Karolina Decker
Rica Klitzke
Leitha Matz

FINANZEN SIND WEIBLICH

Mit persönlichen Finanz-Tipps der **finmarie**-Gründerinnen

Wie du erfolgreich investierst und finanziell unabhängig wirst

GABAL

Karolina Decker, Rica Klitzke, Leitha Matz

Female Finance

Plan ahead. Invest successfully. Be financially independent

Karolina Decker, Rica Klitzke, Leitha Matz

Female Finance

Plan ahead. Invest successfully. Be financially independent.

Who we are and what we believe

"It is important to make a dream of life and of a dream, reality."

Marie Curie

Hello dear reader! We are delighted that you chose "Finances are Feminist" from the wide world of books that exist on the topics of investment and finance.

It was a fair bit of work tailoring this book to your exact needs, but this was work that we were very happy to do. Because our goal is to give you a guide that you can use to change your life from the ground up. More independence, more self-confidence, more financial freedom.

Since our team have quite a bit of experience in financial coaching that's focused on women's unique needs and situations, we will provide practical tips as well as basic knowledge about the stock market, the most important investment products and (hopefully!) relatable insights into the financial lives of some of our customers (in anonymous form, of course), which we will use to illustrate a variety of different financial situations.

This book is for you.

This book is for you if, like Lena from Düsseldorf, you have, up until now, relied on others when it comes to money, and you finally want to take your finances into your own hands. Or maybe you actually *must* take on financial management because of a change in your circumstances.

This book is for you if, like Doreen from Stuttgart, you are a single parent with a part-time job. On one hand, you're paying close attention to the household budget, and on the other hand, you're dreaming of creating a secure future for your daughter.

This book is for you if, like Anna from Munich, you have created a powerful career with a six-figure salary.

This book is for you if, like Sina from Hanover, you are still in the middle of your studies, but you'd already like to start building a solid foundation for your financial future today.

But this book is also for you if, like Monika, you are a self-employed entrepreneur, like Natalie, you want to use an inheritance to build wealth, or like Stefanie, you want to be a role model for your children in terms of financial security and freedom.

Throughout the course of this book, we'll present the voices and stories of a variety of women, and we hope you might even find aspects that resonate in your own life.

This book is for you if you:
- want to create a positive vision for your future;
- lack confidence that you can ever be financially free and independent;

- are dissatisfied with your current financial situation;
- wish you didn't have to worry about money anymore;
- dream of being able to maintain a certain standard of living even in old age;
- want to learn more about investing and building wealth;
- need support to realise your dreams and goals.

If you feel you can relate to one or more of the above points, then we have written this book just for you!

And who are we? Karolina, Leitha and Rica.

We are three women in the middle our lives. And all three of us (perhaps like you?) never really bothered much with the thought of money. At least not until we couldn't avoid the topic any longer. For Karolina, it was the moment she realised that her male colleagues were making twice the salary for the same job she did. For Leitha, the so-called "glass ceiling" offered an impetus to deal more with financial equality and financial education (more on this below). For Rica, it was a desire for financial independence and one or two negative—and costly—experiences with financial advisors who ended up not being quite as independent as first assumed.

We call these key experiences our individual "aha moments"—the memorable and formative moments that made us aware for the first time of how we handle our money, our responsibility for our finances, and our desire for independence. Moments that made us prioritise our financial well-being. Moments that encouraged us to share our experiences, expertise and knowledge with others.

These moments revealed our mission to us. They laid the foundation for founding finmarie, Mind The Gap e.V. and the Schulgold-Projekt (School Gold Project). And last, but not least, for the inspiration behind this book.

And because our "aha moments" have been so essential for our development and our goals, we want to share them transparently. We weren't born financial experts either. Which is good news, because it means that you, too, can achieve financial freedom, even if you're just starting out today. Our stories, those of our customers, in short, *this entire book*, should help to you get on the right path. You'll also find the most important financial terms in a glossary at the back of the book – they are marked with the symbol ► in the text.

Karolina

Karolina lives in Berlin with her husband and three children. After many successful years in the financial industry, in which she held a wide variety of positions, from trader to risk manager to real estate salesperson, she founded the nonprofit organisation "Mind The Gap e.V." in 2017 together with Leitha Matz and Natalie Holmes, and in 2018, she founded the financial platform "finmarie"—all projects that give women security, freedom and knowledge in dealing with finances.

As a mother of three, she knows first-hand how important it is for children to learn how to make smart and self-confident financial decisions. With this in mind, she founded the initiative “Schulgold” (School Gold). The project focuses on children and young people and teaches them what schools (and often even their parents) don't give them: a solid financial education.

It’s probably clear at this point that Karolina a very energetic person, full of ideas, who is constantly looking for opportunities to use her experience and knowledge to make the world a little bit better.

Karolina’s Aha Moment

Karolina started her career at a leading bank in Warsaw. She worked there in various positions for ten years, which allowed her to acquire in-depth expertise in a wide variety of financial topics. Even at the beginning of her career she discovered that she had to assert herself as a trader in a male-dominated industry, and in the area of real estate financing, she worked her way up to management level.

It was precisely at this time that she had a key experience. She found out by chance that her male colleagues in the same position were earning twice as much money for the same work she did. When she spoke to her manager about the injustice of this, he succinctly replied that she, “had never asked for more.”

This experience made Karolina aware that the “gender pay gap” wasn’t an abstract construct or even an exaggeration, but a real fact. And she began to question herself: did she even know the value of her work? Why had she allowed herself to be robbed of half her salary for so long? She came to the life-changing realisation that women often lack a sense of the value of their work as well as the self-confidence to ask for the appropriate salary level during job negotiations. And since talk about money and salaries tends to be a big taboo anyway, many women also lack opportunities to make comparisons.

She made it her mission to help women get past this dilemma. Now she works with them to increase their financial confidence, to become more confident in salary negotiations, and to invest in their financial future.

Leitha

After more than 20 years as an employee in the IT industry, Leitha moved from the USA to Germany. She is now based in Berlin and works as a founder and investor in the start-up community. She is also a mentor for various start-up programs. This is how she got to know Karolina. And since they both shared a passion for the advancement of women, there was no question that Leitha would support Karolina in founding Mind the Gap e.V. as well as in finmarie. Today she is responsible for the entire technical infrastructure. And as a woman in IT, Leitha knows first-hand what it means to assert oneself in a male domain, and also how it feels to come up against its limitations. And it was precisely this feeling that prompted Leitha to move away from working in large international companies and to use her skills to develop something closer to her heart: empowering women.

Leitha's Aha Moment

Do you know the kind of girl who prefers playing with model trains and building blocks over dolls and is more interested in consoles and computer games than horses? Leitha was this type of girl. Engineering and technology have fascinated her since she was a child. At that time, playing with computer games was a pure pastime. She later published her own online magazine and dived deeper into technical topics. Her fascination with technology led Leitha to study media and design, and later, to become a professional web developer. That was in the early 90s, when the Internet was still "uncharted territory" and investing via apps or using online banking was far from reality. An era when women in tech were rare creatures. And it didn't take long for Leitha to experience her personal aha moment, which gave her life a new direction.

She had many years of professional experience in web development and technical project management, was committed and motivated, and yet, when Leitha asked about her chances of promotion to the senior management level in her penultimate job before moving to Germany, she got a hearty laugh and an honest warning from her boss: "That's not going to happen at this company." Leitha had painfully hit a "glass ceiling," that invisible barrier that often separates women from positions in senior management. Of course she left the employer. And she took the experience as an opportunity to use her passion and skills to help ensure that other women could be spared tough confrontations with glass ceilings wherever they might exist.

Rica

Before joining our team, Rica had a classic marathon career in the corporate world, working for some of the world's most recognised brands. Her path led her to Hamburg, London, Paris and Bangkok, among other places, before she finally arrived in Berlin with finmarie. When she joined us, she brought years of leadership experience as well as the realisation that as a woman on a certain rung on the career ladder, you are unfortunately still surrounded by quite a lot of testosterone and precious little oestrogen.

She also noticed how differently her employees dealt with topics such as salary negotiation and promotions. Male employees seemed to take it for granted that they would regularly and proactively raise their hands when it came to a higher salary or the next step in their career. Female employees were much more reserved and self-critical and sometimes needed encouragement. True to the ideal, "lift as you climb," a desire grew in Rica to help others share their knowledge and, above all, to actively encourage and support working women.

Rica's Aha Moment

Rica grew up understanding that financial independence was especially important for women and that they need to take care of their finances. For a long time, however, she lacked the necessary specialist knowledge to actively tackle the subject. With her first employment contract in hand, Rica fared like many others: she turned to a supposedly “independent” financial advisor, allowed herself to be unsettled by a lot of technical jargon and small print, and she agreed to contracts that years later turned out to be very costly bad decisions with horrendous fees, and at the end of the day, no significant return.

Despite initial reservations, she then decided to take the topic of finance into her own hands. After months of intensive research, she acquired the necessary knowledge to start investing (with success!) on her own. Just a few years later, she had the freedom to leave her classic corporate career behind and focus on matters closer to her heart. Today, with finmarie, she works to promote an open dialogue about finances, shares her insights in particular with other women and supports them on their path to financial independence.

Three Keys to Success

First of all, we want to dispel a myth: the magic “secret of success” doesn’t exist. Success is a very individual concept based on a personal definition that only exists for you, for us, and for anyone. But behind any definition of success there must be a clear vision. You can move to where you want to go, as long as you position yourself correctly today. And to do that, you’ll need the right tools: clarity, control and confidence.

No matter how you define success for yourself, clarity, control and self-confidence are the three most important concepts to achieve it. They allow you to focus on what's important, make smarter decisions, and create a roadmap for your future.

Clarity, control and self-confidence will help you to deal with external factors—the unforeseen and surprising—by confronting them proactively, and not waiting to react.

At first, it may seem like the world of finance is full of uncertainty, but clarity, control and self-confidence will ensure that you can still devote yourself to building your financial freedom confidently and calmly. We’ve experienced this ourselves, and we firmly believe in it.

Clarity — laying out the path to success

Imagine for a moment that you have a crystal-clear picture of your goals, your vision, and your journey to success. Imagine what it would be like if you knew exactly when you will have a particular level of wealth and how you will achieve it. A good feeling right?

Clarity, a clear vision, is the first building block that will enable you to generate meaningful financial gains while helping you to navigate past obstacles that might hinder your success.

You gain clarity through information. Without the right information, you're flying blind. Basically, it's similar to cross-country rally driving: you might be the world's best driver, but without a teammate who can offer warnings in your headset you about the upcoming issues in the route ahead of you, you're more likely to end up in a ditch than the winners' circle.

It's not so different when it comes to finance and investments. Information that helps you analyze your assets and assess forecasts gives you that clarity. If you know where you are today and the implications of your financial decisions, you're well on your way to the podium.

Once you have a concept for cause and effect, and what creates particular trends in the financial markets, you will be able to deal with them better. And that has a huge impact on your investments, your professional life, and even your personal life.

Control — keeping track of your goals

There is nothing worse than feeling overwhelmed. We all know the feeling—some from work, others from their private lives. Or both. It's those moments when everything seems to slip away from us.

This also applies to our money matters. But when you create a financial plan and know what you're doing and where you're going, that sense of control returns quickly. It is a great relief to know that we can rely on this roadmap to give us a feeling of ease.

Clarity is the basis for control—when you know the variables, you can use them and check them again and again, you can track how events are likely to affect your finances and whether you are still tracking with your financial plan. Marketplace challenges such as sporadic drops in value or a plateau will not faze you. You have your finances under control.

In the coming chapters, we'll help you deal with these realities—with facts instead of assumptions—and help you take charge of your finances. It's been too far too long that women in particular have been poorly prepared to build investment and to enjoy and share our wealth!

Confidence – making smart decisions

The scientific community tells us that self-confidence and performance are strongly positively correlated: in short, self-confidence leads to better performance.

Of course, that doesn't mean that just believing you're great is enough for everything to fall into your lap. But it does mean that you can trust yourself to acquire the knowledge and skills you need to help you succeed in your goals. It means you can have confidence in your decisions. When relevant data supports your decisions, you will strengthen your self-confidence. And if you trust yourself, building wealth with investments is no longer stressful or a source of anxiety. In turn, this will make it easier and more relaxing for you to work on achieving your goals.

Can you remember a moment in your life when you were completely sure about what you were doing? Or when you were already confident of victory while you tackled something? It's a good feeling, isn’t it?

As you gain clarity and control over your finances, it automatically leads to more self-confidence. You will feel more secure, exude inner strength and behave more courageously. This, in turn, leads to more confident decisions and—potentially—more successful outcomes. A win-win-win situation.

So everything revolves around the roadmap—having a plan ready can save you a lot of stress. And less stress has such a positive effect on your quality of life. We believe that being proactive about money will empower you. That you will gain more clarity and self-assurance from it. And that you will regain the feeling of being in control of your life in general. However, in order for you to be proactive, it's important that you learn as much as you can about money.

When it comes to finances, women are still lagging behind and disadvantaged on various economic levels. How many of us still prefer to rely on others for "complicated" matters like insurance, finance, and contracts? Most of these topics are really not that complicated. Unwelcome, perhaps, but not insurmountable.

In order to free women from these thought traps on the one hand, and to make our contribution to combating gender injustice on the other, we, as a financial company with a focus on women, make it our mission to empower women and girls of all ages and income levels with empowerment and support achieve financial independence.

And that's where this book comes in! It’s just one small part of a larger idea. We hope it’s a perfect introduction to the world of financial freedom. But so that you don't eventually turn the last page and feel like you're left out on your own, we would like to introduce you to our vision and mission, our background and our support network. It’s all part of the toolkit of resources we can offer you beyond the pages of this book.

Our Mind the Gap Manifesto

With the announcement, "Mind the Gap” (among other things), passengers in the London underground stations are informed about the gap between the platform and the entrance to the train. We felt it only fitting to use this reference to point out the gaps in economic participation between the sexes. And even more important: to close them. All of them. The salary gap, the wealth and prosperity gap, the investment gap, the pension gap, but also the gap in leadership and entrepreneurship.

Our Demands

- Women should receive the same salary as men in their jobs for the same performance and task description.
- The prevailing gender bias should no longer play a role in personnel decisions, in investment funds and in the allocation of funding programs.
- Companies with a board of more than four people should regulate the fair participation of women at management level.

- The ethnic pay gap documented in the USA should also be researched, recognised and documented in Europe.
- The Gender Equality Act is also to be extended to the private sector.
- Parental leave should be extended to 50 % for each parent.
- Taxation rules like the German "Spouse Splitting" that create economic inequality in marriages should be abolished and replaced by tax breaks for those who are in particularly precarious situations.
- More scholarships, funding, entrepreneurship training, coaching and office space specifically for developing and supporting female founders.
- A percentage of investment and development money must be earmarked for companies run by women or mixed founding teams.
- The promotion and development of female investors should be strengthened in order to establish fairer decision-making structures in the long term.
- The Ministry of Education should make financial education compulsory on the national curricula.
- There must be an independent counselling provision for couples that offers information about the consequences of decisions relating to parental leave, career development and financial security.
- Small and medium-sized companies in particular should be supported in introducing appropriate measures.

In order to bring this vision to life, our team has decided to coach women in all walks of life on investment and retirement options. Our professional background and personal experience put us in a position to offer all women—including you—neutral support that suits your financial situation.

But the overall Mind the Gap mission extends far beyond investment advice. In this regard, it is much more important to provide you with financial knowledge that enables you to make responsible and self-confident decisions in money matters. What drives us? The fact that Germany brings up the rear in Europe when it comes to financial education. The lack of financial knowledge has a devastating impact on individuals, but also on the communities within which they move. The problems fall to families, schools, businesses and communities.

Not to mention that a lack of financial knowledge also has negative effect on individual purchasing power and limits a person's ability to secure their own basic living needs. Studies by auditing companies such as Ernst & Young, KPMG or PwC show that:

- more than 40% of women feel they lack confidence about investing.
- 44% of women between 35 and 55 years old have not yet started saving for their retirement.
- Money has been the number one reason for personal stress among women every year since 2007.

More than simply enabling you to become financially independent, we also want to help prevent worries about money from becoming so burdensome that you experience stress-related health problems. And since prevention is the best medicine, we also want to clarify money for the next generation as early as possible. In that regard, Karolina's "Schulgold" project helps to convey financial awareness to children.

But before we get started on making you a financial expert, we have put together some background and statistics on "women and finance" in the first chapter to bring forward the facts and clear up any outdated beliefs. In the second chapter, we will take a look at your "Money Mindset." At that point, you should be ready to become acquainted with the stock market, investment strategies and the financial products in Chapters 3 and 4 and finally, to build your own investment strategy and portfolio in Chapter 5. In Chapter 6 we'll wrap things up with a focus on your retirement options and managing the topic of finances in your family.

1. 1. Women and Finance - Facts & Figures

"Nothing else in the world... not all the armies... is so powerful as an idea whose time has come."

Victor Hugo

The discourse on gender equality has gained momentum in recent decades. That is good and right and important. But there is still a long way to go before we're living equally.

The reason given time and again is that women are fundamentally different from men in terms of their nature, their behaviour and their attitude. It's an excellent opportunity to pass the buck to women for a condition of inequality: women are bad at negotiating, they lack self-confidence, they are too risk-averse, caring and cooperative, or unwilling to put the same work and time into their careers to invest like men.

"Typically female" characteristics are interpreted as either a strength or a weakness—whatever best suits the current narrative. Differences in equal opportunities between men and women, as has been proven by science for decades, are not primarily based on genetically determined gender characteristics. Rather, they are rooted in organisational structures, business practices, and patterns of interaction that increasingly place men and women in different positions.

Citing gender differences as reasons makes this state seem natural and unchangeable. As a result, well-intentioned but often ineffective initiatives focus primarily on trying to somehow "fix" or change women. The goal should be to change the circumstances that make discriminatory behaviours possible in the first place.

And a critical factor in this conversation is still inequitable payment.

The Gender-Based Pay Gap

Have you heard of ►"Equal Pay Day"? This is a day of action that draws attention to the salary difference between women and men. It falls on a different date each year and is different across different countries, because it always marks the day of the year up to which women are, practically speaking, working free of charge compared to men. After that day, men and women will actually receive the same salary.

This day was established in the USA in 1966, and 23 countries in Europe are now celebrating Equal Pay Day.

The Federal Statistical Office has determined for Germany that women currently earn 18% less than men—the last Equal Pay Day in Germany was on March 7, 2022: This means that women worked 66 days in 2022 for nothing. This is calculated using the gross hourly wage. In 2023, Equal Pay Day in Germany will also fall on March 7th.

Across the EU, women receive an average hourly wage that is 14.1 percent below that of men. The higher the position in the profession, the larger the so-called ► Gender Pay Gap (or the "wage gap"). The global average of the gender pay gap is (unadjusted) 21%. That makes around 77 calendar days that women—if they were paid the same salary as men—work for free every year.

Although the income situation of women has improved significantly in recent decades, women still have a not inconsiderable economic disadvantage that accompanies them throughout their lives. The Gender Pay Gap leads to the ► Gender Pension Gap. This means that women also receive less than men from through government pensions (which are already decreasing) due to their salary situation. Germany was in last place in Europe in 2021 with a gender pension gap of 46%. The overall situation is exacerbated by the fact that women work part-time more often than men and that times when women take time off from work, for example for the sake of family and children, are not compensated financially and are therefore not included in the pension.

The World Economic Forum has calculated that it will take until the year 2289 for men and women to be financially equal if something doesn't change quickly. That's kind of like being in 1754 today and having to wait until 2022 for financial gender equity.

((Frame))
finmarie
In order to speed up this process a bit with modern possibilities and innovative approaches, we have created our own solution: finmarie. Not only do we provide women with valuable resources, compelling facts and figures, but we also equip you with the necessary skills and financial knowledge.

We welcome you to a strong community of women. Our goal is to create a community that connects across Europe and in which women support and encourage each other. For these women and for women like you, we are committed to ensuring that we all have the same access to financial support and the same job opportunities as men—long before 2289.
((/Frame))

Female Decision Makers and Purchasing Power

The financial education of women and their willingness to deal with money matters bears no relation to the assets they actually manage. Because women today are richer than ever before. 43% of global wealth is now in the hands of women. Thus, female purchasing power represents a larger growth market than the economies of China and India combined!

Experts even assume that the growth in wealth among women will be faster than the average growth in total wealth worldwide in the next few years. Already, women account for an annual addition of $5 trillion per year. This is by no means the desired end state of equality.

Nevertheless, the trend shows that the global female population as a whole is an economic factor that should not be underestimated: women are a powerful economic lever.

The development of female management positions is also showing positive trends in some countries. In 2021, for example, more women than ever before were counted in managerial positions; the number of companies run by women is steadily increasing. According to the EU, in October 2020, around a third of the board seats in the largest companies in its member states were held by female board members.

Women are also becoming increasingly visible in politics. In world politics, Hillary Clinton’s candidacy was a notable example, as is New Zealand's Prime Minister Jacinda Ardern, who attracted worldwide attention for her sovereign handling of the Christchurch attack and her exemplary pandemic management. And at the European level, too, politics is slowly catching up. With Ursula von der Leyen, a woman took over the political leadership of the European Union in 2019 for almost two decades. The general proportion of women in European politics has been at an all-time high since the 2019 election: there are 13 women for every 14 men. And that’s at least close to the population average.

Even industry can no longer ignore this change and the associated (wealth) potential of women. And indeed, in recent years, many financial and investment service providers have been specifically targeting women. Our longer life expectancy and our increasing assets are finally making us interesting for the financial sector. Already today, investment instruments that focus on positive impact are considered to be female-dominated. Women invest significantly more often in socially responsible and sustainable funds and companies than men. It seems important for women not only to benefit from their investments themselves, but also to promote change towards a better future.

Mythbusting outdated beliefs and old habits

Despite all the positive developments mentioned above, there still seem to be barriers to the topic of finance that still prevent many women from actively dealing with it. This includes old stereotypes and beliefs, some of which are unconsciously passed on from generation to generation and are still far too deeply anchored in us.

Finances are complicated?

No, finances are not complicated, they are complex. Are you now thinking, “ ‘Complicated’ and ‘complex’ are the same thing”? In a way, you’re right. In everyday life, we often use the two terms interchangeably. In fact, they differ in meaning. And that's the good news for you: The world of finance will no longer seem like an impenetrable jungle when you realise that finances are not complicated, but complex. Just remember that complex things can always be unwound and straightened out with the right mindset and the right support.

Anna
Take for example, Anna, who told us that her employer offers a company pension scheme. After she received the relevant documents, the topic initially seemed completely

unmanageable to her and for a long time she was unsure whether this was a good idea or not. She said: “Sometimes I have the feeling that some providers deliberately word their contracts in a way that is not understandable. All this complicated terminology without any practical relevance… all the fine print... No wonder it is completely overwhelming at first! But when you once you go through topic by topic in a really structured way and dare to ask questions, it suddenly doesn’t seem so insurmountable anymore."

Do you need to be good at maths to be good at finances?

