selling where suitable.



BONDS AND CASH: INTEREST-RATE AND INFLATION CONSIDERATIONS

Interest rates: The Bank of England reduced the Bank Rate to 4% at its August 2025 meeting. Bond prices can move meaningfully when rates are high or changing, especially for longer-dated bonds. Consider the duration of bond funds and whether a mix of short- and intermediate-duration exposure suits your time horizon.

Inflation: Headline Consumer Price Index (CPI) inflation was 3.6% in the 12 months to June 2025, while the CPI including owner occupiers' housing costs (CPIH) rose by 4.1%. Inflation affects the real value of cash and bond coupons, and can influence central bank policy, affecting bond prices. Review whether your mix of cash, index-linked gilts and conventional bonds remains appropriate as inflation and interest-rate expectations evolve.

Cash strategy: For short-term needs, spread deposits to respect Financial Services Compensation Scheme (FSCS) limits. For longer-term goals, excessive cash can increase the risk of falling behind inflation.

CONTROL COSTS AND PRODUCT RISK

Keep fees low: Ongoing charges figures (OCFs), platform fees and trading costs compound over time. Favour straightforward funds and avoid unnecessary expenses.

Understand the product: Structured products, highly concentrated thematic funds or complex alternatives can behave unpredictably. If you use them, size them modestly within a diversified core.

Use disciplined trading rules: Avoid frequent tinkering. Set rebalancing points (see below) and resist acting on short-term news.

REBALANCING: WHY, WHEN AND HOW

Markets move at different speeds. Without rebalancing, a portfolio can “drift” to a higher or lower risk level than you intended.

Follow this simple rebalancing framework. Invest in something that will rebalance automatically (i.e. certain ETFs)

- **Frequency:** Review at least annually.
- **Thresholds:** Rebalance when an asset class is 5 percentage points away from target (absolute) or 20% away (relative).
- **Tax-aware execution:** I prefer to rebalance inside ISAs and pensions. Outside wrappers, use new cash or dividends where possible; then consider selling gains up to the £3,000 CGT allowance and factoring in dividend and savings allowances.

Implementation tip: If markets are volatile, use staged trades (for example, three equal tranches a few days apart) rather than one large order.

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SAFEGUARD CASH AND INVESTMENTS WITH THE RIGHT PROTECTIONS

FSCS protection (cash deposits): Up to £85,000 per person, per authorised bank/building society group is protected. Temporary high balances from specific life events can be covered up to £1m for six months. The Prudential Regulation Authority has consulted on raising the standard deposit limit to £110,000 and the temporary high balance limit to £1.4m from 1 December 2025 (proposal stage at the time of writing).

FSCS protection (investments): If a regulated investment firm fails and your assets are missing or there is a valid claim for bad advice/arranging, compensation may be available up to £85,000 per person, per firm. This does not protect you against normal market falls.

Operational risk checks: Use Financial Conduct Authority authorised providers, check how your assets are held (client money and custody), enable multi-factor authentication, and keep beneficiary and contact details up to date.

CURRENCY RISK: WHEN TO HEDGE

For equities, many long-term investors accept currency fluctuations as part of the growth engine, since sterling often weakens when global equities are stressed, partly offsetting losses. For bonds, many prefer sterling-hedged funds to keep defensive holdings aligned with sterling cashflow needs. A blended approach works: unhedged global equities plus mostly hedged bonds.

BEHAVIOURAL RISKS: KEEP DECISIONS STEADY

Common pitfalls include chasing recent winners, selling after falls or holding too much cash after a downturn. Tactics to keep you on track include:

- **automate contributions** (regular monthly investing), which spreads entry points
- **write down rules** (what you will do if markets fall 10%, 20%, 30%)
- **separate spending cash from investments** so you do not sell at weak prices to fund short-term needs
- **use portfolio “buckets”** in retirement.

