

# From buy-to-let to stock market investor

## Outline

Buy-to-let has long been popular among certain investors, who have been attracted by house price growth and a source of regular income. However, an increasing number of landlords are selling their buy-to-let properties and turning to financial markets for access to stocks, bonds and other

asset classes. Some people feel nervous about investing in stocks, which can be perceived as being complex and risky. This factsheet seeks to shed light on key aspects of buy-to-let investing, and explores how this compares to investing on the stock market.

## What's driving the buy-to-let exodus?

Since 2010, a number of policy changes have affected private property investors. These include tax changes, tighter mortgage lending standards, decreasing (net) rental yields and eviction delays.

In light of this, some landlords are cashing in and deploying the proceeds in financial assets. There are some important differences to consider between a tangible property, and a 'paper' asset.

## How do buy-to-let and stock market investing compare?

Buy-to-let yields can differ across geographic areas, property type and quality, and tenant groups. Similarly, the success of global stock market investing may depend on how assets are spread be-

tween countries, sectors and asset classes. Selling a property takes time, while stocks and bonds are more liquid assets. Reinvestment within an investment account is easy and cost-effective.

Buy-to-let vs. investment account		
	Buy-to-let property	Investment account
Tax breaks	More limited now	Generous allowances
Return expectation after fees and taxes	Depends on property location/type/condition	Depends on personal risk profile; typically 2% to 6%
Income	Regular rental income	Can be targeted, but generally lower/less frequent than rental income
Liquidity <sup>1</sup>	Limited	High (for mainstream investments)
Tax breaks	Favourable for furnished holiday lettings	Personal savings allowance

1 Ability to sell assets quickly at a market price

## Long-term stock market performance

Property owners/investors are used to experiencing house prices moving in large swings. In contrast, financial markets may see significant moves from week to week, or month to month.

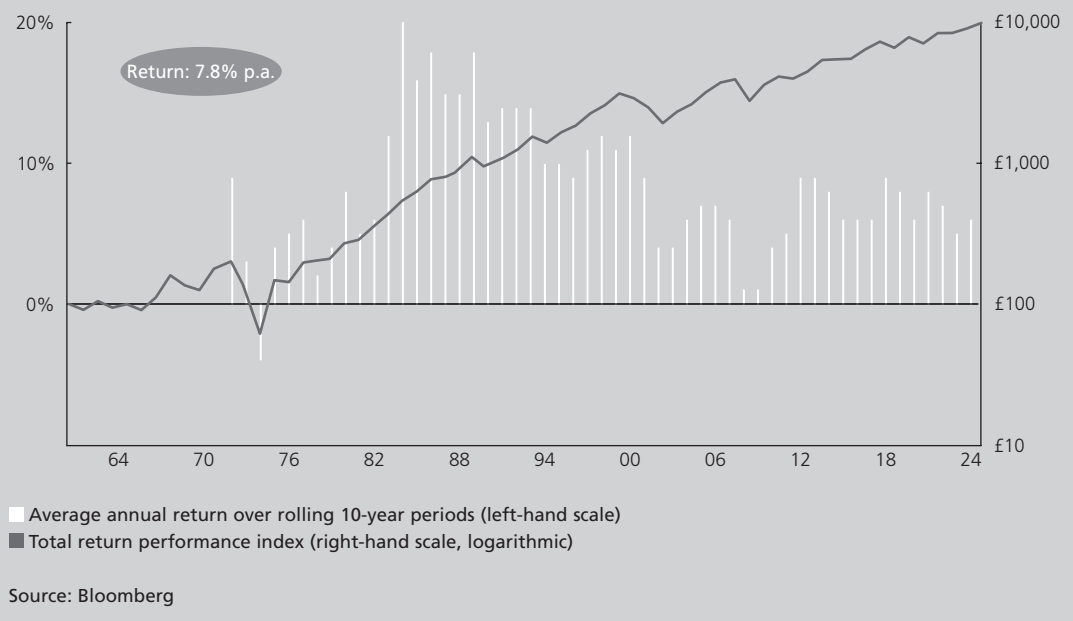
Share total return index) have averaged almost 8% per annum over the past 60 years – see the chart overleaf.

It's therefore important to have staying power and stick to a long-term strategy (ideally investment horizons should be at least 10 years), as the ups and downs of financial markets are smoothed out over longer periods of time.

It's important to avoid hasty and panicked reactions in instances when markets are experiencing sharp swings. 'Panic selling' during a crisis may be hugely detrimental if you're not invested when markets recover. It's a good idea to focus on the principle of 'time in' investment markets, rather than 'timing' markets, as the best days to be invested can often follow the worst days.