We often think that in order to take care of our finances, we need to be good at maths. And: not being good with numbers, not being good at maths—these are beliefs that many girls and young women have internalised. And it’s not just the girls. According to a study by the German Institute for Economic Research, boys also declare that they have better mathematical skills than girls—although this is regularly debunked by examinations of average grades and PISA (Programme for International Student Assessment) studies in Germany.

Maths skills know no gender! It goes without saying that every student has different preferences and talents. One or the other is better with numbers, the other better with languages and art. One might comprehend economic and political contexts more easily. However, these personal talents are not primarily determined by gender. Unfortunately, this prejudice persists, both among the girls, who have been conditioned with this belief over generations, and in society as a whole.

Equally important, though is that a person’s exam scores and final grades don’t tell you how well they handle their personal financial planning anyway—you don't even have to be good at maths to be good with money! Conversely, we have often experienced that customers are good at maths and may even have completed a relevant training or degree. However, they have not been active in personal finance. So you see, one has little to do with the other. In practice, it’s actually a process based on really simple principles and habits: make money. Spend less than you earn. Invest what is left wisely.

((B)) ***Lena***
Our customer Lena completed a business education and worked in a bank for more than 10 years. However, for a long time she did not have the feeling that she had her private finances under control. She said: "Of course I understand the theory and I know products like ETFs, stocks, etc. Mortgages... I keep thinking about investing for my personal security, but haven’t taken any action yet. I just don't want to do anything wrong…".

I’m too old to learn.

While school is undoubtedly important, and while it’s undeniably harder to learn as an adult, your age and experience also give you a greater perspective and context. With the right amount of motivation and discipline, you can build up a solid knowledge of finance and money over time: just because you haven't been “good” at something before doesn't mean you’ll never be good at it. As you know, you never stop learning. And what you didn’t learn at school or at home, you can easily teach yourself with your own initiative.

A bank statement is to adult life what a report card is to school: proof. It's proof of how good you are with money. At some point, grades will no longer be awarded. On the other hand, proof of personal assets will be a value to you for the rest of your life.

Don't know how mortgages work? Are you unfamiliar with the available options for your retirement? Does the stock market look like a black box to you? Then you are just like Inga and Anna.

((B)) Inga and Anna

Inga is 38 years old and professionally very successful, but she is also very pressed for time. She approached us and said very clearly: "I know that it is important to deal with my finances. But I just don't have the time."

It's the same with Anna. She works for an international company in Munich for a very good income. Her problem? "Up until now, I've given very little thought to my retirement savings." ((/B))

If your free time (or preferences) don't allow for travel to seminars and workshops to improve your financial skills, then you can integrate blogs, podcasts, webinars or apps (like the finmarie app!), into your everyday life.

In order to commit to a plan of financial improvement, you just need the will and the resources. With a little effort, you'll soon be the one your friends start to consult as a financial expert.

Women don't have a knack for finances.

In case you're still not 100% convinced that you are more than capable of successfully taking charge of your finances, the following facts about investing behaviours for men and women give you one last piece of evidence: several different studies show that women are often the more successful investors, on average, once they have cleared the confidence hurdle that prevents them from taking action in the first place.

You know what the kicker is? You don't even have to do much to become a gifted investor. Many of the studies attribute the success of female investors to the fact that women do not trade portions of their investments as often and do not constantly rebalance their portfolios. Instead, women tend to leave their systems alone once they have been set up—their patience and trust in simply letting their money work for them eventually pays off. Overall, this strategy proves to be more successful than constantly switching investments. A 2021 study found that women have, on average, 0.4% higher returns than men.

And that's just one of the factors that make us women successful long-term investors. Women also research their investment decisions more carefully and extensively. This goes hand in hand with their increased risk awareness; which doesn’t mean women are particularly risk averse. On average, however, they simply place more value on a balanced risk-reward ratio. In addition, women generally opt for a portfolio that better suits their living and income situation. Among other things, an average of 18 percent of men’s portfolios consist of bonds. With 60 percent stocks, you rely more on individual stocks. In women’s portfolios, on the other hand, bond funds account for an average of 25 percent and shares for only around 54 percent. In this way, women achieve suitable diversification, with which they can better protect their money even in the event of market fluctuations.

((Definition))
You need a ► brokerage account if you want to trade securities of any kind. You can use this account to buy, sell and manage securities.
((/Definition))

This awareness, in turn, contributes to another investment best practice that seems to be instinctively inherent in women: we invest for the long term. Thanks to this tactic, we benefit from positive investment effects such as the “cost-average effect” and compound interest. In addition, women often opt for passive investments. These tend to cost less in fees and administration costs.

The interaction of all these characteristics ensures that women are often successful, especially with long-term investments.

((B)) Leitha
This is also how our co-founder Leitha handles it. She uses a long-term investment horizon with a “buy and hold” strategy, and she typically only adjusts her portfolio once a year. She says: "My life is busy. I feel like I don't have time to constantly adjust my portfolio, so I started using cost-averaging with passive investments. Since my late 20s, I’ve made it a point to automatically invest a little money from every month’s salary. This strategy has proven to be very successful for me over the past 20 years. If you can’t see it, you can’t spend it!"

How to counter the myths about women and finance

There are certainly a whole host of other misconceptions about women's money management skills. Here is a summary of the most common:

- The myth that women are worse at math than men. This is regularly refuted by grade point averages and PISA studies.
- The myth that women are worse or less successful investors. In fact, investments by women are often even more sustainable and successful in the long term.
- The myth that women are too risk-averse to invest. Women are risk-aware, not risk-averse. However, this protects them from typical investing errors.
- The myth that women are not interested in investing. This is not due to a lack of interest from women, but also to the fact that women have long been completely neglected as a target group in the financial industry.

The only way to disprove these myths and prejudices is to face them and use them to your advantage:

Let’s make sure we explain what you don't understand. And make sure you really understand it. Let’s put aside a false sense of politeness or shyness. This is your money and it’s your right to really understand everything that has to do with it. If you talk to an advisor who doesn’t offer you the patience, transparency or clarity you need, go elsewhere. Remember: as a woman, you will most likely outlive your partner (if your partner is a man). On average, women outlive men by six to eight years. That has two consequences for you: you need money for longer and you certainly don’t want to wait until you’re old to start managing your finances.

Invest your money in long-term investments. The longer your investment runs, the more you will benefit from various growth effects and the more successful your investment will be.

Save up an emergency fund. This should be equivalent of at least three months—and preferably six months if you work freelance—of your monthly income. And it should provide you with financial security in emergencies, as the name suggests.

((Frame))
What to take away from this chapter:
Financial empowerment for women is real. And with new fortunes growing in women’s hands, trends toward further financial education (often free of charge), and more and more investment products adapted to the preferences and life situations of women, the future is filled with possibilities for us to make financial decisions that are self-determined and independent.
((/Frame))

One of the most important prerequisites for financial independence is your attitude towards money. We’ll work on that in the next chapter.

4. The most important investment basics

"I can calculate the movement of stars, but not the madness of men."
- Isaac Newton (after losing a fortune on the stock market)

If you're reading this book, you're probably somewhat familiar with the idea of investments, and maybe you've already made some yourself. But to be on the safe side, in this chapter we will go through the fundamental aspects of investment and investment strategy. If some of the terms still seem theoretical to you at this point, don't worry! In Chapter 5, we will not only share relevant practical examples, but also apply the knowledge together to develop your own investment strategy and assemble your portfolio.

We briefly touched on the concept of investing (as opposed to "speculating") in Chapter 3.

((Definition))
► Investing basically means that you invest money with the goal of monetary gain for the long term. So you give your money to a company, a government or another entity with the aim that they give you back more money in the future than you gave them.
((/Definition))

Investors usually pursue a specific goal with their investments. This can be funding a private retirement account, financing the children's education, buying a house or many other things.

As already mentioned in the last chapter, investments are usually not without risk. But: as we know today, even supposedly safe investments such as savings accounts offer you no security in the sense of a guarantee that your assets will grow—or even stay the same. When interest rates slump or inflation rises, savings accounts simply aren't enough. You can only really grow your money by investing in securities and other profitable investments.

The sustained loss of purchasing power can only be prevented by a significant yield. That means you have to get a return on your money that is higher than the rate of inflation.

But what to do if you are faced with the dilemma of having to balance a desire for security against a desire for returns?

Which asset classes and products make sense for you essentially depends on your needs and goals. And that's exactly why it's worth taking a look at the various options and types of investment. In short, you want to increase the value of your wealth over the long term and work to make it future-proof.

Before you invest your money, regardless of the type of investment you choose, you should clarify two important things in advance to make sure that you are financially sound enough to start investing immediately:

1. Do you have debts? If so: how many and with whom?

This is important because, for example, credit card debt carries very high interest rates. If your debt is ongoing financing for a car or similar purchase, you're in a slightly better position. The higher the interest rates on your debt, the more sensible it is that you prioritise repayment over investment.

Our rule of thumb: the best investment is a debt-free life.

2. Do you have a nest egg?

Let's put it this way: shit happens. To everyone. Again and again throughout our lives. Layoffs, natural disasters, illnesses—there are so many events that can turn your life upside-down. And any reputable financial advisor will recommend putting aside an emergency fund that is equivalent to least three to six months of your income so you can be prepared for unexpected emergencies. You should only invest with money that exceeds your nest egg.

The wide range of investment products that are now available can be overwhelming. We would like to give you a bit of an overview and perspective and convey the most important facts about various asset classes and products. There are also various derivatives and leverage products—but the risk potential makes them a poor choice for the everyday person and especially for inexperienced investors. That's why we'll focus on the essentials.

Exchange-traded (aka "listed") investment products

First of all, let's clarify what exchange-traded financial investment products actually are.

((Definition))
► Listed, or exchange-traded investment products are financial products that are issued (posted) by companies or institutions (including governments) that are listed on a stock exchange. These include stocks, ETFs, bonds or funds.
((/Definition))

The main task of the stock exchange—as we've already highlighted in Chapter 3—is the coordination of price development and matching supply and demand for securities.

Listed products—as opposed to unlisted or "over the counter" (OTC) products—offer you a certain level of security as an investor, because the recognised exchanges are subject to an institutional stock exchange supervisory authority. Naturally, that doesn't mean that this form of investment is without fluctuations and risks. In the last chapter, we already mentioned phenomena such as inflation and the influence of factors such as the interest rate policies of the central banks.

Here we'll give some context to the following concepts, not all of which are "listed"
* bonds
* shares
* index funds
* ETFs
* Commodity investments in precious metals
* Cryptocurrencies

((Ü3)) Bonds – government and corporate bonds

Most people have heard the term "bonds" before—common alternative names are also "debt instruments," or in the case of government bonds, "sovereign debt." Conventional or index-linked "Gilts" are issued in the UK, and "T-bills" or "T-notes," are bonds issued by the US Treasury which have different periods of payback. But what is a bond in reality?

((Definition))
► Bonds are fixed-income securities that can be traded on the stock exchange.
((/Definition))

Basically, you can think of bonds as a kind of loan that you, as an investor, give to a company, bank, government or other institution. In return, you get a fixed rate of return for a certain period of time. It's a bit like taking out a loan from your bank at a fixed rate for, say, two years. Except that in the case of bonds, as an investor, you take on the role of the bank.

In return for your investment in bonds, you receive the documented right to get your invested money back after a certain period of time. And for making your money available, you will receive interest (a "coupon") over the time of the investment. In a balanced portfolio, bonds are one of the safest forms of investment, which means they can offset the relatively high volatility of equity-based investments in the portfolio.

((Frame))
With bonds, you are backing the right horse if you have a high security awareness when investing. They are a kind of passive income. This is because bonds pay out returns to investors at regular intervals and in predictable, fixed instalments.
((/Frame))

And that is also the biggest advantage of bonds. You receive guaranteed interest at a fixed rate over a fixed term. Let's say you buy ten bonds worth £100 each with a fixed interest rate of 3%. You keep these bonds for ten years. You will £30 interest on your investment every year for the next ten years. After ten years, you get back the £1,000 you invested. Your profit over the ten years is £300.

And that shows the biggest disadvantage of bonds:
The fact is that the average return is not particularly high. It is often only half the average

return on stocks.

As with all forms of investment, there is a corresponding relationship between profit and risk in bonds. There are bonds where the risk is lower. However, this also means lower profit potential. And there are bonds that have higher upside potential, but to do that you have to be willing to trade some level of security for a higher risk of loss.

Basically, you have the choice between two different types of bonds:
* Corporate bonds and
* Government Bonds.

►Government bonds

Government bonds are considered one of the safest forms of investment because they are backed by governments. Their weak point is the low rate of return.

With government bonds, you can choose what type you want to invest in. Government bonds tend to differ in the term and the amount of their return.

A conventional gilt or T-note is more suitable for short-term, safety-oriented investors. A T-note may have have a term of two, three, five or ten years, while a T-bond will have a minimum term of ten and a maximum term of 30 years.

A special, and less common, type of bond is the index-linked gilt. Instead of paying a fixed coupon rate, the rate is variable and based on the Retail Price Index (RPI), which is the UK's primary measure of inflation. This type of gilt is specifically aimed to shelter capital against inflation.

If you're thinking about investing in government bonds, you should know the country's creditworthiness. Because that increases and decreases your risk. The following factors are decisive for assessing creditworthiness:

- the level of debt compared to gross domestic product (GDP)
- the net new debt
- the growth of the national economy
- political stability

A government debt of more than 60% of GDP is considered high, and that level no longer meets the criteria that the Maastricht Treaty provides for member states of the Euro region. For investors, national trends toward new borrowing can become a more important indicator of creditworthiness than the country's absolute level of debt. Meanwhile, the stability of the country's political conditions is still the most important overall benchmark, especially for investments in emerging countries.

► **Company bonds**

Corporations, on the other hand, can issue bonds whenever they happen to need cash. For example, if a company wants to build a new factory, it can issue bonds for this purpose and in return, pay investors regular fixed interest rates until the bond matures. After that, the investors will also get back the originally paid-in capital.

Unlike stocks, corporate bonds *do not* make you a shareholder in the company.

With corporate bonds, the opportunities and risks are diametrically opposed. Companies that offer high interest rates may not be particularly liquid, so the risk of losing your invested money increases accordingly. For companies that are liquid, your investment is safer from loss, so they pay out lower interest rates.

If you want to invest in corporate bonds, you should pay attention to how the company issuing the bonds is likely to weather difficult economic periods. A look at the history of the company can provide some clues about this.

Thankfully, you don't have to tediously research the creditworthiness of companies or states yourself. Professional rating agencies do this for you on a regular basis and make their ratings available on their websites and various financial portals on the internet. Rating agencies such as Standard & Poor’s or Moody’s typically rate states and companies on a scale from AAA (the best rating) to C or D (the worst rating).

What you should know about bonds

- You are probably familiar with the concept of creditworthiness from your own experiences. Just as creditworthiness in financing and leasing describes individual people, it can also describe the creditworthiness of a company or state in connection with investments. A bond’s credit rating will help you to assess risk, and it plays a fundamental role in the ratings issued by rating agencies.
- Bonds are assessed according to their creditworthiness and accordingly divided into different categories.
- The “purchase price" of the bond is called the face value and is calculated as the share capital (debt amount) divided by the number of bonds to be issued. So, to invest £1,000, you need to buy 10 bonds with a face value of £100 each.
- The production of bonds (and securities in general) is called “issuance.” The issuance can take place internally or through a third party.
- The company, government, or bank that produces the bonds is known as the issuer.
- A “new issue” is when bonds (or securities) have never been on sale before.
- The “coupon” describes the interest on the bond. The issuer pays this out to investors every year. The amount of the coupon depends, among other things, on the creditworthiness of the issuer, the investment term, the amount of collateral and the general interest rate level.
- The ► yield is not to be confused with the coupon. While the coupon means the specific interest rate of the bond, “yield” means the effective interest rate. In other words, the return that investors can expect after a certain point in time. In addition to the interest, the costs and the price development of the bond must also be taken into

account when calculating the return.
- Bond prices are expressed as a percentage of face value. The face value always shows 100%. The daily updated value of a bond is called “market value.” As a rule, however, it is only of interest to investors who want to sell their bonds before the end of the term. In this situation, additional price returns are conceivable in addition to the interest received to date.
- The “redemption price” is the price at which the invested money is returned to the issuer. As a rule, the repayment price corresponds to the nominal value.
- The total value of all bonds issued by the issuer is known in financial parlance as “bond volume.” Dividing the bond volume by the number of bonds issued gives the face value of a bond.

By the way… if you are interested in sustainable investments: there are now also so-called green bonds, which are used to fund projects that have positive environmental and/or climate benefits.

Stocks

At least in name, stocks are probably the best-known form of investment product. But what exactly are stocks?

((Definition))
► Stock is a security that represents ownership in a company. When you buy the stock of a company, you buy a small part of that company’s value or more precisely, its “equity.” This is your so-called share, which can be bought and traded.
((/Definition))

Shares can be issued or sold by stock-holding corporations or partnerships limited by shares. In the second case, at least one shareholder has unlimited liability, i.e. with his or her private assets, and at least one other shareholder has limited liability in his or her company contribution.

If a company goes public, it receives money for the sale of its shares and thus for its planned investments.

The first share issue after a company is listed in an exchange is called an ► IPO (short for: Initial Public Offering). IPOs take place on the so-called primary market. Any subsequent trading of a share by investors then takes place on the so-called secondary market.

If you want to buy stocks, you can choose from different types of stocks. Perhaps the most important distinction from an investor’s perspective is between ► common stocks and ► preferred stocks. The difference is that as a holder of common stock, you have the right to vote at the company’s annual general meetings. So you can help shape the entrepreneurial decisions. Common stocks are the most common form of shares in Germany. In the case of preference shares, however, you do not have this voting right. However, since preferred stock pays shareholders a specified dividend and has priority over common stock for receiving dividends, these stocks do tend to be desirable.

Another important consideration is the way in which shares are distributed. For this topic, a distinction is made between "bearer shares" and "registered shares." In the case of the former, your possession or ownership of shares is the key. If you have such shares in your possession, you can informally transfer and trade them to others at any time. If, on the other hand, you acquire a so-called registered share, your name will be recorded in a log of shares, the "share register." If you want to legally transfer such shares, the corporation must first agree. A special form of this share is the "registered share with restricted transferability."

When you buy shares in a company, you, as a shareholder, acquire various rights, along with part of the profit according to the value of your shares, i.e. the dividend.

If the company has to be dissolved, you are entitled to a share of the liquidation proceeds.
If the company plans to issue more shares, it must grant you, as an existing shareholder, a subscription right—comparable to a right of first refusal—so that your share in the company remains proportionally unchanged.

If you own common stock in a company, you can exercise your right to vote at its annual meeting, which is where important company issues are resolved.

Why stocks are interesting as an investment product

One of the things that makes stocks attractive as an investment product is dividends: the profit sharing that can come with owning them. If a company closes the financial year with a profit and decides to distribute part of this to the shareholders, you as a shareholder will have a percentage of it. Depending on the company, a portion of the company's profits may be paid out annually (or in some cases several times a year, for example, quarterly) as a dividend to shareholders. How much you'll receive is, among other things, an item on the agenda of the annual general meeting and is redefined every year. A successful annual financial statement also makes the company interesting for other investors. In this case, they expect the company to continue to be successful in the future. And because the demand for a company or its shares increases their value, it can be assumed that a positive business balance boosts the value of the company's shares. So when things go well, you benefit from your stock investment in two ways.

Another factor that contributes to the attractiveness of equities as an investment product is low interest rates. Why? Because low interest rates enable companies to raise capital particularly cheaply. This can reduce costs and increase profits. In addition, it is easier for companies to invest and expand when interest rates are low. Especially in phases of low interest rate policy by the ECB, the European Central Bank, this may tip the scales for potential investors who have so far hesitated to buy shares.

Compared to fixed-income investments such as bonds, stocks offer significantly more lucrative return opportunities. Overall, this can lead to an increase in demand for shares and, as a result, to an increase in the value of the money invested.

Contrary to popular belief, equities are also more resistant to the effects of inflation than, for example, a traditional savings account. This is because, as a company share, they are a tangible asset, much like real estate. A savings account is a monetary value and as such is much more vulnerable to phenomena such as inflation.

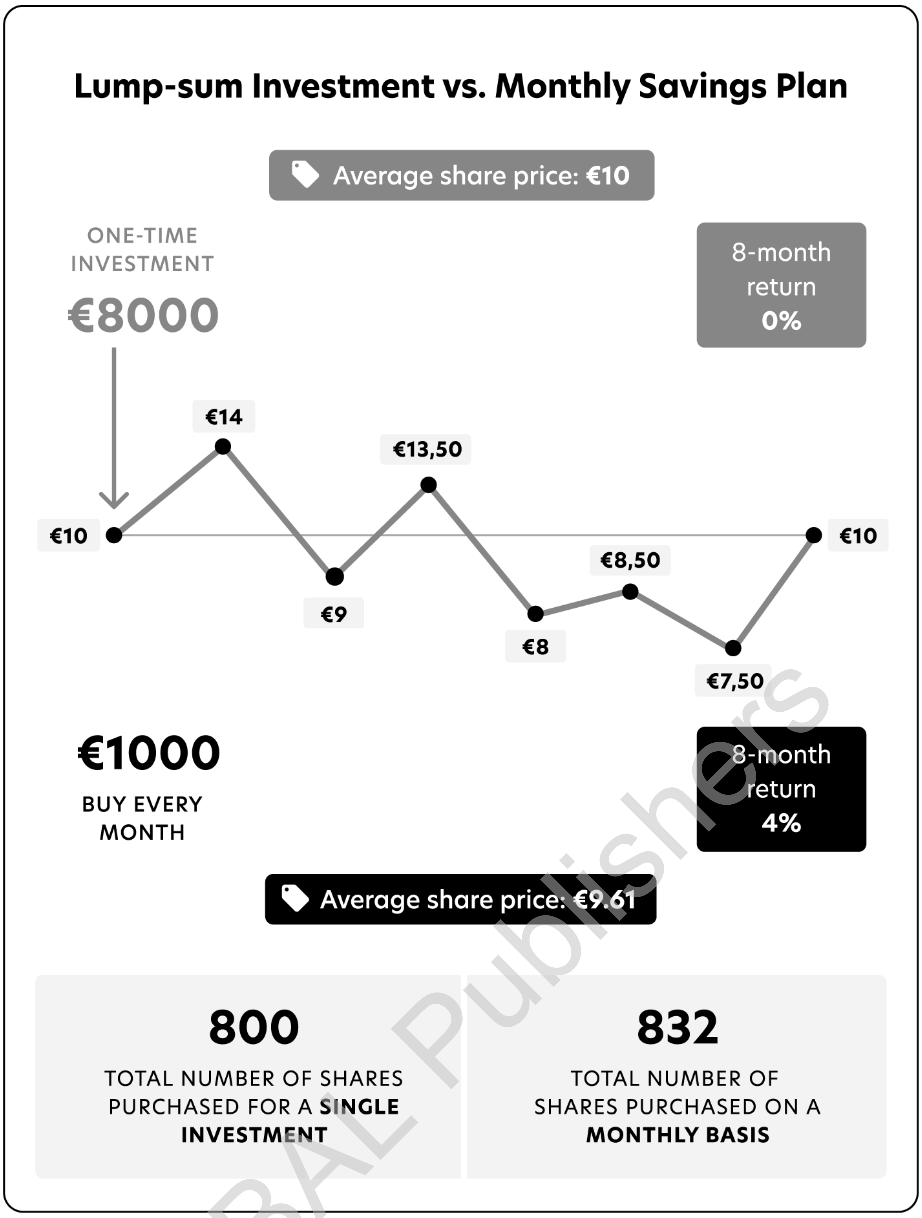
Factors for the development of share prices

The development—i.e. the price—of a share results from the relationship between supply and demand. When demand for a company's shares increases but few investors are selling, the price is likely to rise in line with demand. On the other hand, if many shareholders sell their shares, the supply increases. This, in turn, causes the share price to fall. This makes it clear that the price of a share is based on expectations of future developments and possible profits of a company. It's these expectations that drive investors to often buy and sell stocks in parallel. Buyers expect a positive company development, sellers expect at least a plateau, maybe even a negative development. Or it's possible they want to realise the price gains and sell. In the case of frequently traded stocks, the stock price can even change every second.