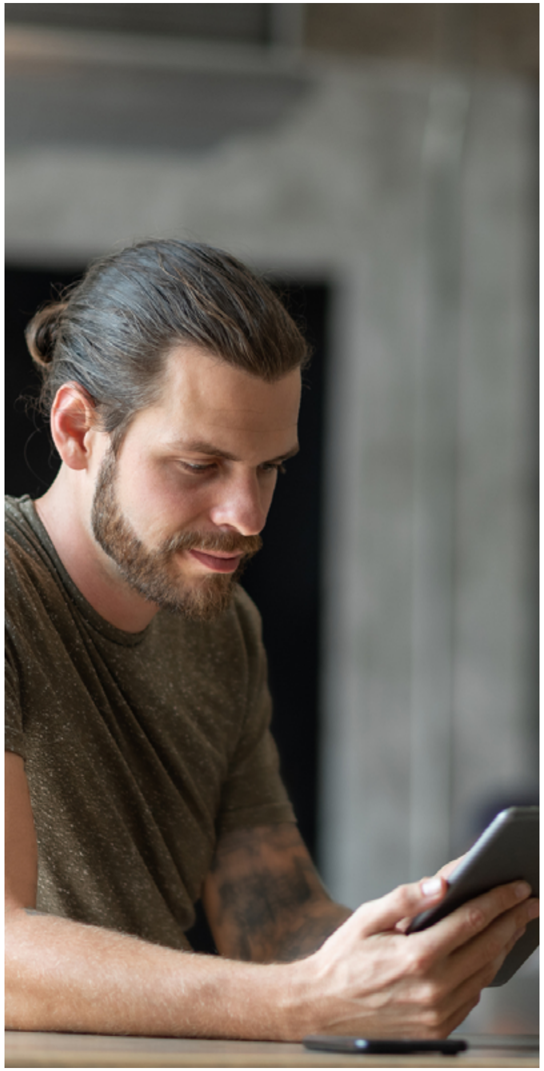
RETIREMENT PLANNING: SEQUENCE-OF-RETURNS RISK AND WITHDRAWALS

If you are drawing an income from investments consider the following.

- **Hold a cash buffer** (for example, 12–24 months of planned withdrawals) to avoid forced sales during sharp market falls.
- **Be flexible with withdrawals:** Pausing inflation-indexing or trimming withdrawals after a poor market year can help portfolios last longer.
- **Use tax bands efficiently:** Consider the order of withdrawals (pension, ISA, general investment account) to make use of personal allowance, PSA, dividend allowance and the CGT annual exempt amount. Take care around the MPAA if you are still contributing to pensions after accessing them.

PUTTING IT TOGETHER: A REPEATABLE CHECKLIST

1. **Confirm goals and time horizons.**
2. **Check emergency cash (3-6 months).**
3. **Map your target asset allocation.**
4. **Use wrappers first:** Fill ISAs and workplace/personal pensions as appropriate.
5. **Keep costs low:** Prefer broad index funds/ETFs.
6. **Set rebalancing rules:** Annual review + thresholds.
7. **Document tax items:** Monitor dividend/CGT use; note 60-day property CGT rule; plan for 31 January/31 July self assessment dates if relevant.
8. **Review protection limits:** Spread larger cash balances across institutions in line with FSCS; note proposed changes for late 2025.
9. **Schedule an annual review** to update assumptions for interest rates, inflation and any rule changes.



WHEN TO GET IN TOUCH

Get in touch if:

- you are unsure how to set or maintain an asset allocation
- you plan to draw income and want to coordinate wrappers and tax bands
- you expect large one-off gains or dividends and want to plan disposals or contributions
- you have concentrated positions (employer shares, single funds) and want to reduce single-asset risk tax-efficiently
- you are considering more complex investments.

WRAPPING UP

Risk management is not a one-off task but an ongoing discipline. By defining clear objectives, spreading investments across regions and asset classes, using ISAs and pensions to shelter returns, and reviewing allocations at least annually, you create a framework that limits surprises and keeps decisions rational.

Document key dates – self assessment payments on 31 January and 31 July, the 60-day CGT rule for property, and the annual ISA reset on 6 April – so tax never forces a sale at the wrong time. Check deposit limits and platform safeguards for peace of mind, and keep a written record of your rebalancing rules to prevent knee-jerk trades.

If life events or regulations change, revisit your plan promptly. A measured, systematic approach lets your portfolio work harder while you stay focused on the goals that matter most.

IMPORTANT INFORMATION

This guide is information only and does not account for your personal circumstances. Past performance is not a guide to future returns. The value of investments and income from them can fall as well as rise, and you may get back less than you invest. Tax rules can change and benefits depend on individual circumstances. If you need personalised advice, please contact a regulated financial adviser.

If you'd like advice on managing your portfolio, get in touch.

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