For example, data from Bloomberg highlights that annual returns for UK equities (FTSE-All-

## UK equity market performance since 1962



### Key tax breaks for stock market investors

Using available allowances and tax shelters is key to managing money in a tax-efficient way. The annual capital gains tax exemption is much easier to 'harvest' with a liquid investment portfolio. If you have held an investment property for 10 years and sell it, you can only claim the allowance for that one tax year, while in theory you could harvest a decade's worth of capital gains over 10 years with an investment account. Tax breaks for stock market investors can include:

- £500 tax-free dividend allowance in the 2024/25 tax year
- Up to £1,000 personal savings allowance (interest income)
- £3,000 tax-free capital gains in the 2024/25 tax year
- ISAs: Completely tax-free income, gains and withdrawals
- Pensions: Tax relief available on contributions and tax-free accumulation

### ISAs, pensions and general investment accounts

Pensions and ISAs both provide a valuable shelter against income tax and capital gains tax, but there are some important differences. Investment ISAs offer flexibility, easy access, and tax-free returns, so you should always maximise your ISA contributions every tax year, before topping up your general investment account. The comparison between ISAs and pensions is more complex. Pensions are locked away until age 55 (age 57 from 2028), and

various tax rules can potentially reduce returns and/or contribution potential. Pension withdrawals are subject to income tax (beyond the 25% tax-free cash lump sum), while money can be taken from ISAs tax-free. ISAs may be subject to inheritance tax (IHT), unless left to a spouse/civil partner. Pensions are currently outside of the estate, but from 6 April 2027 unused assets will be liable for IHT unless left to a spouse/civil partner.

### Investment account vs. tax wrappers

	Investment account	Investment ISA	Pension
Access	Any time	Any time	From age 55/57
Income tax saving on contribution	None	None	Yes, up to 60% tax relief
Max. contribution/investment per tax year	No maximum	£20,000	Up to £200,000 <sup>1</sup>
Outside IHT estate	No	No	Yes, until April 2027
Pot size limit	None	None	None <sup>2</sup>

<sup>1</sup> Annual allowance of up to £60,000, plus carry forward of up to £140,000 (unused allowance from previous 3 tax years)

<sup>2</sup> The 25% or 55% tax liability on amounts above the lifetime allowance (LTA) of £1,073,100 has been abolished. The tax-free cash lump sum entitlement will remain at £268,275 (25% of the original LTA), unless you benefit from fixed protection

What is a diversified portfolio?

Diversification is the process of spreading your investments around the main types of assets and geographical markets, so that your exposure to any one of them is limited. Allocating money across different asset classes – including equities, government bonds, corporate bonds, real estate, commodities and alternative trading strategies –

helps prevent undue risks and permanent capital loss. Concentrated exposure in certain holdings or home bias should be avoided. Diversification can only do so much amid the natural ups and downs in financial market valuations, so there will inevitably be some leaner years.

Active vs. passive

Passive funds are investment funds that closely track a popular benchmark, such as the FTSE 100 index, and seek to match it. They do this at low cost. Active investment funds will attempt to outperform the returns of an appropriate benchmark. This is done by having an experienced fund manager – often backed by large teams – who makes choices about which shares to hold, and

how many of each type. This comes at a higher cost. Active managers can be forward-looking when picking securities, and therefore they may be able to adapt to changing market dynamics. Active funds have tended to do better in certain markets, while in others they have struggled to beat indices and passive funds.

Phased investing

Some investors drip feed a large cash lump sum into the market at regular intervals, a tactic that's known as 'pound cost averaging'. For example, if you had a £300,000 lump sum, £25,000 could be invested every month until the total sum is fully deployed. This could provide protection against

markets falling sharply after the money is invested, though it can also work against you, as markets tend to go up more often than down. You could consider bringing planned investments forward if stocks have become cheaper.

Common investment mistakes

Investors, even semi-professional ones, have to fight against common mistakes that often stem from natural human behaviour and instinct, such as moving in a herd (buying what has gone up because of the purchases of others).

Investors can also be susceptible to overestimating their own skills, which can lead to attempts to move in and out of asset classes based on subjective judgments, or home or familiarity bias, despite the fact that global stocks have often outperformed UK stocks over the past 40 years.

Typical pitfalls may include the following:

- Taking inappropriate risks
- Attempting to time the market (only investing when assets are cheap)
- Buying what has gone up or selling what has fallen in price
- Insufficient research or understanding of investments
- Hasty decisions when stocks experience sharp swings
- Not paying attention to total costs and charges

### Typical investment mistakes

#### Inappropriate risk level

**Example:**  
Investments don't match with personal circumstances, objectives and time horizon ('risk profile')

#### Not optimising tax wrappers & allowances

**Example:**  
Failure to apply annual capital gains tax allowance (currently £3,000)

#### Not sticking to the strategy

**Example:**  
Attempt at market timing ("only invest when assets are cheap")

#### Lack of portfolio construction/monitoring or cost control

**Example:**  
Familiarity/home bias, historically grown investment portfolio, or lack of diversification

Setting and sticking to an investment strategy

Define your long-term investment strategy carefully and stick to it, even in a financial crisis. Your strategy should be tailored to your goals and objectives, risk profile, and time horizons. It's about how long you remain invested in the market (the time in, not the timing of the market).

The level of risk taken and the corresponding asset mix – for instance 50% or 100% equities – is a big determinant of expected long-term returns.

Soon-to-be or recent retirees often underestimate their time horizon (eg. a 60-year-old may still have decades of investing left ahead of them).

You should consider reviewing your risk profile at least annually, or whenever there is a change in your financial or personal circumstances. You may need to rebalance your portfolio to adjust different asset class weightings back to your long-term strategy, possibly with expert help.

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