But it's not only the expectations of the shareholders and the resulting buying and selling that frequency influence the price development of shares. Other influencing factors are, as we have already worked out above, the general economic situation and also company-related factors such as profits, sales, cash flow, debt, etc. The type of business model and its potential future development are also indicators for the forecast of stock price movement. External factors such as interest rate variations, competition and regulation also play a role in the fluctuation of stock prices.

What you should know about stocks

- If you own shares, you participate twice in the so-called nominal growth of the economy: corporate profits increase prices and dividends. If you then reinvest your dividends, you can also benefit from the compound interest effect.
- Stocks are more volatile than bonds. That is, their prices fluctuate more often and more noticeably. On the other hand, returns on stocks are statistically higher. Think of this as a kind of risk premium. Ultimately, the risk of diversified equity investments is considered high if you focus on short-term price fluctuations. If you really need short-term liquidity, (i.e. what you could receive right now if you were to sell your stocks to get your money back) most stocks would probably be too risky. But as we can see if we look at the history of the markets, over a long-term investment horizon, the rate of return from stocks can be considered a "reward for fearlessness" since you're facing minimal risk.
- There are many reasons why stocks are an attractive investment product for private investors. It is important that you consider basic rules such as broad diversification and an investment horizon that is as long as possible.



Source: Own illustration

Index funds

For investors who don't want to deal with the evaluation and selection of individual stocks, there is the option to choose funds (such as mutual funds or exchange-traded funds) to invest in a large number of different stocks using just one investment product. Symbolically, these funds are a type of basket in which there are several shares or other investments. Instead of selecting each individual investment, you only need to decide on which basket you want, and you'll automatically invest in different products.

With selecting a fund, it is important to distinguish between the ones that are actively managed vs. passively managed.

Actively managed funds are controlled by a manager who decides which securities the investors' money goes into. These fund managers try to achieve a higher return with their product than the market or the benchmark index. However, few actually manage to do this: only about one in five fund managers outperforms the benchmark. In addition, active management is usually associated with higher fees for investors.

Passively managed funds take a different approach. You invest in a fund that mirrors an index, so you buy entire markets, for example. This can be done with classic index funds and exchange-traded index funds, so-called Exchange Traded Funds, also known as ETFs (you can find out more about the latter in the next section). They copy indices such as the MSCI World index, the American S&P 500 or the German DAX. Because these funds do not need a manager to make investment decisions, classic index funds and ETFs are also referred to as passive funds. Compared to active funds, which have fees for the manager and for buying and selling, passive funds are cheaper.

((Definition))
With ► investment funds, you do not invest your money directly, but leave the investment to a fund company which bundles the investment money from all its investors and invests the total capital as fund assets in shares, commodities, real estate or other securities, depending on the strategy.
((/Definition))

((Definition))
Ein ► **Indexfonds** ist ein passiv verwalteter Investmentfonds, bei dem das Portfolio so zusammengestellt wurde, dass es den Komponenten eines Finanzmarktindex entspricht oder sie nachbildet.
((/Definition))

Index funds are considered an investment with particularly broad market coverage and low costs. These funds always follow their benchmark index—regardless of the state of the markets. Investment legend Warren Buffett recommends index funds as a must-have investment vehicle for retirement planning.

The advantages of index funds

Apart from the clear simplicity, index funds also make it easy to diversify your investments. The legal situation in Germany stipulates that an investment fund must contain at least 16 different securities. In fact, they usually include more. Not infrequently, an index fund could include up to hundreds or thousands of securities.

Making individual investments in all those securities would naturally be more expensive and time consuming, so investing in an index fund means you benefit from manageable fees and still enjoy an automatically diversified bundle of securities. In short: index funds save you time, work and money. They make investing easy and clear and enable investments even with small sums.

Monthly savings plans are also available with index funds. This is also smart because you can develop an automatic savings and investment routine through monthly instalment payments. Last but not least, you can also reinvest profits with index funds and thus accelerate profit growth thanks to the compound interest effect.

What you should know about funds

If you want to invest in funds, one of the most important variables to know and consider is the costs incurred, which differ significantly between actively and passively managed funds:
When buying actively managed investment funds, there is normally a one-time sales charge. This accounts for up to 7%.

The fund manager also charges a regular administration fee. So instead of charging you for regular advice, analysis and rebalancing, he or she takes a share of your investment. The administration fee varies between 0.5 and 2%.

In addition, some funds also charge a performance fee if the fund exceeds a previously agreed development target. In general, 5 to 25% is typical.

Unlike ETFs, for example, there is a fund manager behind actively managed funds, who selects, buys and sells the stocks individually in order to maximise the fund's rate of return or to attempt to outperform the market. However, as we pointed out, the it's statistically less likely that an investment manager can consistently beat the market. Combined with higher fees, this is why actively managed funds often perform worse than comparable ETFs in the long term.

On the other hand, passively managed index funds and ETFs are characterised by lower overall costs which typically means a higher rate of return for you. The main difference is in the absence or presence of a fund manager and the related costs.

Since ETFs in particular have gained in popularity among investors in recent years, we want to dedicate a separate section to them:

ETFs

An ETF is an index fund, but not every index fund is an ETF. However, index funds and ETFs basically have the same goal: to replicate an index as precisely as possible and at a low cost. You can only trade index funds once per day via the fund provider, but ETFs are flexibly traded during stock exchange hours.

Think of an ► ETF – Exchange Traded Fund – similarly to the way you think of an investment fund, as a potpourri of different securities, i.e. shares traded on the stock exchange. ETFs combine the properties and potential advantages of stocks, investment funds or bonds.

Like individual stocks, ETF shares trade throughout the day at prices that vary based on supply and demand. Unlike index funds; here the shares are traded once a day via the fund provider.

ETFs generally track indices—they can mirror entire markets or market segments. At the same time, the securities in an ETF are passively managed. You also incur fees with ETFs, but on average they are significantly lower than for investment funds such as mutual funds.

((B))
For example, if an ETF replicates the DAX, you would use this ETF to buy shares or bonds of the 40 largest companies in Germany. If you invest in the MSCI All Country World stock index, you buy securities from almost 3,000 companies from various industrialized and emerging countries. The most well-known index in the world is the MSCI World Index: If you invest in this ETF, you automatically have a stake in almost 1,600 companies from 23 industrialized countries around the world. With an investment in the S&P 500 index, you access the 500 largest US companies. And when you choose an ETF that tracks the Stoxx Europe 600 index, you invest in the 600 largest European companies.
((/B))

With an ETF, you automatically invest in an entire market or an entire segment, not just in individual securities. This ensures that you automatically own a broad (diversified) investment, which means that it is associated with comparatively low risk.

The nature of ETF investing is to allow your return to develop in line with the index, without ever really outperforming the index, but also never really lagging behind. The central idea is not to do things differently or more skilfully than most investors, but to go with the flow.

((Frame))
After ETFs experienced real hype in the investment world in recent years, it was initially feared that the investment could be too high and thus lead to a bubble. Until 2021, various parties warned that the “ETF bubble” would burst. This fear has not been confirmed, and ETF investments are as attractive as ever, especially for private investors. In fact, such prophecies needn't worry you: ETFs can’t be a bubble. They are investment products and, as such, tools to invest your assets in different asset classes such as stocks, bonds or maybe derivatives. ETFs buy exactly the same securities as individual investors or professional fund managers. Bubbles can only exist for different asset classes, but not for the funds that invest in them. If ETFs were a bubble, the entire market would be a bubble. And that would mean that actively managed mutual funds would also be affected and subject to the risk of asset overpricing.
((/Frame))

The benefits of ETFs

The broad diversification that automatically arises from investing in a market or from mapping an index makes ETFs a relatively safe and transparent investment.

Another advantage of ETFs is that they make it possible to invest and trade in the market with small sums of money. This also gives investors with limited funds access to the capital market.

If you are now interested in investing in ETFs, but are not yet sure whether this form of investment suits you, then a direct comparison with shares may make your decision easier:

((Tabelle))

	ETFs	Single Stocks
Yields	Ø Yields can be between 3-7%	höhere Ø Renditen bis 8 Prozent
Risk	• Higher value stability due to broad diversification • Relatively low risk • Total loss rather unlikely	• Higher volatility due to dependence on individual companies • Tend to be high risk • Total loss possible
Transparency	High transparency with ETFs, but investors must proactively inform themselves about the composition of the ETFs.	High transparency when investing in a single company. This decreases the more different companies you invest in.
Required Effort	Thanks to the automation of rebalancing (more on this in Chapter 5) and automatic reinvestment, little effort is required on the part of the investor.	Rebalancing, monitoring and ongoing analysis have to be done manually and are complex, but necessary because investors potentially have to react quickly to strong price fluctuations.
Kosten	• Management fees of approx. 0.33%/year • Fund costs of approx. 0.15 %/year • Re-balancing and savings plan included	Depending on the exchange or broker: - order fees - surcharges For rebalancing: high transaction costs each time

Another plus point for ETFs: purchase processes are very easy. All you need is a brokerage account for the securities and a clearing account for the payment transfer. You can easily open and manage these accounts online. There are plenty of providers for this. Here, too, pay attention to fees and costs and the value you get for the services. Your account provider should give you an overview of the securities you have bought and the price trends.

What you should know about ETFs

- ETFs are not only available for indices, but also for other asset classes such as bonds, the money market or commodities.
- The differences between ETFs lie on the one hand in the way they track an index and on the other hand in the way the dividends are paid out. A distinction is made between accumulating and distributing ETFs:
    - If you invest in distributing ETFs, you will receive your share of the company profits as

a dividend once a year. The money is then at your disposal to use or reinvest. These ETFs are interesting as an investment if you want to build a passive income stream.

  - If you opt for the accumulating variant, the profits are automatically reinvested, i.e. new securities are bought immediately. This increases your chances of a higher rate of return, especially with a long-term investment. Here, too, the compound interest effect comes into play.
- ETFs are cheaper than other forms of investment. But they are not completely free either. There are either monthly or quarterly costs for administration and the custodian bank. These are specified with the ► Total Expense Ratio (TER). A TER of 0.1 to 0.5 percent of the fund assets per year is normal. In addition, transaction costs (order fees) for the purchase and sale of securities may be incurred.

Commodity investments in precious metals

Investments in commodities are often considered particularly profitable. That's because commodities like oil, gold, and other precious metals are finite. This means that at some point it will no longer be possible to extract new raw materials, but the demand for them is not likely to decrease. In many cases, it's expected that demand will rise as resources are mined and used.

If you are interested, there are several ways to invest in commodities:

- One is the purchase of physical commodities such as gold bullion.
- Another is through futures or ETPs (exchange-traded products) that track a specific commodity index. However, these are very volatile and complex forms of investment, which we would only recommend to very experienced investors.
- Another way to invest in commodities is in the form of certain investment funds.

Advantages and disadvantages of commodity investments

Commodity investments also come with their own pros and cons that you should be aware of. Basically, they can be a good addition to a diversified portfolio. Depending on your willingness to take risks and your moral compass—the extraction of raw materials is sometimes associated with depletion of the earth's resources—you should aim for a gold quota of between 5 and 10% to use as a relatively liquid financial asset in order to reduce the risk associated with holding cash savings.

It is undeniable that commodity investments offer you good prospects for high returns due to the supply and demand problem mentioned at the beginning. On the other hand, they are also extremely volatile. Commodity prices are very sensitive to exchange rates, inflation rates and the general state of the economy. In recent years, massive global infrastructure projects have caused the demand for raw materials to skyrocket—and with it their prices. In turn, rising commodity prices have had a very positive effect on the shares of companies based in the relevant sectors.

As is generally the case on the markets, the laws of supply and demand determine prices in precious metal trading. The supply is determined on the one hand by the production volumes and on the other hand by the stocks offered for sale. Demand is dependent on factors such as manufacturing trends and processing needs. There are also speculative considerations and some people have a desire to secure wealth by investing in physical assets that could be considered to be stable in value. Precious metals—and gold in particular—are often credited with greater security of value than classic paper money, especially among those who are called "gold bugs" in financial circles.

However, gold is no longer the only precious metal that has become interesting for investors in recent years. Industrial metals or precious metals such as silver, platinum, palladium and rhodium are now also popular investment objects.

Arguably the greatest risk of investing in commodities lies in their inherent extreme volatility. Not only national events affect the price here. Even international events that you do not associate with your investment at first glance have a massive impact on a commodity investment. This is due to the fact that many raw materials are extracted in emerging and developing nations. Accordingly, their price development is also exposed to the prevailing economic and political conditions in the countries of origin.

Commodity-focused funds may speculate on future price development (i.e. "investing in futures") to track the underlying commodity or commodity index. Trading in securities of this type is highly volatile. The performance of such a fund can deviate noticeably from the performance of the underlying commodity itself. This deviation can be either positive or negative, depending on which investment strategy the fund follows.

A safer option is therefore an investment directly in the raw material.

Let's use gold as an example—it's long been the most sought-after precious metal. Think of gold bars or gold coins. These assets:
- cannot be multiplied at will (finite resource)
- do not involve any counter-party risk (default risk)
- always offer an equivalent value, so that there is no risk of total loss
- have a negative correlation to stocks, dollars and interest rates
- are recognized as protection against crises, assets and inflation
- are a globally tradable currency alternative

((Definition))
Negative correlation means that two variables are related in such a way that an increase in one variable causes the other to decrease. When investing, this aspect is important when it comes to managing risk.
((/Definition))

Gold

Gold is considered the only true crisis currency. Unlike other asset classes and investment products, the value of gold changes in times of crisis (such as the corona pandemic or the war against Ukraine), diametrically opposed to the general market development. In other words, its value increases when the value of other investment products decreases.

Gold has already experienced crises, depressions and international currency unions—and it is still seen as a store of value. Naturally, the future is unpredictable, so nobody knows whether this will remain the case next week or in 10 years from now. But the fact that gold is particularly popular in times of crisis has to do with the “negative market correlation” just mentioned: the price of gold rises when share prices fall.

In fact, rising share prices also affect the value of gold. If the markets post gains, the price of gold tends to fall. But this means, if your shares are doing well, it can be worth taking a look at the price of gold for your portfolio mix. This gives you a chance to balance things out in your investment portfolio during times of crisis.

So that you are prepared before the next crisis, here is a little deep dive into your gold investment:

There are generally three places where you can buy gold:
1. online trading
2. the local gold dealer or your bank
3. the stock exchange.

You can usually buy gold in an online shop in the form of bars or coins in different sizes, of different values and from different countries of origin.

((Frame))
What you should pay attention to when buying gold on the Internet: the seller must be a member of your local professional association. In Germany, that’s the association of the German coin trade (Berufsverband des deutschen Münzenfachhandels). In the UK, look for the London Bullion Market Association (LBMA). In any case, you should find a list of members on the association’s website. Purchases through officially approved shops can help you guarantee authenticity.
((/Frame))

((Table))

2. Keep in mind that gold is rather heavy. If you buy gold from a local gold dealer or from your bank, you save on any shipping costs through the online shop. If you are concerned with saving costs, you cannot avoid making a comparison between online and brick-and-mortar shops. If you are unfamiliar with gold but do not want to do without personal support and advice, you can also contact your bank to prevent any run-ins with dodgy dealers.

3. The third option is to buy gold on the exchange. There you buy gold in the form of ETCs (short for Exchange Traded Commodities). These are debt securities, or bonds, that are backed by commodities. Essentially, you buy an ETC on the exchange and are entitled to the deposited commodity; in this case gold. Since gold is a physical product, buying on an exchange means that you don’t necessarily have to store your gold.

((B))
One German gold ETC, for example, is Xetra Gold. This ETC owns over 230 tons of gold physically held in Frankfurt and London. One Xetra Gold ETC is equivalent to 1 gram of gold. That means: If you buy a bond, you are entitled to 1 gram of physical gold being handed over to you. Therefore, the price of a bond is very close to the world market price for 1 gram of gold. This usually makes the exchange the cheapest place to buy gold.
((/B))

When you physically purchase gold, whether online or offline, or cash out your ETCs, you typically receive it in the form of either coins or bars. The main difference—apart from weight and shape—is that gold bars (with the exception of coin bars) cannot be used as a means of payment, while gold coins can.

Gold coins are measured in ounces. An ounce (abbreviation "oz") is about 31.10 grams. As of 07/2022, an ounce of gold has an equivalent value of 1,722 euros. However, a gold coin does not necessarily have to weigh an ounce. They are also available as 1/10 oz or 1/2 oz coins. You can usually see the origin on gold coins. Since only governments have the right to mint gold coins, they are usually given a motif that is typical of the respective country—which also makes them beloved as collectors' items.

((B))
The best-known gold coins are the Krugerrand (South Africa), Maple Leaf (Canada), American Eagle (USA), Vienna Philharmonic (Austria) and Nugget or Kangaroo (Australia).
((/B))

Because bullion is not official currency, its production is not limited to state powers. Instead, any certified manufacturer can cast gold into bars. For this reason, it is much more often stamped with the manufacturer than with a motif of the country of origin. The best-known manufacturers include Agosi, Argor Heraeus, Degussa, Heraeus and Umicore.

In contrast to gold coins, the weight of gold bars in Germany is usually given in grams. Bars are available from a weight of one gram. Up to one kilogram, there are different weight and price classes for gold bars.

Is buying coins or bars right for you? Good question. Counter-question: Do you think you can sleep well if you're holding high-value goods in a hiding place or in a safe? If you are comfortable with this idea, consider adjusting your home's insurance policy.

Alternatively, you can also store gold in a safe deposit box at a trusted bank. Lockers for this purpose are available for around 70 euros per year in Germany, and between £200 and £1200 for safety deposit box rental in the UK. However, keep in mind that the higher the insured sum, the more expensive your storage will be.

If investing in traditional commodities like gold feels like too much fuss or is maybe too old-fashioned for you, then you can also take a look to the other end of the spectrum at purely digital assets. With this in mind, we'll now discuss Bitcoin and other cryptocurrencies.

Investment in cryptocurrencies

Cryptocurrencies still arouse skepticism. No wonder: Few people think of them as a listed product. In fact, cryptocurrencies have only been represented on German stock exchanges since June 2020, before that were known primarily through the media as purely speculative investments with dramatic swings up and down in value.

But let's try to take a completely neutral look at what cryptocurrencies actually are.

((Definition))
► Cryptocurrencies are a decentralised, digital means of exchange. They are virtual currencies that are suitable as a means of payment and are also increasingly recognised as legitimate value storage vehicles. Traditional mints and banks are not required to create or hold cryptocurrencies.
((/Definition))

Since banks don't issue these digital currencies, they are considered speculative because they are not centrally regulated. Rather, they are peer-to-peer currencies. This means that the transactions take place between equal and independent participants in a decentralised network. This is where the currency is managed, and this is also where new units of the currency are generated.

Cryptocurrencies are represented in the form of tokens or register entries in a so-called blockchain ledger. ► Blockchain technology forms the basic technology for digital currencies. You can think of a blockchain as a collective accounting system stored on a multitude of computers. They serve to record the capacity of the network for transactions. This simply means that the corresponding data is permanently stored in the blockchain for each transaction, and the entry can no longer be changed afterwards.

Probably the most well-known cryptocurrency in the world is ► Bitcoin (abbreviated: BTC). It is also the largest in terms of market capitalisation. The second largest currency follows at a great distance: ► Ethereum (short: ETH).

How crypto trading works
If you want to buy Bitcoin or other cryptocurrencies, you need a so-called ► wallet—a digital purse in which you store your digital money.

For the direct purchase and sale of cryptocurrencies, you can choose between various trading platforms and apps that specialise in crypto. One way that investors make money with cryptocurrency is through currency trading. This means the targeted buying and selling of Bitcoins, etc. It works in a similar way to forex (foreign exchange) trading and requires a certain know-how for successful trading. As a beginner in the capital market, it may be advisable to hire a broker if you are interested in foreign exchange.

In order to make a profit from crypto trading, you need to know how to take advantage of price fluctuations and exchange rate changes. Since the direct trading of cryptocurrencies is generally not regulated or monitored by banks or financial supervisory authorities, this form of investment is naturally riskier.

Some crypto businesses bury high fees in their terms and conditions, and others have gone bankrupt overnight, leaving their customers without a way to retrieve the value they've invested.

The business of recognising and regulating crypto is rapidly developing, and by the time you read this book, things may be different, but in June 2021, "Coinbase Germany" was the first service provider to receive permission from BaFin (the Federal Financial Supervisory Authority) for crypto custody business, a newly introduced financial service. In August, 2022, Crypto.com was listed on the UK Financial Conduct Authority's (FCA) register, meaning that the company may offer crypto asset services and products to customers in the UK in compliance with anti-money laundering laws and rules against terrorist financing. But as of September 2022 in the UK, cryptocurrencies were still considered unregulated, meaning there is no right to compensation for consumers who lose their digital assets.

These days, there are new cryptocurrencies (often called "altcoins") created all the time, but the biggest coins: Ethereum and Bitcoin, are represented as secured financial products that can now be traded on stock exchanges. For these products, namely crypto ETFs or crypto stocks, the same stock exchange regulations apply as for other ETFs and stocks. So you don't have to laboriously familiarise yourself with how cryptocurrencies, wallets and other supporting technologies work, but you can access the advantages of crypto development through established financial products.

Alternative investment opportunities with over-the-counter investments

The term "over the counter" refers to the way in which certain securities are traded. In these cases, the exchange doesn't happen via a centralised and regulated marketplace, like the stock exchange, but in direct trading. The abbreviation OTC is often used for this. OTC trading can refer to deals made in real estate, business investment or other contract-based relationships, but it can also be done using stocks, debt securities or derivatives that are not listed on exchanges.

Investing in over-the-counter investments has its own advantages and disadvantages compared with exchange-traded investments. The lack of regulation by the stock exchange supervisory authority is likely to pose the greatest risk. You also have to accept a certain lack of transparency with over-the-counter investments because, unlike on the stock exchange, you cannot view the order books. There is also the possibility of lower liquidity and of course, you risk the complete failure of a project or business you invest in.

But over-the-counter trading also has a positive side. You pay far fewer fees with direct trading—no exchange fee, no commission for a broker. Depending on the assets you invest in, this can save you quite a bit of money that doesn't impact your profits. With direct trading, you are more flexible than when you use a stock exchange, because buying and selling are not tied to the opening hours of the marketplace. This means that every purchase or sale is executed immediately, at the exact price at which you place the order.

But the other dimension of OTC investment isn't focused on securities, but the opportunity to access entire classes of unlisted investment products. Whether you'd like to be an investor in a start-up or generate a lucrative passive income with commercial real estate investments—there are many paths open to you on the "off-market trading floor." We'll go through the most important ones:

- Real Estate
- Crowdfunding & P2P lending
- Retirement Insurance
- Private Equity
- Business Angel Investing
- Venture Capital

Real Estate

Real estate as an investment property? Absolutely. Especially if you value attractive returns. You can invest in real estate in many different ways. Two of the most common:

- You can buy a home.
- You can buy an apartment or house to rent as an investment.

These cases are direct forms of investment.

- You can participate in the housing market in the form of real estate funds.
- On a stock exchange you can also invest in real estate stock funds or real estate stock corporations as well as in so-called ► REITs (Real Estate Investment Trusts, a special form of real estate AGs).

These latter two are indirect forms of investment. Your benefits lie in relatively stable profit distributions and tax advantages. And with REITs in particular, you can invest comparatively cheaply and broadly in the real estate market compared to other products.

But no matter what type of real estate investment you decide on, as with any form of investment, the motto always applies to real estate: if you want to be successful, you have to invest for the long-term and diversify your investments as much as possible.

Interesting? Let's take a closer look at the various real estate investment opportunities:

Direct investment in real estate

Direct forms of investment are investments that flow directly into a tangible asset—i.e. into a property, whether for personal use or for renting.

In many countries, real estate has a good reputation as an investment. After all, when you buy your own home, you have a roof over your head as well as something that you can pass on to your heirs. When you own property and use it as an investment, you can build up a passive income because you receive regular rent payments.

Whether a direct investment in real estate suits you depends on many factors. As with any financial investment, there are, of course, advantages and disadvantages:

A home of your own does not count directly as an investment in the true sense of the word, but it is definitely an investment with a utility factor. The "security of your own four walls" makes you independent and, depending on the location, an increase in value is possible. For this reason, owning a home is still considered by many to be a major aspect of their retirement plan. This idea is particularly attractive when financing interest rates are affordable. A home of your own gives many people a sense of security and a feeling of freedom from rent.

But buying a home also requires a lot of consistency from you. In most cases you have to bring in a certain amount of capital to the table. But even if your bank gives you 100 or 110 percent financing so you don't have to bring any equity, you'll have a very long path of debt. When buying a property, the loan repayment phase often extends over several decades. So keep in mind that you'll be in debt (sometimes heavily) for a very long time. And that doesn't even include the various ancillary costs (notary fees, real estate transfer tax, agent commissions, housing allowance, etc.). Later there are also costs for maintenance and modernisation measures. These are often underestimated and later become an unwelcome surprise.

With a home of your own, you tie yourself to a very big responsibility. What if you or your partner lose a job, get sick or become disabled? What if your relationship doesn't last? Owning a home is considered an "illiquid" financial investment, meaning that if your life circumstances change drastically, it's difficult to convert a house or apartment to cash quickly. You might be thinking, "No problem! Housing is in demand. I can sell it quickly." That may be true, but you may lose tax advantages if you sell too quickly or you may discover that real estate prices have dipped just before you wanted to sell. Don't forget that the bank may also demand additional fees if you sell before the end of your repayment period.

In any case, we advise you not to make a hasty house purchase. Owning a home is always a lifestyle choice and often an emotional decision. Sure, arguments like lifelong freedom from rent pull. But no rent does not automatically mean no costs. It is therefore important that you are honest with yourself and critically question your desire or decision to buy your own home:

- Do I have the financial means to cover a real estate loan in the long term?
- What if I lose my job or get an attractive job offer far from my home?
- Do I know all additional fees, taxes and future maintenance costs? In certain regions, a land transfer tax alone can account for 6.5% or more of the purchase price, so check to see what your local situation requires.
- How will the purchase affect my total assets? An investment in the securities could be the better option in terms of your returns.

As you can see, an investment in your own home is not without risks. On the other hand, investing in a rental property seems a good alternative, doesn't it? You can practically repay your financing debts with the rental income, you can claim the tax advantages of a capital investment, and you have exactly the same pension option as you would with your own home: as the property owner, you could eventually live in the apartment or house yourself.

Unfortunately, it's not that simple in this case either. When purchasing a property as an investment, you have higher default risks on several levels—your own, that of the tenant, and that of the financier. Furthermore, renting only has a really positive effect on your loan repayment if the rental income is higher than your loan payments. In that case, there's a positive effect on your cash flow, but potential tax disadvantages for you. There are also factors that you can neither predict nor influence—what if your property loses value due to external circumstances? And last but not least, when purchasing a property as an investment, you first have to bear the associated additional costs yourself, usually bring your own equity, and you'll pay for ongoing maintenance and upkeep. This is not only a financial but also a time investment that should not be underestimated.

For a direct investment in real estate, you should meet at least three essential requirements:

1. You should have as much equity capital as possible. It should cover at least the incidental purchase costs and preferably 20 to 30 percent of the purchase price. And keep in mind that you shouldn't sacrifice your emergency fund for this. You should always have that separately accessible as a buffer.

2. Your credit rating should be spotless. When you take out a loan, the bank will check your solvency and reliability. Among other things, they will check your credit rating, your income, your equity and any current liabilities.

3. You should have a solid, proven income. Permanent employment relationships are often regarded more favourably, for example, than self-employment. But the decisive factor is the amount of income and how long you have been in the job—whether self-employed or employed. Short-term employment contracts signal risk to lenders and reduce your chances of outside capital enormously.

To summarise, direct real estate investments—homes as well as investment properties—require a lot of time and energy. You have to take care of tenant problems, take over maintenance and, in case of doubt, you are liable for accidents on your property. Financing can also be a disadvantage. Especially if you need to take out a loan. If the market crashes or you can't find reliable tenants, you could risk financial failure. As an illiquid asset, you may also have problems selling off a property investment if you urgently need the money.

Since you can avoid the last two factors with an indirect real estate investment, this form of investment is worth a bit of attention.

Indirect real estate investment
Indirect investments in real estate also give investors (including those who lack equity or a need for their own home) an opportunity to participate in the property markets. One of the advantages is that you don't have to actually own, manage or finance your own property. Instead of buying entire house or apartment, you buy shares in a company or fund that mainly invests in land and real estate.

You have various options for investing your money indirectly—far more than with direct investments. The most important are real estate funds, real estate stocks & REITs.

1. Real estate fund

((Definition))
Real estate funds are business groups that pool the capital of their investors and invest in various properties.
((/Definition))

A distinction is made between **open** and **closed** funds.

Open-end funds collect money from investors in order to invest it in the development of commercial real estate, such as office buildings, warehouses, shopping arcades. These are available globally, and they're available even for small-scale investors. Even investors with limited funds can become co-owners in the broader real estate marketplace. A big bonus: You can typically return your shares to the fund company at any time. Open-ended real estate funds are listed on the stock exchange, which means that they at least have a certain degree of transparency, although this should also be treated with caution, since real estate funds are not evaluated by independent bodies. They evaluate themselves. And they are pseudo-liquid. This means that if it's just you who wants to sell your shares, the company can cash you out with ease. But if many (or all) investors want to exit the fund at the same time, it may be that the fund company does not have enough funds on hand to pay all the investors. And because a property cannot be sold immediately, it can mean that even an open fund has to be closed for months or years. In this situation, investors can no longer sell their shares. An example of this occurred in 2007 during the financial crisis.

The losses at that time led to new regulations. Since 2013, investors have had to hold their shares in open-ended real estate funds for at least 24 months and can only sell them with a notice period of 12 months. So these funds are no longer quite as open as they were before the real estate bubble burst. Also taking into consideration management fees of up to 1.5% and a front-end load fee around 6%, they may be only slightly cheaper than closed-end real estate funds.

Closed-end real estate funds (CEF) belong to the so-called "grey capital market," an investment market that has not been heavily regulated or monitored and is therefore considered risky and non-transparent.

In closed-end funds, investors' money is invested in various building complexes. Once enough money has been collected, the fund is closed—hence the name—and dissolved after a previously agreed term. The profit from rents, leases or sales is then distributed to the investors. You can only invest in such a fund with relatively large sums—usually a minimum of 5,000 to 10,000 euros.

Due to the minimum investment, this form of real estate investment is often unsuitable for small investors. Because even if you raised this sum, you would have little left to ensure diversification. And the closed real estate fund certainly doesn't do that for you. Especially since you wouldn't be able to access your invested money for five to ten years. So even if a loss-making transaction becomes apparent during the term, you couldn't sell your shares on the secondary market or might sell with high losses.

The open-end and closed-end real estate funds differ primarily in terms of their liquidity, holding period, fees, transparency and risk diversification. But even if open real estate funds are still the safer alternative, in the end they also suggest a level of security that they cannot guarantee.

2. Real Estate Stocks & REITs

Another indirect investment opportunity in real estate is real estate stocks. Just like shares in Apple, for example, you can also buy shares in real estate companies that invest in construction projects.

The shares work the same way: you benefit in the form of distributed dividends and can trade your shares at any time for the current market value.

Unlike real estate funds, real estate shares are not particularly common in Germany. A limiting factor is that in the real estate sector, shares can only be issued by publicly listed companies. These listed real estate companies plan and build projects such as commercial and residential real estate. Vonovia is an example of a DAX-listed company whose securities fall into the real estate shares category.

►REITs, Real Estate Investment Trusts, are a special form of real estate stock corporation. REITs are property owners and managers. As with other companies, you can also buy shares in these REITs. Unlike mutual funds, REITs are independent companies. They differ from "normal" real estate companies in terms of taxation, investment opportunities and profit distribution. They are officially referred to as "tax-privileged real estate corporations with listed shares." Despite an average return of 5.4% in recent years, REITs are even less well-known in Germany than real estate stocks. REITs were developed in the USA as early as the 1960s. In Germany, the five REIT companies are combined in the RX REIT Allshare Index.

In addition to buying REIT shares, you also have the option to invest in active real estate stock funds or real estate ETFs. The active real estate funds invest in various REITs from several countries. An advantage is that they are directly diversified. But as is generally the case with actively managed funds, you also have to accept higher fees than with passive funds or ETFs. The REIT-ETF, which replicates the German RX REIT Performance Index, offers you this diversification with significantly more favourable conditions—averaging between 0.10 and 0.70%.

Crowdfinancing & P2P Lending

Both crowd financing and P2P lending (peer-to-peer lending) are still quite new approaches to investing money.

With crowdfunding, you join forces with several other private investors to invest in new construction or restoration projects, each according to their own financial means. With this form of investment, you earn a return when the construction or modernisation is complete. Then you get back both your investment and the previously agreed interest.

P2P lending can, but does not have to be, about real estate. It's basically just a different type of lending that takes place via platforms on the Internet. Anyone can register there either as a lender or as a borrower. Unlike with banks, as a P2P borrower, you do not necessarily have to be able to prove your creditworthiness. Anyone who can present their project in an appealing way and make their trustworthiness and reliability credible can collect money from private individuals who want to act as lenders. In return, the borrower agrees to repay the loan with interest. Interest rates in P2P are usually higher than at the bank. And with this form of investment, that would be exactly what you earn: interest as a reward for making your money available.

The advantage: interest rates are often almost twice as high as the average stock market return.

The disadvantage: the borrower may not pay back his debts or may not pay on time. There are platforms that step in to pay back the lenders. But there's also the risk that the platform itself will go bankrupt.

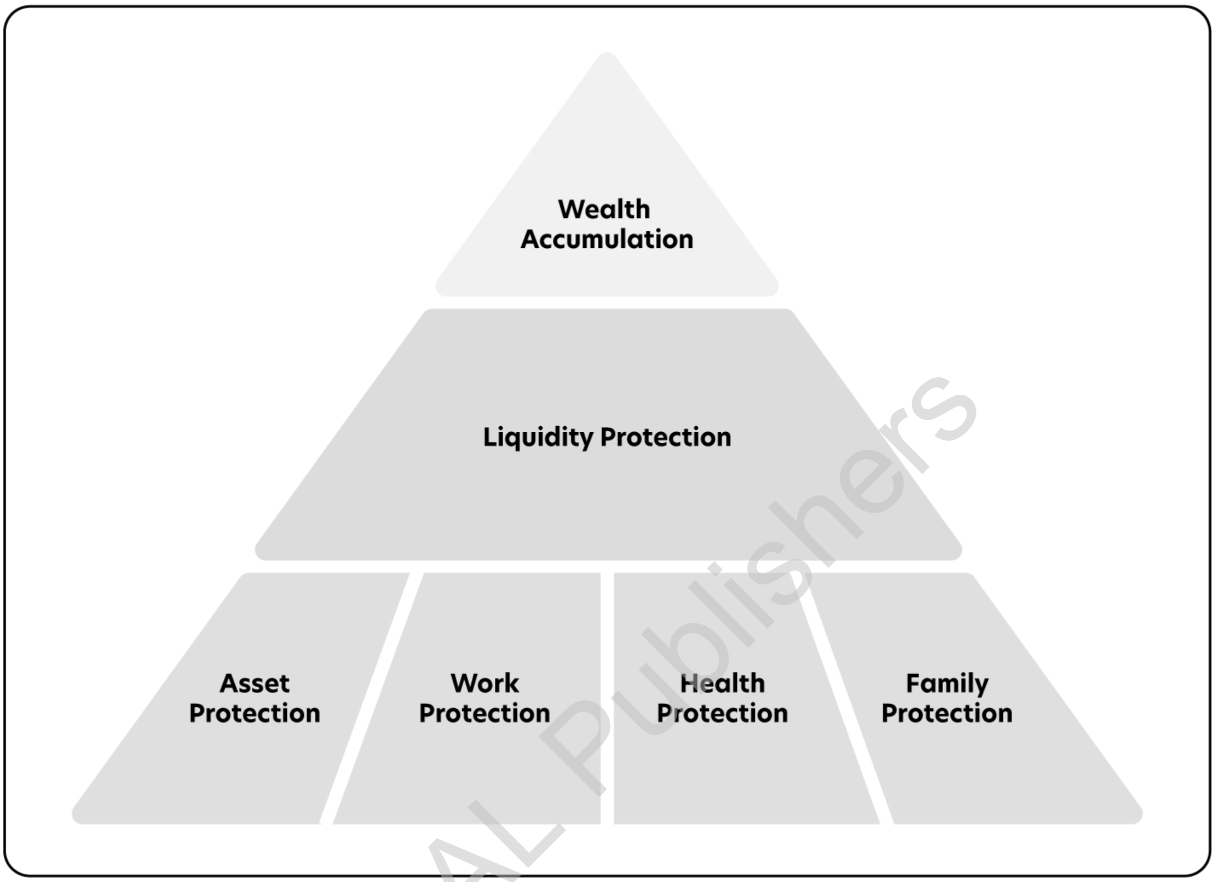
In conclusion: Crowdfunding and P2P may not be particularly well known yet, but both may hold interesting opportunities for you. Of course, they shouldn't be your only investments, but you can consider them an option to add into your already diversified portfolio. It is also important that you look for solid and established partners.

Retirement insurance

Are the golden years of retirement your primary investment focus? Then you could choose to follow the developments of the capital market with a unit-linked insurance plan (ULIP). This is a financial product that offers both insurance coverage as well as investment exposure in the form of equities or bonds. The advantage of unit-linked insurance, in addition to the possibility of high returns and lifelong annuity payments, is also in the tax benefits that they may bring you.

As we've already mentioned several times in this book, there is always a correlation between the opportunity for return and the level of risk. Unit-linked pension insurance is no exception.

The risk can be controlled to a certain extent, depending on whether you invest in higher-risk or lower-risk funds. Overall, unit-linked insurance may be unattractive due to its uncertainty and unpredictability. But if you're willing to accept the investment risk, it may be a viable



option for you.

Source: Own Illustration

As with all fund investments, a fund pools the money of different participants and invests it in various assets such as stocks or real estate. This means that the amount later income you receive, i.e. your additional pension, depends heavily on the development of the markets. If prices fall, losses cannot be ruled out. You do not have a specific pension or payment guarantee with this form of old-age provision. As an alternative, depending on how risk-tolerant you are, an interest-linked private pension insurance could make more sense for you. Although they have lower returns, they are much safer and more predictable.

((Frame))
This is how you can calculate your monthly pension from unit-linked pension insurance:

Multiply your pension factor by your accumulated capital and divide the result by ten thousand. The result is the monthly payment amount.

(pension factor * saved capital)
———————————————
£10,000

For example, if you save £150,000 with a pension factor of 10, your monthly additional pension from the unit-linked pension insurance would be £150.
((/Frame))

Private Equity

((Definition))
► Private equity is a form of private financing outside of the public market. Funds and investors invest directly in companies or in their takeovers.
((/Definition))

Institutional and private investors offer businesses capital, which can then be used to fund new technologies, increase working capital, expand the balance sheet, or make purchases, for example. It has to be said that private equity investments come primarily from institutional and accredited investors who are able to provide significant sums over a longer period of time. Accredited investors have a special status under financial regulation laws. For example, they may be permitted to invest in unregulated securities. The rules and definition that apply to this type of investor vary from country to country.

Private equity investments require long, illiquid investment horizons, for example to help troubled companies to turn around or to ensure liquidity when a company makes its initial public offering. On average, investors have to leave their money—we're talking about a minimum investment of 200,000 euros here—for ten to twelve years with this type of investment.

But venture capital investing is more than just providing capital to companies. Private equity funds actively influence the companies they fund. This means that they are involved, for example, in the development of corporate strategy, in the planning of expansions or in the optimisation of work processes. They may also make their extensive networks available to the companies.

Unlike private investors, the venture capital funds can liquidate their investments after just four to eight years. This means that distributions can be made after just four years—for example from recapitalisation, disposal or dividends. However, there is no guarantee.

For entrepreneurs and business founders, the benefits of private equity investments are that they provide easy access to alternative sources of capital.

The bottom line is that investments in the form of private equity are only suitable for more advanced investors who, in addition to larger assets and the necessary available capital (at least 200,000 euros), a long investment horizon and a high willingness to take risks, also bring sufficient knowledge and experience. You may hear this category of investor called "semiprofessional" or "professional" investors, and there are requirements for these definitions in the Capital Code.

Business angel investments

((Definition))
► Business angels are private investors who are among the first financiers of a start-up.
((/Definition))

As an angel, you support the early phase of a company's development. This phase is also known as the pre-seed or seed phase. Sometimes these early boosters are called seed investors. But regardless of whether you are a business angel, angel investor or seed investor, we're talking here about the people who provide small entrepreneurs or start-ups with capital in exchange for partial ownership rights in the business. It is also possible to become a business angel investor via regular financial injections and promote the company through the difficult initial phases.

For many early-stage start-ups, angel investors are the preferred source of funding because these investors often provide their money on more favourable terms than traditional lenders such as banks. Seed investors they usually invest primarily in the entrepreneur and the future potential of the business idea and not (yet) in the profitability of the current business.

The financial support of angel investors promotes innovation, which in turn translates into economic growth. However, these early-stage investments come with undeniable risks, so it shouldn't be the heart of an investment plan. Typically, business angel investments represent no more than 10 percent of a private investor's portfolio. That said, most angel investors are aware of the risks and have the money to invest in business opportunities with potential for higher returns than traditional investments.

As an investor, you will see benefit from your angel investments through subsequent financing rounds or through a later exit, i.e. the sale of the start-up. The investment size can vary greatly, but it is often around 50,000 euros (in many cases, however, smaller "tickets," i.e. investments, may be available), but sometimes the size of the investment can extend to amounts in the hundreds of thousands. Business angels usually expect an investment horizon of four to seven years. The exact period of time is determined individually with each angel investor in the "participation contract," which is created when the investment is made.

If a start-up requires more capital than a private angel investor can provide, amounts in the millions can be raised in cooperation between several seed investors and/or between individual seed investors and venture capital (risk capital) companies. This cooperation is also called "pooling."

To start out as an angel investor, you could certainly begin independently, but there's also an opportunity to join a "syndicate" or network through which you could evaluate and invest in selected startups. There are private syndicates, or you can register as an angel investor with a platform such as SeedInvest, Companisto or Gateway Ventures. Just like you, the start-ups register there first and then present their business concepts to the platform operators. They, in turn, personally propose the concepts to a number of investors or start a round of financing online, in which you, as an investor could choose to get involved.

So where's the catch? It's all in the risk. If a start-up you backed in the early phase of founding fails—and that is not unlikely because from 75-90% of all start-ups fail—your money is gone. Poof. Vanished. So think of angel investments as one of the asset classes with a very high risk level. It should never make up more than a small part of your portfolio—if at all.

If you do decide to become an angel, you can reduce your risk of total loss by applying the principle of diversification. This means: plan from the outset to invest in more than one startup. Building a portfolio of several startups means that the possible (or even probable) total failure of one or more investments might be compensated by the success of the other investments.

On the other hand: where there is high risk, there is also a high opportunity for profit. The effective discount rate—that is, the amount of interest paid or earned as a percentage of the balance—for a successful business angel investment is around 22 percent. If the startup you support succeeds, you could potentially earn 100x your original investment or more.

Venture capital investment

((Definition))
► **Venture capital investors** are private equity investors. In exchange for shares in the company, these investors make capital available to entrepreneurial projects (usually startups) that have great growth potential but limited—or no—access to the capital market.
((/Definition))

The "Venture Capital" (VC) name is quite appropriate, because there is inherent risk for an investor to lend money to a company that can give him/her little security in return.

Early-stage companies in particular turn to venture capitalists because they cannot yet offer banks the necessary collateral to obtain traditional financing. For startups in particular, there is often little proof of past entrepreneurial successes.

So what's the difference between VC and angel investment? It's in the quantity and source of the capital. For VC, an investment manager sets up one or more funds which bundle the capital from various investors and then invest the pooled capital in selected companies. As a private investor, you also have the option of investing in a VC fund if you meet the necessary requirements. In particular this includes the quantity of capital, usually starting at 200,000 euros per investor, although you can also pool smaller amounts of money with other investors to participate. Another key to successful VC investment is persistence: like private equity and angel investment, VC is illiquid. You make your money available to a company for several years. During this time you have no way of accessing your capital.

Of course, that doesn't mean that VC investment is only disadvantages. As with angel investment and PE, successful investments mean high returns through subsequent financing rounds, and especially the possibility of a later exit through the sale or takeover of the startup. The more a company's value increases, the more you can mark up your shares to sell later.

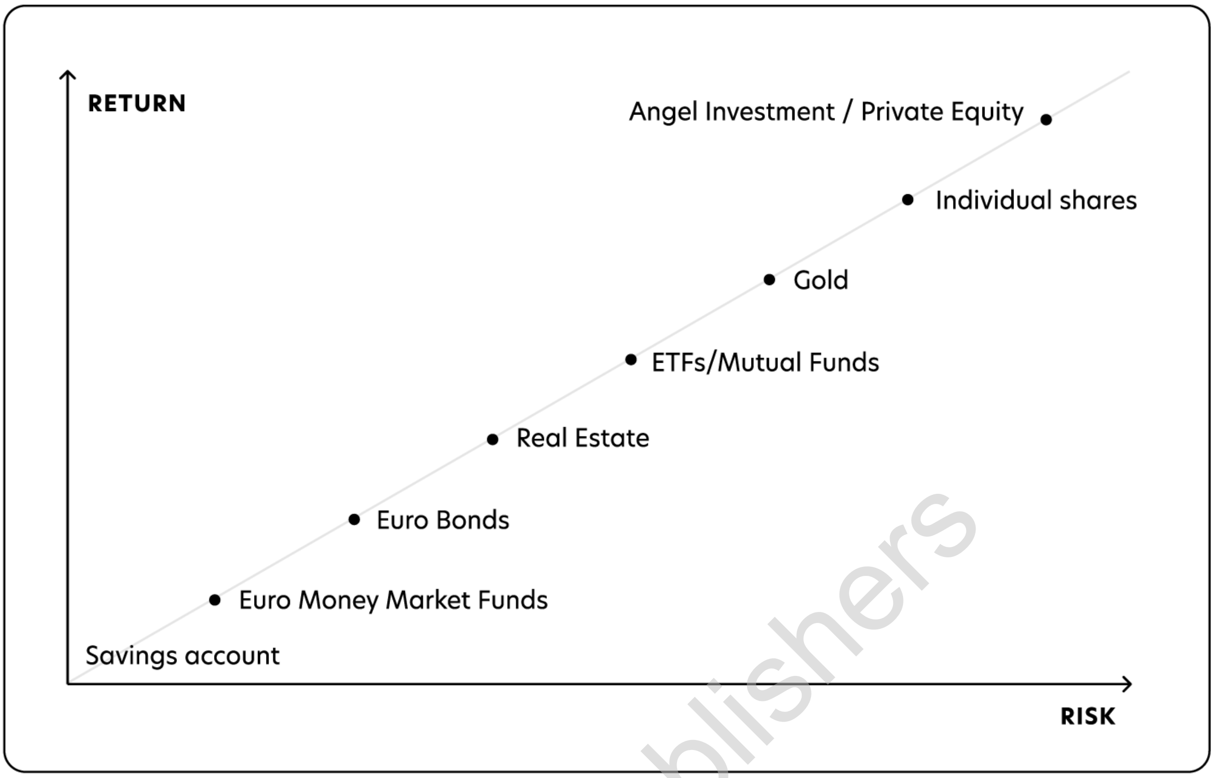
As a VC investor, you can also influence the fortunes of the company you are sponsoring— just like with an angel investment. Depending on where your strengths lie, you might contribute business or industry-specific know-how or make your own network available. Since young companies in particular can derive more than just financial benefits from a VC, such investments are often referred to as "intelligent capital" (smart money).

And as with angel investment, the bottom line for VC investments is the high risk. The low success rate of start-ups makes the risk of total loss for individual investments high, although the risk is reduced somewhat by the inherent diversification of a VC fund. Nevertheless, as with any high-risk investment, VC activity could only be recommended as a supplement to your already diversified portfolio.

Opportunities and risks for private investors

Yay! Success. You now have an excellent overview of diverse asset classes and products. You have read a bit about the risks associated with the various investment options. And yes, it would be a lie to say that there are no risks in investing. But: isn't everything a risk? And it's also true that even doing nothing is risk. To clarify: if you leave your savings in a typical savings account with low or no interest at all, isn't that also risky considering what you have read so far about market and currency mechanisms? Maybe even riskier than investing in the stock market?

Let's take a look at how the relationship between opportunities and risks on the capital market works in reality—beyond the emotional lenses of worry, fear or prejudice.



Source: Own Illustration

Short, medium and long term ways to invest your money

Beyond stock exchange and over-the-counter investment options with all their advantages and disadvantages, as you have already learned about them, you have different options for investing your money, especially in terms of time.

((Frame))
Review:

- Investments on the stock exchange:
    - Higher liquidity
    - High market transparency
    - Protection against price manipulation
    - Strictly regulated by the stock exchange supervisory authority and federal financial supervisors

- Direct trading or over-the-counter (OTC) investments:
    - Often cheaper, lower fees
    - More flexibility
    - Trade is only partially supervised and regulated

((/Frame))

Which form of investment you choose is, of course, up to you. Depending on what you value more, you'll need to balance criteria such as return, risk and liquidity.

If we look at your investment opportunities from a time perspective, you have three options available: the short-term, the medium-term, and the long-term. In connection with investments, one often speaks of the "investment horizon." How long this should be depends primarily on which goal you want to achieve with an investment, in which period of time and how much risk you are willing to take in order to achieve this goal—possibly even earlier.

The short-term investment
This timespan is characterised by short terms and liquidity. As a short-term investor, you need access to your money again very quickly. Sometimes these investments are used to "park" money that is not immediately needed until a decision has been made on a long-term investment. However, you can also invest money in the short term and use it as a readily available reserve for emergency situations.

Classic short-term investments are, for example, call money (that is, is a short-term loan that is payable immediately, when the lender "calls for" or demands it) or fixed-term deposit accounts with a short term.

* Call money accounts are very liquid because you can deposit and withdraw money at any time and without limits. In addition, your money in a call money account enjoys federal deposit insurance. In Europe, this gives your account protection up to a total of 100,000 euros per customer and bank. In the UK, similar account protection is available through the PRA (Prudential Regulation Authority). Downside: The interest rate is currently very poor.

* Fixed deposit accounts are less liquid because your deposited money is tied up for a certain period of time. The term can be just one month or several years. It is therefore considered "illiquid" because the money is firmly invested and you should not expect to receive a payment before the end of the contract period. This type of deposit is also considered "safe" since it gets protection through the statutory deposit insurance mentioned above.

The medium-term investment

This time horizon is the right choice if you are saving for a foreseeable goal. Let's say you want to make a major purchase at some point in time, perhaps three years from now. It might be a new car, a vacation home, or the renovation of your kitchen. In this case, a medium-term investment will bring you closer to this goal.

Investment options that you can use for a medium-term investment include fixed-term deposit accounts and savings plans.

* With a fixed-term deposit that pays good interest, you can plan to invest your money for three or five years. Here, too, you benefit from deposit protection.

* For savings plans, make sure you choose an overnight savings plan, not necessarily an ETF savings plan. Because the latter carries the risk that the market hits a downturn exactly when you need to pull out the money you invested. A savings plan is a type of standing order or agreement between a person wishing to save or invest and a bank or investment firm. The plan is set up so that automatic payments are moved into your investment on a regular basis. These payments are usually made monthly. Because savings plans are automatic, they help you save and invest without thinking too much about it.

The long-term investment

When someone is talking about retirement, they're generally talking about the long-term time horizon. There are also suitable financial products available for this, including ETFs, for example.

The long-term nature of investments for retirement gives you the opportunity to compensate for periods of low prices over the long term, the so-called "Cost Average Effect." In short, cost averaging means that when you hold your shares longer and, ideally, buy regularly through a savings plan, you'll be able to capture both the returns of the market's upswings and take advantage of lower prices during downturns, reducing the likelihood of making a losing trade. We love cost averaging, so we'll go into more detail later in the book.

The most common strategies to invest your money

Now that you are familiar with a variety of products and tools that you can use for an investment and have thought about different investment horizons, it is time to introduce you to the most common investment strategies that you can use as a guide. The great thing about investment strategies is that they are flexible. So if you decide on one but then find that it no longer suits your risk tolerance or rhythm, you can always adjust it. Do keep in mind: change can be expensive. Every purchase, every sale and every order generally means additional fees. And more importantly, selling assets can generate "realised capital gains," which could possibly be taxed and therefore, expensive.

Making a good choice means understanding the options, so let's take a look at the nine most common strategies used by most investors. When you understand the differences between the strategies, it will be easier for you to start on the right foot with a strategy that suits you, and maybe you won't have to take countermeasures later.

((Frame))
Think about your risk tolerance

When you set up an investment strategy that fits your goals, you'll be able to create a personalised portfolio and a sustainable way of dealing with the ups and downs on the stock market. So let's first consider your position today.

Ask yourself the following:

- What is my current financial situation?
- What are my living expenses?
- How much can I allow myself to invest? Both initially and in the long run.
- What goal am I pursuing with my investment?
- How long can I possibly do without invested money?
- What risk am I willing to take?
- Do I already have preferences regarding my strategies?

((/Frame))

Ultimately, your investment strategy must be consistent with your personality, and you are the only one who can decide about your risk appetite. Some of us are much more willing to take risks. Some of us will lose sleep thinking about losses. With this in mind, the right investment strategy gives you the clearest possible picture of your own risk vs. opportunity profile. You have the following options:

1. Buy-and-hold strategy
With this strategy, your focus is on stocks that you hold for the long term. “Long-term” in this context means a period of between five and 20 years. Basically, you buy the stocks and then leave them in your brokerage account or portfolio regardless of short-term market developments. The aim of the buy-and-hold strategy is to benefit from long-term increases in share prices. That means you take a relaxed approach and simply sit out any crises or fluctuations.

Nobel Prize winner André Kostolany proved that it is possible to build up millions of dollars with this strategy. His advice: “Buy stocks, take sleeping pills, and stop looking at the papers. After many years, you will see: you'll be rich.”

The prerequisite for the success of this strategy—and at the same time, one of the greatest challenges—is of course making the right selection of stocks.

2. Index strategy
The index strategy follows a passive investment technique that attempts to generate similar or the same returns as a selected broad market index.

The idea behind index investing is, "If you can't beat the market, buy the market." At least that’s the advice given by Robert R. Johnson, professor of finance at Creighton University's Heider College of Business in Omaha, Nebraska. Warren Buffett agrees: “By periodically investing in an index fund, for example, the know-nothing investor can actually outperform most investment professionals.”

Investors using the index strategy replicate the performance of indices in one of two ways:
- Buying the securities of the index.
- Investing in an index mutual fund or Exchange Traded Fund (ETF) that tracks the underlying index itself.

The index strategy offers various advantages. On the one hand, studies show that index investments outperform actively managed investments over the long term. In addition, this passive approach eliminates the hassle and uncertainty that can arise when you do individual stock picking.

If you're wondering if this strategy is for you, these facts might help you make your decision:

- Index investments offer you a broader spread (diversification) and lower costs and fees than actively managed strategies.
- With index investing, the risk and reward of your investment is equal to the risk and reward of the overall market.
- If you follow an index strategy, you always acquire all securities of the selected index. Their share always corresponds to their respective weighting in the index.

In short: if you want to deal with market volatility and asset selection as little as possible and pay fewer fees for your investment, then this approach is well suited for you, especially since it is often combined with the buy-and-hold strategy.

As an old adage around the stock exchange reminds us, "Wide spreads = no regrets"

And the index strategy automatically reflects that very idea. A cost-effective and relatively easy way to invest in a specific index is to choose an ETF, which does all the work for you by combining the entire index into a single product. Funds—regardless of whether they are active or passive (ETFs)—always bundle securities from a large number of companies in one product. That is why they are automatically broadly diversified. In the meantime, however, there are also ETFs with less diversification, for example special sector ETFs.

Let’s summarize:

Index investing has some distinct advantages, including lower costs and fees, automation that eliminates the personal bias of a human fund manager when making investment decisions, and broad diversification. Also, they are easy for you to manage.

There’s really only one question left, isn’t there?

Namely, in which indices can or should you invest? Well, there you have an extensive choice. Depending on the goals and values you use as a basis, you can choose indices very rationally, for example selecting based on the lowest possible fees or the lowest possible tracking error rate. But you can also primarily look for green investments or for funds that do not invest in weapons production, for example.

You don’t even need to limit yourself to investing in your own country’s indices. Thanks to the invention of funds that track top global indices, it is easy to diversify your portfolio globally without having to laboriously invest in a list of individual stocks. The S&P 500, the NASDAQ, and the Dow Jones—all US-based—are three of the most popular and most-quoted indices in the stock market.

The Dow Jones is the benchmark index of the US stock market and as such serves as a performance measure for other stocks. This includes the 30 largest US companies listed on the New York Stock Exchange.

Another alternative is the S&P 500 Index–the Standard & Poor's lists the 500 largest publicly traded US companies by market capitalisation.

The NASDAQ 100 could also be of interest to you. With this index, you invest in the 100 largest international non-financial companies listed on the NASDAQ stock exchange.

If you happen to be investing in Germany, it's helpful to know the most important and largest indices on the German stock market.

((Frame))

The German DAX indices

The DAX

The German stock index was introduced in 1988. For a long time, it represented the 30 most liquid and top-selling stock corporations in Germany. These were measured based on market capitalisation and trading volume. This proved to be a successful practice–at least until the Wirecard bankruptcy gave rise to a revision of the index rules. Since 2020, companies that have filed for bankruptcy have been rapidly removed from the indices of the DAX family. In 2021, the entire set of rules was completely revised as part of a major reform process. Since then, the DAX now shows 40 companies. Wirecard was replaced by a company that had never made a profit—Delivery Hero—and the Deutsche Börse (exchange) also added the rule that new DAX candidates should have positive EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation, i.e positive sales before deduction of interest, taxes, depreciation and amortization) during the two most recent financial reports before they can be included in the index. (Subsequently, Delivery Hero had to leave the DAX again...)

The MDAX

When it was launched, the MDAX—the "M" stands for Mid-Cap (i.e. stocks in medium-sized companies)—comprised 70 companies. In 2003 it was reduced to 50, then increased again to 60 in 2018 and most recently reduced back to 50 companies in 2021 as part of the index reform. The background was that the DAX was expanded to 40 companies and 10 companies rose from the MDAX to the DAX. The MDAX consists of both established medium-sized companies and small companies that have risen from the SDAX (the "S" stands for Small-Cap, meaning the shares of small companies). Compared to DAX, its "big brother," the MDAX reflects the cross-section of the German economy more precisely and truthfully. It thus offers you attractive options in terms of both the price development of the shares and possible dividend payments.

The TecDAX

The TecDax is the index of the DAX family on which technology companies are represented. It was introduced in 2003 and was revised in 2018 in order to come closer to an international standardisation of the index landscape. Previously, tech companies and classic stocks in Germany were strictly separated. Since the reform, companies have been allowed to appear in two indices of the DAX family at the same time, such as the MDAX and the TecDAX. The TecDAX includes the 30 largest German companies in the technology and telecommunications sector.

The SDAX

The "S" stands for… Exactly! Small caps, i.e. small public limited companies. The SDAX has existed on the German stock market since 1999. It depicts the so-called "hidden champions"of Germany's medium-sized economy.

((Definition))

"Hidden champions" are smaller and still unknown companies that are leaders in their specific industry and have great potential.

((/Definition))

With 70 participating companies, the SDAX is the most extensive index in the DAX family as well as the most successful. Since 2008, the SDAX has made an average profit of 13% per year, proving that SDAX stocks often offer a more lucrative dividend yield than the MDAX or even the DAX.

Surprising? Then take a look at the following development history of the most important German DAX indices.

Development of the DAX indices

Between 2020 and 2021, the three DAX indices developed excellently—despite (or perhaps because of?) the Coronavirus pandemic. The DAX 40 recorded an increase of 51%, the MDAX, a price increase of 51.4%. And the SDAX even a strong 68%. The SDAX is also ahead in a five-year comparison.

However, if we extend the observation period to 15 years, then the whole thing looks different:
DAX – up 337.58%
MDAX – 460.16%
SDAX – 245.08%
TecDAX – 273.61%

((/Frame))

What do these numbers tell you, among other things? For example, which of these indices is more suitable for short, medium and long-term investments?

3. Value-investment strategy

One of the most famous proponents of the value investing strategy is someone we've mentioned a few times: the stock market "guru" Warren Buffett. Buffett is a big booster, although not the inventor of value investing, which is considered one of the oldest—if not the oldest—approach to stock market trading, developed in the 1930s by Benjamin Graham.

The central thought is: the share is understood in its most original form. In other words, not as a short-term object of speculation, but as a certificated stake in a company whose capital and growth you can participate in over the long term.

In this respect, value investing is not unlike the buy-and-hold strategy: you buy stocks and hold them for the long term. The difference with value investing strategy is that you're trying to identify stocks that are trading below their true market value due to a low valuation. A value stock should have a good reputation via the issuing companies (brands and/or corporate governance). As an investor, you try to maximise the profit margin as much as possible. Value stocks have typically been around for a long time and have proven resilient. These include shares in BMW, Coca-Cola, Daimler, Disney, Intel and Siemens.

How do you find such companies or company shares? Warren Buffett has recommended selecting companies based on four criteria:

1. The company is in excellent economic condition.
2. It is also in a competitive position that promises positive development in the future.
3. The managers act honestly and entrepreneurially as if they were the owners themselves.
4. The stock can be bought at a price well below its intrinsic value— that is, the company's underlying capital and cash flow.

The more of these criteria a company meets, the more likely you can achieve above-average returns with a value investing strategy.

4. Growth strategy
With a growth strategy, you invest in growth stocks.

((Definition))
Growth stocks are issued by young or smaller companies that are expected to grow their earnings at an above-average rate compared to the general sector in which they are located or the overall market.
((/Definition))

Investing in emerging companies can be attractive because the returns can be impressive -- at least as long as the companies thrive. Unfortunately, they are often not really market-tested, let alone crisis-tested, which results in a reasonably high risk for you as an investor.

Growth investing can be understood in part as the opposite of value investing. While in *value investing* you seek out stocks that are trading below their intrinsic value today, in *growth investing* your focus is on a company's future potential, far less than on its current stock value. Unlike value investors, with the growth strategy you also buy shares in companies that are trading at higher prices than their intrinsic value—because you assume that the intrinsic value will grow and ultimately exceed current prices. "Growth" often promises more return potential than “value.” On the other hand, there are usually no dividends with “growth” and there are more fluctuations than with “value” investments.

5. Pro-cyclical investing strategy

"Pro-cyclical" refers to a positive correlation between the value of goods, services or economic indicators and the overall state of the economy. That is, these three indicators tend to move in the same direction as the overall economy. They rise when the economy grows and drop when the economy decreases, i.e. “with the cycle.”

For a pro-cyclical investment strategy, this means that you invest in stocks which are currently showing positive development and which are expected to continue growing in the foreseeable future. Accordingly, there are also alternative names such as “momentum strategy” or “trend-following strategy.”
ETFs are also usually pro-cyclical: if one or more stocks fall out of the DAX, such as Wirecard in 2021, all DAX ETFs sell the stocks of these stock corporations.

What should you watch out when using this investment strategy? Well, investing strictly pro-cyclically with the economy limits your ability to invest proactively. Using a bit of foresight could allow you to react to price losses, which will surely occur again at some point in the long term. If you try to take preventive action just before a crisis, it could be too late.

6. Counter-cyclical investing strategy
Counter-cyclical refers to a pattern of investing behavior that runs counter to the prevailing market trend. So a countercyclical investor try to buy securities when the prices fall and sell them when prices rise.

Or, to use another classic quip from Warren Buffett: “be greedy when others are fearful and fearful when others are greedy.”

In contrast to the pro-cyclical investment strategy, with the counter-cyclical strategy you buy shares when they lose or have lost value. For example, after a crash, you would do a generous stock market shopping spree, and then when the stocks rise or have risen in value again, you sell them.

In the best case, would see above-average returns. However, it is not only difficult to predict such developments, but it’s also difficult to anticipate the best moments to buy and sell.

Counter-cyclical investing is considered to be highly risky. Anyone who constantly bets against the market definitely needs strong nerves. The average investor does not act rationally, but is often guided by emotions. For this reason, stock values are often more a reflection of panic-driven selling or euphoric buying than a reflection of their true value. Market development, especially in times of crisis, is an emotional trend. Counter-cyclical investing is about acting decisively against emotional reactions and the herd instinct.

If the strategy works and the market trend becomes more positive again, investors buy shares again and the counter-cyclical investors sell their shares, which they had previously bought cheaply, at higher prices. The hoped-for result: a whopping profit.

7. Dividend strategy

As the name already suggests: with this strategy, you invest in companies that generate regular dividend payments, and in the best-case scenario, annually increasing dividends.

Often, however, newcomers to the stock exchange are not really clear about the concept of a dividend.

((Definition))
A ► dividend is the payment of a portion of a company's profits to eligible investors. These dividends are paid to stockholders either monthly, quarterly or annually. A company's ability to pay dividends is usually taken as a sign that the company is liquid and healthy.
((/Definition))

The amount of your dividends is usually calculated per share.

((B))
Let's say you own 100 shares of a company. Then these 100 shares are the basis for your dividend payment. Let's assume that you bought each of your shares at a price of £100, then you made a total investment of £10,000. Since the profits of the company you have invested in have been unusually high, the board of directors has decided to pay shareholders £10 per share per year in the form of a dividend. If you have held your investment for a year, this will result in a dividend payment of £1,000 for you. Your annual return is your total dividend (£1,000) divided by your total investment (£10,000). Using this example, you would have received a return of 10%.
((/B))

To know if dividend-based investing is right for you, you should also know the other side of the coin. Critical voices say that dividend payments are, on closer inspection, just one form of yield distribution. Because even without dividends, shareholders could realise a return of 3% per year by selling shares. In addition, most shareholders reinvest their dividends anyway (accumulating investment), which basically makes the distribution superfluous.

8. Size or "Blue Chip" strategy

The term "blue chip" made its way into investment jargon in the early 1920s. This name was introduced by Dow Jones employee Oliver Gingold. This was used to describe stocks that were traded at particularly high prices. He derived the name from poker, in which the players bet on blue, white and red chips, with the blue chips being the most valuable.

((Definition))
Nowadays, the term "blue chip" no longer necessarily describes stocks with a high value, but rather stocks that have a very *stable* value. These are stocks of companies that have proven

reliable and profitable over time.
((/Definition))

That means when you buy blue chip stocks, you're buying shares in nationally recognised, established, and financially sound companies. You can identify these companies based on their high-quality, widely distributed products or services.

Blue chip companies are also known for the fact that they usually survive price declines well and operate profitably even in the face of economically unfavourable market conditions. This resilience naturally contributes to their long history of stable and reliable growth.

So how exactly can you use the size or blue chip strategy? Well, you're trying to bundle many stocks from the largest, highest-volume publicly traded companies into one package.

And when should you follow this strategy? Blue chips are a good choice if you value risk minimisation and predictability. These large companies are subject to lower price fluctuations in the long term. This minimises the risk of higher losses for shareholders.

9. Small- and Mid-Cap investment strategy

When thinking of size or value strategies, investors often miss an important investment segment: the small and medium-sized companies. Beyond trends and large, valuable companies, so-called small caps (small companies) and mid caps (medium-sized companies) often generate respectable returns.

In Germany, so-called "secondary values" are often used to distinguish this type of investment from the so-called standard values.

But which companies are actually considered small or medium? This classification is based on the so-called market capitalisation, i.e. the stock market value of the company or all freely tradable shares of that company. Market capitalisation is the number of freely tradable shares in a company multiplied by the market price of each share.

In Germany, companies with a market capitalisation of up to EUR 500 million are categorised as small caps. And qualifying companies with a market capitalisation of 100 million euros are already listed in the afore-mentioned SDAX.

If the market capitalisation of a company is between 500 million and around 2 billion euros, then they are considered mid caps.

Your advantage in investing in small caps would be that they have significant growth potential due to their smaller size. Small caps often look back on a long history of below-average profit generation. However, they prove to be above average all the more frequently when an economy is just recovering from a recession.

In the case of mid caps, the focus is also on growth potential. In the long term, these can develop into so-called large caps, but as mid caps they offer greater growth potential than large caps, which is why an investment in mid caps can be much more attractive for investors.

Of course, there are also disadvantages with small and mid caps. The biggest risk for both lies in the higher volatility compared to, for example, large caps or blue chips. Another major concern with small caps is that they may not have enough liquidity to pay you out on a stock sale. And just like with start-ups, there's the risk they won't hold their place on the market in the long term. Overall, you have a higher risk of loss and default than with the really big stock companies.

The magic triangle of investment

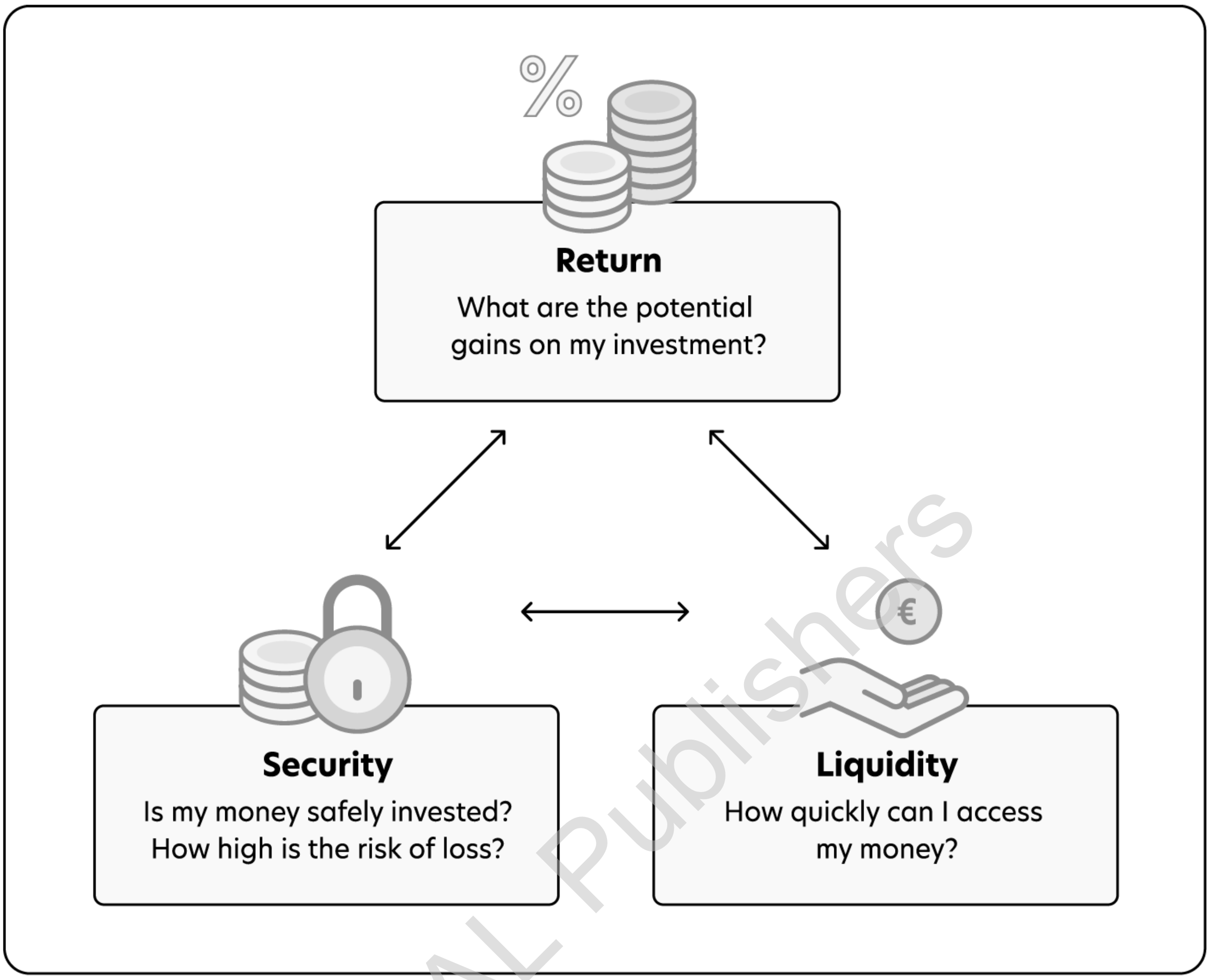
Before we move from theory to practice in the next chapter and go into specifics about how you can find your own strategic investment strategy and put together the corresponding portfolio, we will conclude with an illustration.

The one perfect investment strategy that gives you:

- High returns
- Security
- Liquidity

all at the same time just doesn't exist.

Since these three factors even compete with each other (this is also called the "magic triangle" of investing), it is impossible to optimise all three at once. Investing always means making a



compromise and a careful consideration of your values.
Source: Own Illustration

* If, for example, the security of your investment is very important to you, you should be willing to compromise on returns or liquidity.
* If high liquidity—quick access to your money—is a priority and you also need high returns at the same time, then types of investment that qualify are usually associated with a high level of risk.
* If a high return (i.e. interest for your investment) is most important to you, this is often at the expense of security and availability, because investments with high returns are usually characterised by increased risk and/or a longer-term commitment.

As you can see, there is no one **best** solution. Rather, it always depends on your own needs, goals and your personal willingness to take risks. As a smart investor, you should always keep this interaction in mind when assembling your portfolio. The best balance can usually be found through diversification and a conscious compilation of different asset classes with different return expectations, risk profiles and maturities.

In the following table we break down the relationships between the three components of return, security and liquidity according to the various asset classes:

((Table))

Investment Type	Rate of Return	Security	Liquidity
Real Estate	medium	medium to high	low
Stocks	high	mittel	medium to high
Crowd-Investing in Real Estate	medium to high	low to medium	low to medium
Fixed Deposits	minimal	hoch	low to medium
Cryptocurrencies	very high*	very low	high
Physical Gold	low	medium to high	medium to high
Antiques (Art, Classic Cars, etc.)	high to very high**	very low	low
Government Bonds	very low to medium	medium to high	medium to low
Corporate Bonds	minimal	medium to high	medium to low

* An investment in the performance of cryptocurrencies is purely speculative and depends on many factors that are difficult to predict.
** Whether an item will truly develop “collectible value” is difficult to predict.

5. Your Investment Strategy and Portfolio

“I'm not afraid of storms, for I'm learning how to sail my ship.“
Louisa May Alcott

You can compare choosing your own ideal investment strategy with buying a new car. Before you look at the different models, you should first consider which of the basic types is most appropriate for you: a family car, a sports car, a city car? Just as there are a wide range of car types to choose from, there are also a range of strategies and investment types, also known as “investment vehicles.” In chapter 4, we introduced you to a few different approaches. But which strategy is the best?

First off, there is no such thing as a single “best” investment strategy. It is simply impossible to give a universal recommendation that suits every investor. To be the best for you, a strategy needs to align with your goals and your needs.

In this chapter, we’ll accompany you step by step to define the right strategy for you, and then, based on this, you can put together the portfolio that precisely suits you and your goals. You’ve already learned the theory behind this, so now it’s time to put it into practice. And don’t worry if it all still seems a bit abstract to you at the moment. Toward the end of the chapter, we’ve added some very specific—anonymous, of course—examples from our financial coaching sessions that you can use as inspiration.

Develop Your Strategy

Some of the following steps should look familiar to you, since we already touched on them in previous chapters. So this is a summary of the most important steps as you develop the right investment strategy.

Step 1: Take stock of your situation and set your goals

To plan for the future, first take a calm and detached look at your current situation. List out all of the assets, investments, and debts you may have. Then set your short, medium and long-term financial goals. Do you want to save for old age first and foremost? Or are you saving for your own property, your children’s education or a trip around the world? Your goals have a significant impact on your investment strategy. So first write them down for yourself, including your expected timeframe, and ideally also the corresponding quantity of money that you will need to achieve each goal.

Step 2: Determine your willingness to take risks (and your desire for returns)

The second step is to assess your tolerance for risk, volatility and your desired return. This is an important basis for the later compilation of your portfolio.

A conservative investor might prefer to have 80% of their portfolio in fixed-income investments and only 20% of their investment in stocks. A more risk-tolerant investor might do the opposite, and an evenly balanced portfolio could be made up of equal parts equities and fixed income assets.

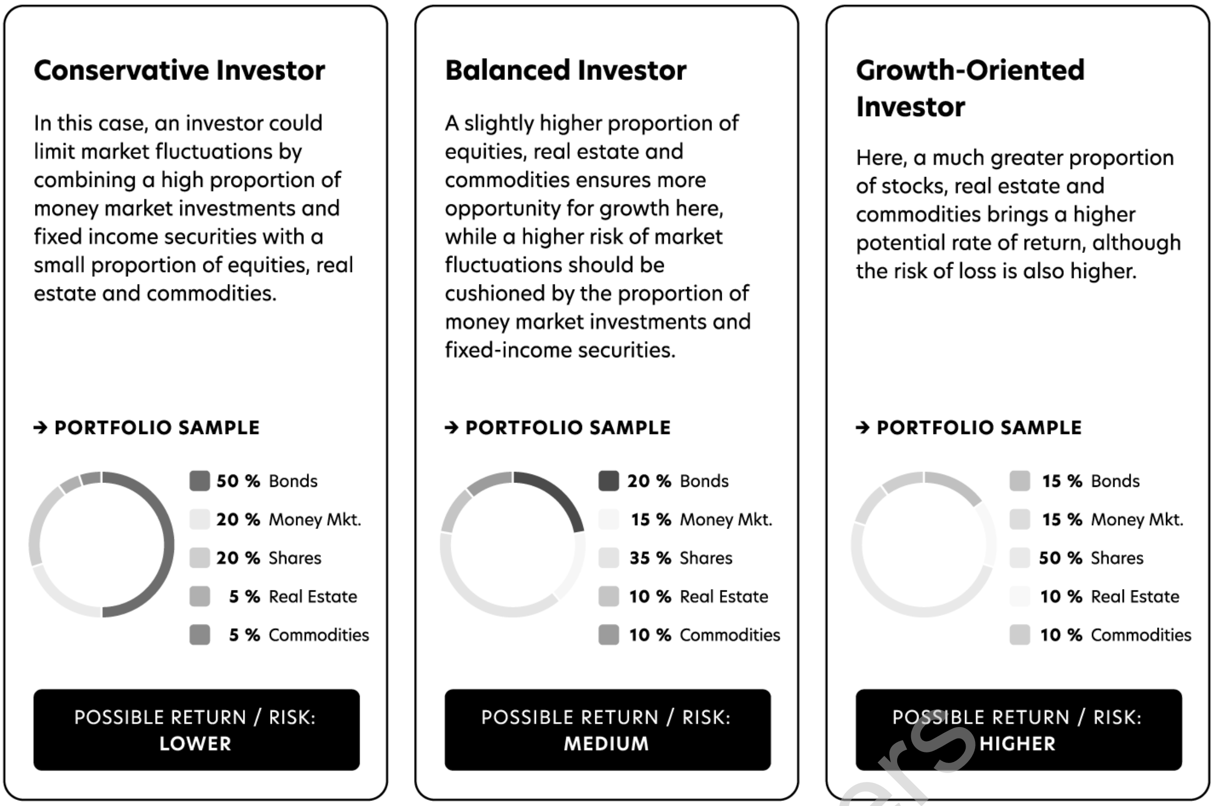
If you are generally willing to take risks and have a long investment horizon, you can also consider integrating small cap investments and growth investing into your portfolio. If you have a moderate risk tolerance or a shorter investment horizon, then a value investment strategy might be more suitable for you. But remember: you can always adapt any strategy to make yourself more comfortable with it. Risk and return are closely linked, as we discussed in Chapter 4.

Is it still a bit difficult for you to classify yourself here? In the following paragraphs, we will summarise three basic risk profiles for you—from safety-oriented to growth-oriented—and show some corresponding example portfolios to provide concrete illustrations.

Do you tend to focus on protecting what you have and maintaining the security of your investment? Further, do want to achieve returns with your investment, but above all you value sustainable growth and would you rather keep the risk within manageable and transparent limits? Then you probably belong more in the category of security-oriented investors.

On the other hand, if you want to combine moderately profitable investing with stability and predictability, you probably fall into the balanced investor category. And if you are comfortable with dramatic changes and are willing to take a high risk for the chance of above-average returns, then you probably belong to the category of growth-oriented investors.

Naturally, investors are not a homogeneous mass. Everyone has individual needs, wishes and tolerance limits. However, in practice, some basic risk classes have emerged in which investors normally move. So first, select the category in which you are most likely to find yourself.



Source: Example from finmarie sample portfolios

Disclaimer: The sample portfolios above are not to be understood as investment advice and are neither a recommendation nor an offer to buy or sell securities or to promote a specific strategy. We recommend that you seek professional advice before making any financial investments.

By the way: feel free to come back to this step from time to time to evaluate yourself and your investment personality. The more experience you gain in investment, the more likely it is that your investing personality will evolve a bit. And if you notice that your attitude or preferences change a bit, you might want to (and maybe should!) adjust your investment strategy as well.

Step Three: Decide between an active or a passive strategy

Next, decide whether you prefer active portfolio management or a passive approach. In principle: some of the active investment strategies presented in Chapter 4 (e.g. the countercyclical strategy) are designed for frequent buying and selling (trading). Such strategies are only recommended for investors with extensive financial knowledge who can spend a lot of time on constant research. In addition, every purchase and sale on the exchange generates fees. For you, this means that if you choose an active investment strategy, the returns must be above average in order to justify the additional costs. And that, in turn, means that your strategy must perform better than the major indices, such as the DAX, S&P 500, MSCI World, etc.

This means, if you can't beat the indices, you can just as easily invest passively, for example with a buy-and-hold strategy. And since very few people manage to beat the market in the long term, passive strategies tend to be the better alternative for most investors.

Asset allocation – put together your specific investment portfolio

Your investment strategy is planned—now it's time to put together your portfolio!

As you build your portfolio, do you expect that your future is full of endless hours of selecting individual stocks, monitoring their performance on a daily basis, and constant buying and selling?

Of course not! If you've read the book up to this point, you already know that there are less time-consuming and more comfortable ways to put together a successful portfolio.

In most cases, the first thing you need to do is choose the provider of an appropriate brokerage or securities account, also known in Germany as a Depot (short for "depository account"). Ideally, you would find a provider that enables you to invest directly with them in various products—i.e. in stocks as well as in bonds, investment funds and ETFs.

The name of this securities account and and the rules about any applicable tax advantages do vary greatly by country. For example, those in the UK can get started investing through a shares-specific ISA (Individual Savings Account), and in the USA, you might invest for your retirement with an IRA (Individual Retirement Account), another type of tax-advantaged brokerage account from which you could buy various investment products.

((Frame))
Find the Right Brokerage Account Provider

Pay attention to the following points when selecting a brokerage account:

- Most providers charge fees for their services. Also pay attention to any hidden costs, for example for buying, managing and selling your investments.
- Make sure there are ways you can streamline your investment account to reduce or circumvent certain fees—for example, you might be able to take on certain portfolio management tasks yourself.
- Check whether there are general fees for the account—for example for opening, for management or for changes in the depot.
- Taxes on investment gains always apply. Some providers calculate this directly. With others, you have to calculate and declare any profits in your tax return on your own. There may also be additional complexity if you're receiving dividends from investments across borders.

((/Frame))

Next, it's time to focus on your asset allocation: this is the decision about which investment products should be represented in your overall portfolio and in what proportion.

All of the issues we mentioned earlier in this chapter feed into your decision here. This includes, for example, your age and your future income requirements. When you're in your 20, you tend to have a completely different portfolio composition than when you're in your 40s or 50s, or as someone planning to retire earlier. Of course, your risk tolerance also plays a major role. Can you live with a higher risk of loss for the chance of higher returns, or does the thought of short-term losses in value make you nervous? Depending on how much risk you can tolerate without making emotional investment mistakes, you can put together your portfolio more aggressively, more moderately, or more conservatively.

Portfolios—From aggressive to conservative

In order to make putting together your portfolio as concrete and tangible as possible, we have put together some examples of different portfolios here.

*** Example of a very aggressive portfolio:**
A highly aggressive portfolio requires an equally high risk tolerance and is particularly suitable for investors with a very long investment horizon. With 90 to 95% of the portfolio in equities it has the potential for great volatility, but highly aggressive investors may also invest in other generally volatile products, such as cryptocurrencies, leveraged ETFs or investments in emerging markets. Such a portfolio is clearly designed for the highest possible profit over a given time-period.

*** Example of an aggressive portfolio:**
An aggressive portfolio is designed with the goal of generating capital value and growing wealth. At 80 to 85% equities, the focus here is also clearly volatile but also high-yield. Such a portfolio is often supplemented by bonds. An aggressive portfolio is could be appropriate for risk-tolerant investors who are just beginning their careers and are better able to absorb a short-term loss or build up again over time.

*** Example of a moderately aggressive portfolio:**
A moderately aggressive portfolio consists of a nearly equal proportion of stocks and bonds. It's also aptly called a "balanced" portfolio because the growth-driven equity portion and the income-generating bond portion are basically evenly distributed. This portfolio approach is well suited to investors with a medium risk tolerance and a longer investment horizon of more than five years.

*** Example of a moderately conservative portfolio:**
A moderately conservative portfolio can be good for retirement because it reduces risk while generating income. This income is created through stock dividends and interest payments (for example, from bonds). This portfolio is designed to preserve existing capital. Sometimes moderately conservative portfolios also contain assets that offer some protection against inflation, so bonds on the other hand could make up more than half the portfolio, while stocks could be around a third of the mix.

((B)) **Calculation Example:**
Let's assume that you decide you could tolerate a maximum loss of 20% of your total assets. That would mean: from an initial deposit of £100,000, at least £80,000 must always remain in your account in order to assure your comfort. You would base this on an assumption that the price could fall by a maximum of 60% in the worst case. Roughly speaking, this would recommend a portfolio split of 30% equities or other risky asset classes, and 70% of your

portfolio would be held in bonds or lower-risk assets:

20% - 60% = 33% “risky” portion
100% – 33% = 67% “less risky” portion

((/B))

*** Example for a conservative portfolio:**
Conservative portfolios aim to preserve capital and keep the risk of loss as low as possible. The emphasis in this type of portfolio is fixed income investments and money market funds, backed by a small quantity of stocks from large, healthy companies. Conservative portfolios do not show the same price fluctuations as portfolios with riskier investment products, so investors with plans for a short investment horizon, investors who want to preserve their capital more than build it, and investors who are retiring (or about to do so) often choose this type of conservative portfolio.

Basically, you should be guided by one important principle when putting together your portfolio: less is often more. In this case, we mean that it might make sense to spread your money across fewer ETFs or funds. On the one hand, you already have some built-in diversification, especially with ETFs. On the other hand, you can reduce the transaction costs when when you keep the total number of investment types smaller. And as an investor, transaction fees are one of the few investment aspects that you can truly control.

Understanding the universe of different asset classes—and their related risk characteristics—will help you to build a better structure in your investment profile. These asset classes are the building blocks you use to give your portfolio a reliable foundation. You’ll also find that the established asset classes (such as fixed-income securities, shares, commodities or real estate) are often bundled very conveniently in ETFs, for example, which saves you the need to meticulously analyse and select them on an individual basis.

There are three available asset classes for the risk-free portion of your portfolio (regardless of how large it may be):

1. Cash (which you might keep in a money market account, for example),
2. short-term government bonds with the highest credit ratings and
3. physical commodities such as gold or silver.

When it comes to the more risky portion of your portfolio, you have a much larger set of options. For example, you could invest in stocks through ETFs or funds, or you might even dedicate part of your portfolio to business angel investments.

If you want to get an idea of how a hypothetical portfolio could work in comparison, we recommend that you compare different portfolios on https://portfoliocharts.com using current values and entering your own portfolio planning to get an idea of your chances of success.

Sample portfolios for every life situation

In order to push aside any "first-timer trepidation" you might feel about the development of your personal strategy and the creation of your portfolio, we are presenting some sample portfolios developed from the finmarie team's experiences to give you a bit of orientation.

Sample portfolio for Julia

Julia's portfolio might be a good example for you if you'd like to build up your wealth bit by bit over a long time with comparatively little risk and effort. Julia is 32 years old and lives with her partner and young son near Stuttgart. She works in care and has around €1,700 net available to her per month. After deducting the regular costs, she can invest around €100 a month. Additionally, she has already been able to save a nest egg of €5,000. When their son was born, Julia and her partner set up an ETF savings plan for him, which means that part of the child's monthly benefits are automatically invested for the long term every month. Julia's goal now is to take care of her own retirement planning using as little time as possible, since she is very involved in both her work and family life. Finally, Julia has also discovered that she's rather risk-averse when it comes to her savings. It would be difficult to watch major fluctuations in the value of her portfolio, so she's looking for an investment opportunity that is as stable as possible.

At the beginning of our cooperation with Julia, we first determined her pension gap and how much wealth she would need to build up before she retires. Since she has a long investment horizon (more than 35 years), it's possible to build up a considerable cushion for old age with the help of compound interest, even using fairly small monthly contributions. As we jointly develop Julia's investment strategy and help her put together her portfolio, we naturally also take into account her rather low risk tolerance.

Julia's portfolio is designed for stability and therefore consists of 60% ETFs that are based on bond indices. Investing in bonds will result in lower fluctuations, but she's also likely to see a lower rate of growth. The other 40% of her portfolio consists of ETFs that are based on broadly diversified international stock indices to boost the growth of her portfolio. Due to diverse investments across different industries and regions, lower fluctuations in the market are expected for these ETFs than, for example, with individual stocks. At the same time, this part of Julia's portfolio contributes to good long-term growth. In order to work on closing Julia's pension gap, we also worked out a plan together on how she could further increase her monthly savings and investment contributions in the following years.
among other things, by carefully examining her current budget, through possible
salary adjustments and special payments. If Julia manages to increase her savings rate by around 4% each year, she could even double her financial cushion by the time she retires compared to an investment strategy without annual adjustments.

If your financial situation is similar to Julia's, we have these additional tips for you:

- Save an emergency fund. This fund should be equivalent to two to three of your total salaries and should be available for extraordinary emergencies. If for example, something

in the house breaks, or the car needs a repair, you won’t need to dip into long-term savings.
- Start small! Even if you can only contribute a very small amount each month, it is always worth it to start as soon as possible. Don’t wait until you've already saved a fortune! Even with £50 per month you can achieve a lot, especially if you’re saving for long-term goals. If you find that you’re able to save more money later, you can always increase your regular contributions.

- Do pay attention to tax considerations. We’ll also touch on this this topic further on in this chapter, but many countries allow investors to make use of certain tax-deductible contribution limits or capital gains allowances to save on taxes. In Germany, taxpayers are entitled to 801 euros of tax-free dividends (from 2023: 1,000 euros), and the dividend allowance in the UK for the 2022/23 tax year (6th April 2022 to 5th April 2023) is £2,000, in addition to the personal allowance of £12,500. It’s smart to check with your tax advisor on how to optimise your individual situation.

*** Sample portfolio for Johanna**
Johanna's portfolio is a good example for you if you want to invest in a way that’s risk-aware and balanced.

Johanna from Berlin is 30 years old and a freelance graphic designer. On average, she earns 2,100 euros net per month, from which, apart from the usual living expenses and her contribution to the artists’ social security fund (KSK), she doesn’t set aside any money for her retirement or for wealth accumulation. Not yet, anyway, because Johanna wants to change that now. She would like to be able to retire earlier than 67, to be able to travel to her dream travel destinations without having to make financial cutbacks somewhere else, and to have enough financial freedom to be able to compensate for the occasional cancelled order or a default in a client’s payment.

Although Johanna knows her expectations of investment, she does not yet know how to achieve what she wants when we start working together. So first we specify her goals:
1. How much profit does she hope to get from her investment?
2. How long can she do without invested money?
3. Can she still sleep peacefully if the value of her investments fluctuates for a short time?

After this assessment, we opened a securities account together with Johanna with the following strategy: She wants to increase her money, but not at any price. That's why it made sense to put together a balanced ETF portfolio. “Balanced” in this context means that we try to strike a balance between risk and return opportunities. Accordingly, 50 % of Johanna’s portfolio consists of lower-risk bonds. The other 50% seeks opportunities for growth. That's why 30% of the second half of her portfolio is invested in stock ETFs in industrialised countries. This choice also serves Johanna’s need for security. Value fluctuations are also possible in industrialised countries. On average, however, they should be lower than in emerging countries or on the Asian market.

But because Johanna also has a need for to develop returns, the remaining 20% of the second half of the portfolio invests in those more dynamic markets that also have significantly higher returns; 10% each in Asian and emerging markets. With this portfolio, Johanna would expect an annual return of 4.02%.

*** Sample portfolio for Inga**
Compared to Johanna, Inga is willing to accept a certain risk because she values good returns more than safety. She is 38 years old and lives in Hamburg. She has no children and is currently concentrating fully on her work. Her problem? Work takes up so much space in her life that she simply cannot find the time to deal with financial issues in detail. This of course leads to a dilemma, because Inga is well aware that the topic is important.
Her goal: Generate enough assets so that she, like Johanna, does not have to work until the official retirement age and still does not have to compromise on her standard of living. She would also like to buy a condominium in order to give herself a sense of security in her old age.

Inga earns 5,400 euros net per month and has a nest egg of 20,000 euros. She would like to use an ETF savings plan with 600 euros per month.

Despite her rudimentary financial education, Inga already has some concrete ideas about where she wants to go. Our recommendation would therefore be an investment strategy that is suitable for investors who, like Inga, are willing to take on higher risk in order to achieve higher returns (the expected return here is 5.54% per year).

Inga's portfolio is designed for growth, which is why it consists of 70% ETFs or equity index funds. Although these show greater fluctuations and therefore more risk than the ETFs or funds on bond indices, which make up the remaining 30% of their portfolio, they also have a higher return.

Inga's risk tolerance allows for relatively large investments in emerging and Asian markets, which often prove to be particularly dynamic. This means that these markets are sometimes in motion, which of course also means that large upward swings are possible. Inga's portfolio invests 24% each in emerging and Asian markets.

Risk can be based on personal comfort and preferences, as in Inga's case, but it can also be influenced by the available time horizon, as we see with Katharina's example.

*** Example portfolio for Katharina**
Katharina is a mother of two and has a professional background in finance. Even before her children were born, it was clear to her: family planning is also financial planning. And because she wanted to provide her children with as much security as possible, she created savings accounts for the children from the moment they were born. She funds these savings plans with the government-issued child benefit she receives.

((Frame))
On average, parents who only begin saving for their children when they start school reduce the accumulation of wealth by almost half, compared to an investment which was started from birth.
((/Frame))

Katharina’s medium-term investment goal is wealth accumulation—as sustainable as possible in every respect. Because her children have an investment horizon of at least 18 years, they can boldly take on a higher level of investment risk. She has opted for two growth-oriented and sustainable portfolios which invest 100% in ETFs on stock indices. As we’ve seen, stock indices usually have higher fluctuations than bond indices. However, since the children’s investment horizon is almost two decades, historically, any losses are normally compensated in the long term by price increases that are at least as high. As you recall, a high risk = high expected return. If future returns are similar to what’s happened in the past, for Katharina’s children, that’s likely to be a respectable 7.63% per year.

*** Sample portfolio for Doreen**
Doreen's portfolio can serve as a role model if you, as a single mother, not only want to provide for yourself, but also for your child. Doreen works with a net salary of 4,200 euros. She is divorced and has one daughter. And in addition to her desire to provide for her own old age, she also wants to support her daughter's education and ideally be able to leave her a little something later on—all of this, of course, without accepting financial restrictions herself. She has 45,000 euros and a monthly savings sum of 250 euros at her disposal for this.

In line with these wishes and requirements, we helped Doreen develop the following investment strategy: She invests her 45,000 euros as a one-time contribution in a mixed portfolio of 70% equities and 30% bonds with sustainable funds or ETFs.

For the investment intended for her daughter, we recommend an ETF savings plan. because ETFs are:

a simple investment that does not require daily control,
easy to understand even without detailed knowledge of the market,
automatically broadly diversified because they spread their risk by investing in entire markets instead of individual companies,
inexpensive because they have very low production costs,
flexible because she can sell her shares and buy new ones at any time,
safe as a legal special fund, your money is protected in the fund,
easy and quick to set up.

What Doreen—and possibly you, if you want to invest money for your children—must bear in mind is that there are certain legal things to consider when investing for children, especially if you want the investment to be in your child's name from the start. Again, this varies by country, but here’s how it works in Germany:

- To open a savings account or custody account, you either need the child’s birth certificate or, for children over the age of 16, their identity card. Sometimes you will also be asked for a copy of your marriage certificate or a custody order.
- If you want to open the custody account for your son or daughter at a bank other than your house bank, you must identify yourself again as the legal guardian.

As the legal guardian, you now have power and responsibility for your child’s custody account until they reach the age of 18. In order to prevent misuse, the law stipulates that you use this account responsibly, i.e. that you do not engage in speculative stock transactions with it, for example. To ensure this, there are restrictions in the assets that can be purchased, so you won’t be able to invest your child's money in riskier transactions such as options, futures or CFDs (Contract for Differences, i.e. derivatives trading).

Additionally, you may not use the money for your own purposes. And the transfer of property to your child is legally binding. Otherwise, the authorities will assume that you are trying to evade taxes with a savings account in your child's name. Because of course, as an independent person, your child also receives a savings allowance of 801 euros per year and up to that point, no taxes are due on the money invested.

What Doreen (and you) may also have to consider: if the child’s assets are too high, social benefits such as training grants and so forth may not be approved until the child’s own assets have been used up. There are usually financial thresholds for this. In Germany, the savings which a child may have while still qualifying for a BAföG entitlement (an initiative that supports low-income trainees and students) is currently 8,200 euros.

*** Sample portfolio for Anna**

You can use Anna’s portfolio as a guide if you are already in a very good financial position in terms of your income and the assets you have already saved, and if you can afford to take a certain risk or if your focus is on the highest possible overall growth. We also briefly introduced Anna to you at the beginning of the book. At this point you will get a little more insight into her living conditions and the portfolio that we have put together with her.

Anna is originally from England, where she still has one or two accounts to this day, despite the fact that she has been living and working in Munich for a long time. She works for a multinational company, where she earns 6,500 euros net per month. With a total of 120,000 euros in savings, she has gathered a considerable nest egg in her various accounts, which, under the circumstances, is not really in alignment with her goals. She’s aware of that as well, because she wants to make her money work for her and to be successful enough that she can retire at the latest at 55.

Anna already has well-developed ideas about her goals, even if she says she has so far neglected the topic of retirement planning. So we worked with her to tailor an investment plan that takes both her short-term and long-term investment goals into account.

We advise Anna to invest 80,000 of the 120,000 euros she’s keeping in savings. The remainder should remain accessible to her as liquid, readily available cash. In addition, we recommend building a well-endowed savings plan, to which she adds 2,000 euros per month.

Specifically, our investment plan with Anna focuses on a broadly diversified portfolio of

ETFs, funds and real estate crowdfunding. Due to the increased risk that crowd investments have, she should not invest more than 10% of her portfolio there. And naturally, it’s still important to spread her investments as widely as possible across different platforms and projects in order to further reduce the risk. We split the rest of her portfolio between stocks and bonds, similar to Doreen's, but focused on a higher risk class. This 70-30 stock-to-bond ratio protects Anna from a total loss, even if the markets experience another global banking crisis.

As different as the portfolios of these women may seem at first glance, they also have a lot in common. The most important points are an emphasis on diversification and the need to balance risk and return appropriately for each individual. In the end, risk and return are the main factors that determine your wealth accumulation.

Tips for getting started

With the information from the previous chapters, the specific steps to define your own strategy and portfolio from this chapter, and a better idea of what a portfolio might look like, now it’s time to get down to business.

On the next few pages, we’d like to give a few more tips that can be helpful as you begin implementing your own strategy.

Think for yourself to reduce your costs!

Any form of investment not only makes you money, it also costs you money. Just as you have maintenance costs for a new car, for example (insurance, repairs, petrol, taxes), fees are added to the purchase price of shares, bonds, ETFs and the like. Unfortunately, many investors, especially new investors, often overlook these costs—or they follow a buy-and-hold strategy and shift their assets so rarely that they have to double-check the fee before each trade because it is hidden in the small print and formulated in a confusing way. In addition, there are different costs for different investments, which are set up differently.

The most common fees you will face as an investor are:
- the total expense ratio (abbreviated as, TER), i.e. the ongoing costs incurred by investment funds and ETFs
- Management and advisory fees from a fund manager or investment advisor
- Transaction fees, including order costs, which occur when you purchase or sell securities
- Fees for the initial sale of fund shares (a so-called front-end load)
- Commissions, account and custody fees

All of these costs and fees affect your investment—and not to your advantage—because of course, the costs reduce your profit. As an investor, you also have to pay an annual fee for your investment portfolio. And it’s important to note that the small costs and fees can add up to a significant sum.

The more often you buy and sell, the more significant your costs become, so your preferred investment strategy will always have an impact on what your portfolio ultimately costs. So how can you act now to keep your investment fees as low as possible?

A good place to start is to look for fee-free brokers. Many online brokers do not charge fees or commissions for stock transactions. You can also make use of low-cost index funds with low expense ratios or investment funds with no front-end load.

In order to support you in effectively reducing the costs of your investment, here is an overview of the most important items with the highest savings potential:

Brokerage account/depot account costs
Financial providers vary greatly in what they charge for a brokerage account. You can effectively save on these costs, for example, by using investment apps that don't charge any brokerage account fees. However, sometimes these "free depots" are accompanied by increased management or transaction fees. So you should make sure you know all the costs of the account provider you choose.

Compare not only the custody account fees, but also the total costs of the service providers, whether it's through a direct bank, a broker, a trading platform or an app.

Cost of purchasing securities
You can't entirely avoid paying some costs when you buy securities. As a rule, these fees are made up of the order commission for the bank and the stock exchange-dependent fee. You will encounter the latter either as a fixed price per order (e.g. £5.90 per order) or as a variable cost item, which is calculated as a percentage of the order volume (e.g. 0.25% of your order volume).

((Frame))
Savings Tip
Something important to keep in mind regarding fixed prices on securities purchases: when you invest more, fixed prices will affect your returns less. A commission of £12.40 makes up almost 5% of a small investment of £250. With an investment of £2,000, it's only 0.62%.

Since you ideally want to make up for these costs with price gains or dividends, it may pay off to invest larger sums in direct purchases in order to avoid the fees eating up your returns.
((/Frame))

If you want to test a company first and only invest a small amount, you can first set up a savings plan. You can also minimise fees when buying securities in this way.

Running costs for securities
ETFs are generally considered to be a cost-effective investment alternative to direct share purchases. When it comes to the cost of buying and selling, that's true. But of course, ETFs are

also not completely fee-free. You will incur so-called running costs (aka: Total Expense Ratio (TER)) when you purchase ETFs. TER is the summary of all costs (consisting of order volume, order fee, exchange-dependent fees and running costs) that are incurred for operating a fund, so this makes it easier to compare ETFs and index funds. In this case, it doesn't matter where you open your depot. Securities costs will vary from ETF to ETF, but not from broker to broker.

Costs when selling securities
There's a cost when you purchase securities, and costs are also incurred when they are sold. Basically, it's the same situation as when you're buying: you pay both an order commission and the stock exchange-dependent fee. Hopefully you'll see an increase in the value of your securities through growth in the price, but any increase in the value of the security also changes the assessment basis for the selling fee. Let's say your share price increased from £2,000 to £2,500. Your sales fees would then be based on the new value: £2,500.

Taxes on securities gains
There's also a cost that many investors ignore: taxes. In most countries, you have to pay capital gains tax on profits from investments—in many cases you can pay this as a lump sum with the final withholding tax and won't have to state it separately in your income tax return. However, if you also invest in foreign stocks or ETFs, a withholding tax for that country also applies. Like the capital gains tax, there may be an applicable savings allowance, but any profit that goes beyond that threshold can be taxed at up to 35%, depending on local taxation rules.

As an example for the UK, for the 2022 tax year, the UK dividend allowance is £2,000. Since this allowance is in addition to your personal allowance of £12,500, you could earn a total of £14,500 in tax-free allowances: £12,570 from your personal allowance and £2,000 from your dividend allowance. After that point, you'd pay a dividend tax. In the same way as income tax, the dividend tax would fall into three different tax bands.

((B)) Calculation example
Suppose you saw your portfolio increase from £2,000 to £2,500, meaning you made a profit of £500. You would now subtract any buying and selling fees from this to calculate the so-called "effective return."

500 – ((2,500 * 0.0025) + (12.40 + 4.90 + 2.50)) = £473.95

Now, if this were your only profit, you would still be well within your dividend allowance.

But let's say you received £60,000 in dividends. You'd work out your dividend tax in the following way:

- £12,570 of your earnings are tax-free. That's your personal allowance.
- Another £2,000 is also tax-free. That's your dividend allowance.
- That leaves you with £45,430 of taxable dividends.
- £35,430 of that is taxed at the 8.75% Basic Rate, as it takes you up to £50,000 of your income.
- The remaining £10,000 is taxed at 33.75%.

((/B))

Since 1999, the legal way to avoid paying tax on dividends in the UK is to invest in a stocks and shares ISA (Individual Savings Account). Using this approach, you won't pay income or capital gains tax on any returns you make on your investments.

The stocks and shares ISAs, also called *investment ISAs*, are a type of investment account, as opposed to a traditional savings account. They are tax-efficient individual savings accounts which allow you to invest, and you can either choose to pay for an investment manager or you can make your own decisions on where to invest your money.

The ISA allowance for 2022/23 is set at £20,000, and you can invest your entire allowance into a stocks and shares ISA, or you can split it across different types of ISAs, which include cash ISAs, innovative finance ISAs and lifetime ISAs.

Other countries have similar tax-deferred or tax-sheltered schemes to encourage their citizens to save and invest, so it's well worth researching the rules that apply to you.

Indecisiveness empties your accounts

Studies have repeatedly shown that women are the more successful investors. Many explain it this way: women don't tend to buy and sell their investments as often and don't constantly rebalance their portfolios. Instead, women tend to set up their systems and leave them alone —this patience, and the confidence to just let their money work for them, pays off. Overall, a buy-and-hold strategy proves to be more successful than constantly switching back and forth between investments. A 2021 study found that women have, on average, 0.4% higher returns than men.[1]

Rebalancing

With a little rebalancing, you can return the mix in your portfolio to its original state. The process of rebalancing protects you from exposing yourself to unwanted risks. At the same time, rebalancing offers you the opportunity to adapt your portfolio to new life situations.

((B))
Let's say a retiree has 75% of her portfolio invested in low-risk products and the rest in stocks. When the value of her stock investment triples, she unintentionally holds 50% of the portfolio in a riskier portion of stocks. This growing proportion of equities increases risk for the entire portfolio beyond a level that the average retiree would want.
((/B))

To avoid such unwanted changes, you need to rebalance your portfolio regularly. There are

[1] Fidelity Investments Women and Investing Study: https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/about-fidelity/FidelityInvestmentsWomen&InvestingStudy2021.pdf

several strategies you can use to rebalance your portfolio to create the optimal investment process.

On the one hand, rebalancing can help you to maintain your individual risk tolerance.

((B))
Let's say you had an asset allocation of 60% equities and 40% bonds. But the shares made strong price gains over the year, and by the end of the year, shares made up 70% of the portfolio, while the bonds were only 30%. Simply sell 10% of the shares and put the money you earned back into bonds. This restores your portfolio balance.
((/B))

As you do your yearly portfolio checkup, you may find that you need to rebalance. Rebalancing your portfolio—that is, buying or selling asset classes to restore your portfolio to reflect the original balance of assets—is an important step in maintaining diversification and controlling risk. Simply sell some of the investments from the assets that are performing well (and which now represent an increased percentage of your portfolio's overall value) and buy investments in the asset class that is currently underperforming. While it may seem counterintuitive, you're actually taking profits from the winning asset classes and buying other asset classes that still have performance potential. In effect, you're buying low and selling high.

To keep the fees low, you should avoid rebalancing too often. If you're focused on your long-term goals, rebalancing every six months should be enough. We would recommend one rebalancing session per year. The frequency of your rebalancing also depends a bit on your investment strategy. But under no circumstances should you do weekly or even daily rebalancing.

Another option is to use your risk profile as a guideline. If, when reviewing your portfolio regularly, you find that the weighting of your investments has moved too far away from your risk comfort zone, then it's time to rebalance your portfolio.

This process does require regular checks and some knowledge of the market. If it all feels too tedious for you, we would advise you to use robo-advisors. They not only take care of the initial investing for you, but also do the annual rebalancing automatically. You can find out more about this in the "Digital Investing" section.

((Frame))
Savings Tip
If a sale cannot be avoided—as part of a rebalancing or because you urgently need money or are following an anti-cyclical investment strategy—you should also pay attention to the time at which you make your purchases and sales.

You probably know that you can generally only trade stocks and ETFs during the opening hours of the relevant stock exchange. But you can also target the exchange's *core* trading hours to focus on strategic timing. All the international exchanges have different opening and closing hours (London and Frankfurt exchanges share the earliest starts—opening at 8:00 local time!), but with a few exceptions, the core trading hours on German stock exchanges are between 9:00 a.m. and 5:30 p.m. During this period, there is a high level of liquidity on the stock exchange, which means that securities can be bought and sold with a lower spread.

((Definition))
A **spread** is the difference between the buying and selling price.
((/Definition))

Because this spread is part of the transaction fees, you can trade at lower fees during these core hours.

For Germany, the exchange hours may run longer, but the *optimal* trading period is between 3:30 p.m. and 5:30 p.m. CET. At that point, most of the most important stock exchanges in the world are open, accounting for the time differences. This means the global markets are most liquid overall at this time of the day, and the spreads (and transaction fees) are lowest. And you can apply this logic to the time zone of whichever exchange you're using.

An important point: a low spread does not automatically mean a low share price. It can definitely be lower in the morning than in the late afternoon, but unfortunately, this isn't predictable.

Note: If you want to trade stocks and ETFs at the weekend, you have to do it via direct trading. There, however, the course is not set by the leading stock exchange. In addition, the markets are usually not very liquid (for comparison: the NYSE and NASDAQ alone had a trading volume of more than $30 trillion in 2019) and usually have a higher spread.
((/Frame))

Automatically save and invest again

Automating your savings or investments doesn't sound like the ultimate investment tip, that's for sure. But it is a small building block that can actually make the difference, because most of us find that it's difficult to create new habits and commit to permanent changes in our behaviour. It doesn't matter whether it's about our eating habits, our sporting ambitions or our investments.

Investing automatically can mean, for example, that you set up your investments to run regularly and automatically. For example, by setting up a savings plan (i.e. a kind of standing order) with which you pay regular instalments into your portfolio. Depending on the account provider, this incoming money would then be distributed to your investments at the specified times and in the percentages based on that strategy that you want or preset. Automatically.

The idea behind automated investing is that you create a new routine that doesn't cost you any extra effort. At the same time, automated investing has other advantages: it prevents you from spending your money instead of investing it. And it reduces the chance that you'll overreact to market swings and make emotional investing mistakes. Overall, you just have to worry less about money and investments because automation saves and invests for you while you live your life.

Reinvestment
Another aspect of automation systems is reinvestment. Similar to the compound interest effect, which we discussed earlier, reinvestment is also about letting any profits, returns and dividends flow back into your existing investment instead of having them paid out or distributed back to you.

Reinvestments are a great way to increase the value of a stock, fund, or ETF investment over time. You use the profits you make on your investments to buy more shares of the same investment. "Profits" include any type of distribution, including dividends or interest. If, for example, a stock investment returns 71% within five years, a regular reinvestment of the profits would have increased the return to 87% in the same period. So the potential power of reinvestment should seem pretty obvious.

Savings plans
Savings plans in general and ETF savings plans in particular offer a particularly convenient way to build up assets automatically. Since you can get started investing with small sums, they create an opportunity for would-be investors who only have very limited budgets. Savings plans also allow you to automatically benefit from the cost average and compound interest effects.

Basically, automatic saving with a savings plan works in a similar way to a standing order on a broker account as previously described. You set up a standing order which automatically transfers money to your savings plan every month. With each instalment, you acquire shares; the number may be more or less depending on market conditions. For example, if there is a bull market (rising prices, remember?), the shares are more expensive and you get fewer shares for your savings rate. If the stock market goes down (keyword: bear market), you buy even more shares for the same savings rate because the purchase price has fallen. Over the years, this generates an average price for your fund shares. In the long run, fluctuations at least balance each other out, so that you build up more and more assets and also benefit from developments on the stock market in any case. If you have also chosen reinvestment to accumulate even more assets—you may remember we mentioned this earlier—your profits will be automatically reinvested. Following the cost averaging process described above, this helps your wealth to grow further.

Investing digitally
Digital innovations in the fintech and investment sectors make investing particularly easy—even for beginners. While technologies such as robo-advisors select investment strategies and portfolios that are completely neutral, objective and tailored to your preferences, developments such as blockchains can make transactions secure and fast.

((Frame)) **How robo-advisors work**

A robo-advisor is, so to speak, the mixture of a largely automated "digital investment advisor" and a "digital asset manager." This program is usually based on an algorithm that creates investment recommendations that are tailored to the investor's preferences and free of any potential conflicts of interest a human advisor might have.

To do this, a robo-advisor first gathers information about your knowledge, experience and risk appetite and then analyzes all the information in order to create the right portfolio composition for you. To do this, it's important that you provide truthful information in your answers. That's the only way a robo-advisor can correctly take your risk tolerance into account.

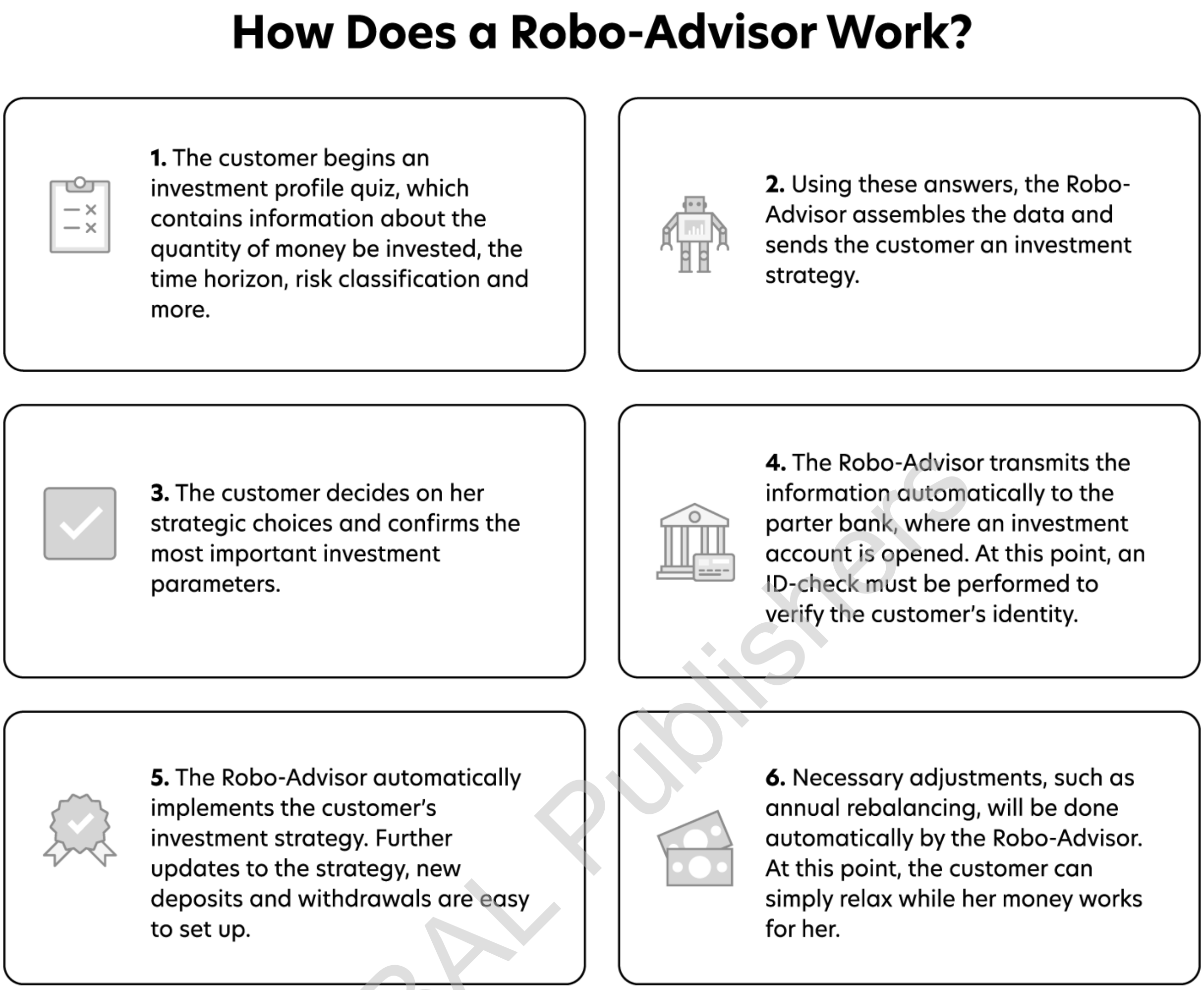
After the survey, the advisor gives you a sample portfolio that you can use to imagine the potential development of your investment. You can also make adjustments in this step, such as the frequency of savings contributions, the length of time or the initial savings amount.

Only when you finally agree to the planning does the robo-advisor automatically transfer the framework data into a contract. You then have to identify yourself using an identity verification procedure and set up your portfolio.

On the robo-advisor platform, you can expect to have access at any time to important tips, services, calculators and many other things having to do with investing.
((/Frame))

Apps now allow you to conveniently manage your investments at any time from your smartphone or tablet. Ultimately, the digital financial revolution will also produce its own innovative investment products that will open up new and interesting investment opportunities. In addition to cryptocurrencies, this increasingly includes sustainable investment products.

And because sustainable investing is such a popular and growing area, we'll devote a special



section to this topic.

Source: Own Illustration

Investing sustainably: what makes an investment sustainable?

Investments can be sustainable in two ways. On the one hand, a sensible investment strategy makes an investment sustainable in the sense that you benefit from your investment for as long as possible. On the other hand, there are also specific investment offers in which you invest in sustainable products and companies. This form of sustainable investment is also known by terms such as "socially responsible investments," "ethical investments," "green investments" and so on.

Such a sustainable investment means that you consciously choose companies for your investment that

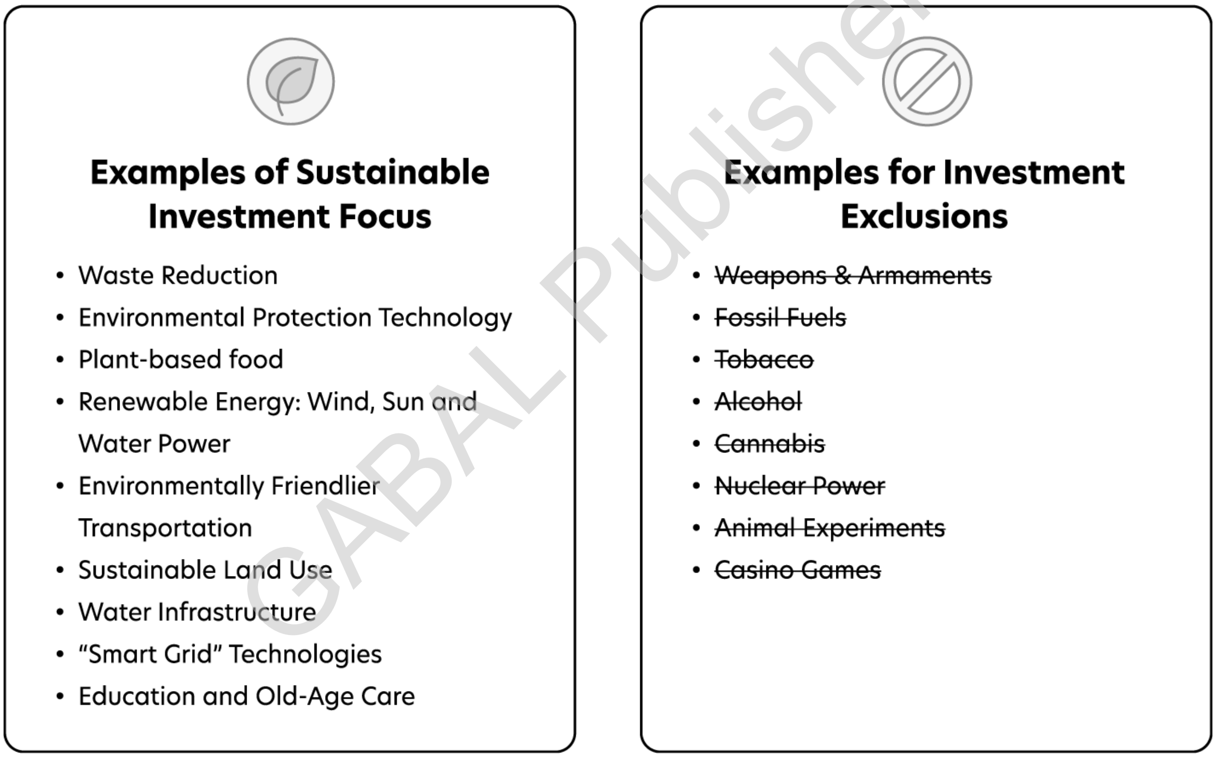
- keep the negative impact of their production and goods on the environment and

climate as low as possible,
- ensure fair working conditions and relationships between their customers, employees and suppliers
- and make their corporate and capital allocation policies transparent.

Although sustainable investments are not a new phenomenon, in recent years they have changed from a niche product to a highly regarded and sought-after object of investor desire.

At the same time, their definition and the associated goals have also changed. Early sustainable investments were mainly investments in which certain products and companies were specifically excluded. For example, no investments would be made in producers of alcohol, tobacco and weapons, or casino operators.

Today, sustainable capital investments are viewed more holistically and include more inclusive factors. These include, for example, the ESG guidelines for defining sustainable investment products.



Source: Own Illustration

((Definition))
ESG stands for environment (i.e. climate protection, renewable energies...), social responsibility (i.e. fair and humane working conditions...) and governance (i.e. no corruption or anti-competitive behaviour...). The term has now become established internationally both in companies and in the financial world.
((/Definition))

Today, it is more a question of which positive conditions capital investments meet in order to be considered sustainable, rather than which negative conditions they do not meet, as was the case in the past.

From the niche to the investment mainstream

Sustainable investing has a long tradition. Initially, it was primarily religious groups that made ethical parameters a condition of their investments. This can be traced back to the 18th century in the United States. Notably, the Methodists applied the standards of their faith to their financial investments. They were against slavery, smuggling and excessive consumption. Accordingly, they avoided investing in companies that manufactured and sold alcohol or tobacco products. This process of elimination to define sustainable investments has persisted into the modern age.

In the 1960s, sustainable investments experienced a renewed boom. This time the pressure came from the protesters who took to the streets against the Vietnam War. They demanded that university funds should no longer be used for investments in armaments companies. Shareholders called for the production of Napalm and Agent Orange to be halted. Supporters of the anti-war movement increasingly invested in socially responsible companies. These demands—and the increased investment in ethically sustainable companies—have resulted in institutional and legal changes that are sustainable. Among other things, they led to the launch of the first sustainable investment fund: the Pax World Fund, which, by the way, is still active today. And over time, they had an impact around the world.

In the 1980s, the anti-apartheid movement in South Africa set further standards for sustainable investments. Shareholders actively demanded that companies take a stand. At the same time, the issues of environmental and climate protection increasingly became the focus of attention, and the anti-nuclear movement met with more and more public attention. As the Kyoto Protocol was signed in the 1990s, the range of sustainable investments was slowly growing.

By the new millennium, the number of sustainability-focused funds had tripled. And after the signing of the Paris Climate Agreement in 2015, nobody could ignore the topic of sustainability, particularly in reference to wealth-building and financial investments. Sustainable investments now make up more than a third of all assets in five of the world's largest capital markets. In 2020, new investments in the sustainability sector alone totalled $51 billion, more than double the previous year.

Reasons for the triumph of sustainable investments

The most successful sustainable funds aim to invest in companies that demonstrate compliance with the ESG factors already mentioned. Sustainable funds that adhere to these principles invest, for example, in clean-energy technology or in companies that promote women in management positions.

There are many reasons for the increasing popularity of sustainable investments, especially in the last two decades:

*** The increasing empowerment and independent self-image of women**
In addition to the growing array of products especially for women, many more women now take their money matters—and investments—into their own hands. Numerous studies show that female investors in particular are very interested in making sure they can use their money not only to do good for themselves, but also for the benefit of others.

In fact, recent research has found that women are twice as likely as men to say it is extremely important that the companies they invest in incorporate ESG factors into their practices and policies. They are even willing to accept potentially higher risks or, alternatively, lower returns, if sustainability is guaranteed.

In addition, women are now earning significantly more than just a few years ago and manage an ever-increasing share of total global wealth. So women are increasingly wealthy—or at least financially secure—and they have a strong social responsibility orientation.

With the increasing demand for sustainable investments, women are taking the lead as investors, decision-makers and in corporate management. Women are already able to effectively promote sustainability and bring about significant social changes. We can only imagine what they can only achieve when they are finally equal to men socially and financially!

While increased investment willingness and investment opportunities for women is an essential factor, it's certainly not the only factor for the increasing popularity of sustainable investments.

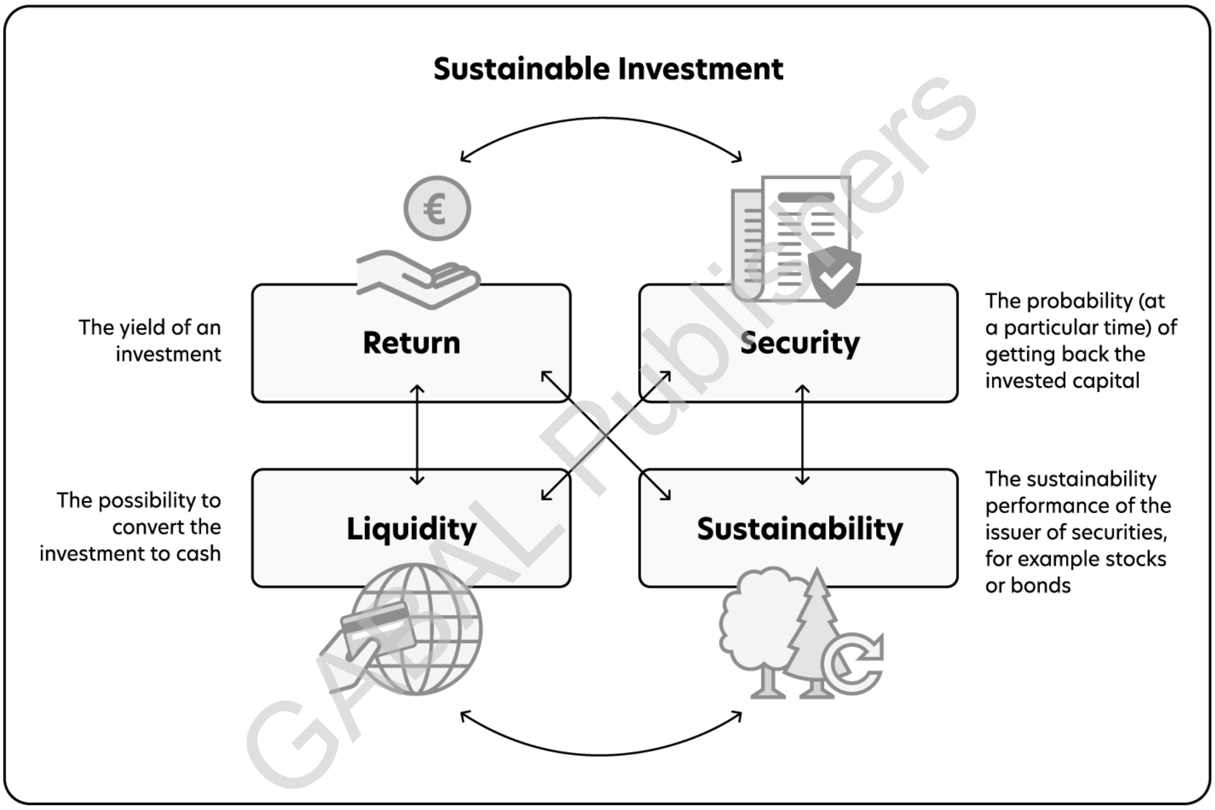
* **Overall social changes**
The Paris climate agreement and other events covered by the global media bring attention to sustainable investments on a large scale and, among other things, make them lucrative for investors. Renewable energies provide a clear example. In some countries, solar power is now cheaper than power from fossil resources. Low production costs are offset by attractive profits from technologies like wind power, photovoltaics and bioenergy. In turn, these also become interesting as an investment for more and more investors.

Most recently, the climate crisis and the resulting Fridays for Future movement have played a major role in this. But the pandemic and the Black Lives Matter movement have also proven to be powerful drivers of demand for sustainable investments.

* **Consistent performance**
Sustainable investments have also proven to be reliable in times of crisis and through price slumps. Sustainable investments performed better than their conventional counterparts during the stock market crash in the spring of 2021. In some cases, they have even achieved better results than some global corporations. And that doesn't just apply to sustainable stocks and stock funds. Green bonds have also continued to perform well or even posted above-average growth.

*** Sustainable thinking ensures independence and stability.**

In years past, sustainability—and an insistence that environmental and climate issues should be given priority—may have been dismissed by many as a young generation's pipe dream. But times of crisis tend to rally more support for energy independence. Russia's war against Ukraine demonstrated this point to Europe with painful clarity. Renewable energies ensure independence and stability of supply. It's clear how quickly fossil fuels and conventional energy can become disproportionately expensive for both the everyday consumer, as well as for businesses. Since 2021, companies that import, manufacture or sell fossil fuels, such as heating oil, natural gas, petrol and diesel have had to pay a CO2 price in the form of national emissions trading. At the same time, the EU has raised its climate targets and the German federal government decided that by 2030 that at least 65% of the electricity supply should be covered by renewable energies.



Source:

Sustainable financial products and investment opportunities

Basically, when it comes to sustainability, you have the same investment options as with conventional asset classes. It's only the way in which sustainability is—or could be—implemented that varies a bit.

When you buy "green stock" in a public company, most of the money you spend on the purchase goes straight to the previous stock owner first. This means that by purchasing your shares, you can only indirectly support the company's sustainability projects. For example, the company may more easily obtain loans from banks to implement sustainability projects if its shares are worth more.

The problem? As a small investor, you have little influence on whether the company actually does this. While you can attempt to exercise your voting rights as a shareholder at the annual general meeting, your success depends on the majority agreeing with you. And with major investors, banks, insurance companies and fund companies, you sometimes have powerful co-shareholders.

With sustainable bonds, so-called “green bonds,” things are a bit different. Here your investment has a direct impact on sustainability. Because with bonds, your money flows into loans to countries or companies that only get them if they meet certain criteria. Green bonds are aligned with the standards of the aforementioned ESG guidelines, for example, or exclude certain practices and industries. For example, your money will not go to loans for companies that extract fossil fuels or to countries that violate human rights. There are also bonds that apply positive criteria and invest in forests, wind power or efficiency technologies, for example.

You can also participate in green investment with sustainable funds and/or ETFs. You can often spot them by adding suffixes to the fund name: “SRI” (Socially Responsible Investing); “ESG” (environment, social, governance); "fair value"; "Responsible"; "Eco"; "Ethics"; "Impact"; "Social Impact Investing.” Sustainable ETFs work on the same principle as their conventional counterparts. But they replicate indices from which certain sectors such as weapons or alcohol are excluded (“Ex”) or in which companies are selected as “Best in Class” in their industry.

Active funds are also a bit more expensive than passively managed ETFs in the sustainability sector. However, these investment funds often pursue higher sustainability standards because each company is selected individually according to special criteria, which are usually also transparently communicated to the investor.

Another fund category is “impact investing.” Such impact funds often not only take ESG criteria into account, but also set specific goals. With some impact funds, for example, money flows into microcredits in emerging and developing countries or into social entrepreneurship (social entrepreneurship), educational projects, green mobility providers, forest reforestation or renewable energies for more climate protection. The main difference is, with impact funds, you invest your money in the real economy, which means that the sustainable impact is more direct.

Last but not least, you can also invest in sustainable start-ups or projects from various industries and sectors. Whether you are a business angel or a crowd investor, a wide array of options are open to you. There are also “green” banks, in which where you can promote sustainability using everyday financial products such as your checking account.

Further Megatrends

Anyone who invested in sustainability 20 years ago was considered cranky. Anyone who invested in sustainability 10 years ago might have been considered a trendsetter. Today the topic has long outgrown what is called a trend. Strictly speaking, one could confidently call sustainable investments a *megatrend*.

A "megatrend" is different from a trend in that it implies a fundamental structural change. And not infrequently, worldwide change. Megatrends have the power to evolve and shape entire industries and professions over decades. In this capacity, they are particularly suitable for long-term investments.

The problem with megatrend investing is that it's difficult to predict—not so much the trends themselves, but exactly how they might progress. Especially in boom sectors such as digitization or technology in general, trends can quickly take over, or they may only have a short half-life. Your timing as an investor also plays a major role. If you spot a trend too late or take too long to find a company that actually benefits from a megatrend, a large part of your return potential is gone.

We have put together a few megatrends that we believe will be trendsetters.

Cyber Security: Between 2020 and 2022, hackers caused damage totaling 43 billion euros in Germany alone. Worldwide, the amount of damage is 600 billion euros. And that might just be the tip of the iceberg. Cyber security is therefore a topic that will be with us for a long time to come.
Examples: iShares Digital Security UCITS ETF (Dist), L&G Cyber Security UCITS ETF

Biotechnology: This branch of science is just 40 years old and has already blossomed into an industry worth billions in Germany alone. In 2018, sales were already above 4 billion euros, and we all saw how the pandemic accelerated the potential of RNA treatments. While there has been more interest and investment dedicated to precision oncology and genetic medicine over the past decade, we think additional investor attention could also be focused on treatments for conditions such as ageing, which affects even larger demographic groups.
Example: iShares Nasdaq US Biotechnology UCITS ETF

Artificial Intelligence (AI): The health and automotive industries in particular are driving the development of artificial intelligence. Experts expect that this sector alone will allow the overall economy to grow by 11% in Germany and 14% worldwide by 2030.
Examples: ETFs Xtrackers Artificial Intelligence and Big Data UCITS ETF, WisdomTree Artificial Intelligence UCITS ETF

Robotechnology: Yes, there is a certain overlap between the development of robots and artificial intelligence. However, robot technology is much more about machine automation. Machines are already taking over a large part of the manufacturing processes in various industries worldwide.
Example: Lyxor Robotics & AI UCITS ETF

Smart Factories: This trend includes companies that are active in sectors such as the aforementioned robotics and cyber security or cloud computing, big data, augmented reality and the Internet of Things. Investigations assume that this potential megatrend still requires a

great deal of optimization. However, the forecasts for innovative, disruptive technology to improve processes, supply chains, production times, storage costs, etc. look promising so far.
Example: Amundi Smart Factory UCITS ETF

Forecasting for megatrend investing attempts to predict long-term growth yields for industries and sectors. But how? Among other things, factors such as demographic changes and/or scarcity of resources are used as variables to identify gradually advancing megatrends. As an investor, you can benefit from forecasts of these effects if you draw the right conclusions. For example, an ageing society is likely to shift trends on many levels in consumer habits, whereas an increase in population might require more efficient use of resources.

You can use megatrend investing as part of a strategy to make long-term investments in topics and trends that are personally important to you. For this reason, sustainability investments also belong to the "megatrend" category. You'll find that megatrend funds enable you to invest across countries, industries and market-capitalization categories. However, you should only focus on this type of investment as part of a more broadly diversified portfolio.

Companies that make it their mission to solve current and future social, economic and technological challenges can shape the markets for many years. So if you're interested in investing in long-term trends affecting our world, these investment opportunities could be exciting for you. In this way you have the power to shape the future in your everyday life and also with your investment decisions.

How you can secure your future and investments is what the next chapter is all about.