GUIDE · v1.0

10 Decisions Behind Every Self-Directed Portfolio.

Ten decisions, in the order they matter, each one written so you can act on it this evening. Built for UK and US self-directed investors who already run their own portfolio, or are about to start.

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Format open, no email gate
Author Allocra team · allocra.co/guide

Why this guide exists

Most "how to invest" content is either too thin (a 600-word listicle telling you to "diversify and stay the course") or too deep (a 400-page textbook on portfolio theory). Neither helps the person who has already decided they want to run their own portfolio and now needs a structured set of decisions to work through, in the right order, with the maths laid bare.

This guide is that middle layer. Ten decisions, in the order they matter, each one written so the reader can act on it the same evening they read it.

Who this is for

UK or US investors with a portfolio of any size from £10,000 upward who manage it themselves (or are about to start), on any platform. The maths is the maths regardless of whether you have £20,000 in an ISA or £750,000 in a SIPP. Where the answer differs by jurisdiction, both are covered side by side.

How to use it

Work through the principles in order. Each one is independent enough to revisit later. If you are short on time, read the "the decision" and "what to do this week" blocks for each principle; that alone gives you the full action list in about ten minutes. The full read takes thirty.

Every figure cited is sourced inline. Every fund and platform named uses real 2026 tickers and fee schedules. Where a figure may move between publication and your reading, the source link to the live schedule is shown.

This guide was written by the team at Allocra, who build independent tools for self-directed investors. Allocra is mentioned twice in the body of this guide (here and at the close) plus optional sidebars on three principles where the tool fit is genuine. Nowhere else.

This guide is educational, not advice. If your situation is complex (large portfolio, recent inheritance, expat tax status, business structure) or you are unsure whether a particular approach is right for you, work with a fee-only independent financial adviser charged hourly. The full disclosure sits at the end of the guide.

THE TEN DECISIONS

1. Choose your broker first, then the ETF
2. Run total cost (P+O+T+F+X+D minus S), not just TER
3. Check for overlap before you add a fund
4. Match Acc and Dist to your tax position
5. Pick a domicile-appropriate ETF
6. Hedge bonds. Do not hedge equities.
7. Physical replication is the default
8. Anchor on long-run evidence, not last quarter
9. Fill tax-advantaged wrappers before taxable
10. Rebalance on thresholds, not timetables

PRINCIPLE 1 OF 10

Choose your broker first, then the ETF

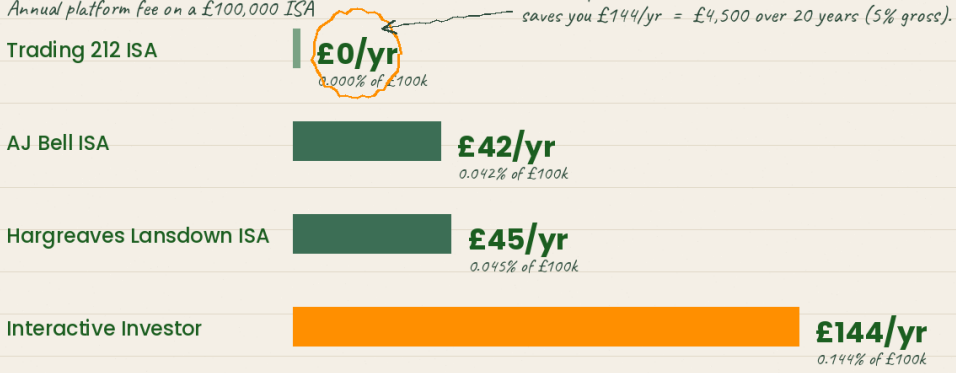
Principle 1
of the 10 Decisions guide

Pick the broker first.

Same fund. Four platforms. Four different annual costs on £100k.

Same fund: VWRP, the Vanguard FTSE All-World
Annual platform fee on a £100,000 ISA

the cheapest broker for this fund saves you £144/yr = £4,500 over 20 years (5% gross).



The right broker depends on your balance.

Fixed-fee platforms (ii, AJ Bell flat plans) get cheaper as your portfolio grows.
Percentage-fee platforms (HL, Fidelity) get more expensive.
Crossover for ii Investor vs HL on an ISA: roughly £32,000.

Sources

Trading 212 ISA terms · trading212.com/legal | AJ Bell charges · ajbell.co.uk/charges
Hargreaves Lansdown 2026 charges · hl.co.uk/charges | Interactive Investor · ii.co.uk/our-charges

Figures correct as of May 2026; ETF caps shown where applicable.

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THE DECISION

Pick your broker before you pick a fund. The platform you hold an ETF on determines whether that ETF costs you 0.10% per year or 0.55% per year, regardless of what its factsheet says.

WHY THIS MATTERS

Every cost analysis you do downstream depends on this decision. A Vanguard FTSE All-World ETF has a 0.22% TER whether you hold it on Hargreaves Lansdown or Trading 212. The difference between holding it for 0.22% and holding it for 0.67% is entirely the platform fee, and that fee compounds against you every year you own the fund. If you choose the fund first and then look for a platform, you have already lost the negotiation.

THE MATHS

Take a £100,000 portfolio held in a stocks and shares ISA. On Hargreaves Lansdown, the ISA platform fee for funds is 0.45% per year (capped, with caveats; the 2026 schedule is at hl.co.uk/charges). On Interactive Investor, the Investor plan is a flat £11.99 per month, which on £100,000 works out at 0.144%. On Trading 212, the ISA platform fee is 0%. Same fund. Same ETF. The annual cost differs by 0.45 percentage points purely because of the platform.

Over twenty years, on a 5% real return, that 0.45% drag costs roughly £35,000 of terminal wealth on a £100,000 starting balance (lump sum, no further contributions). The fund itself is identical. The choice that drives the £35,000 is the broker.

WHERE IT FLIPS

Fixed-fee platforms (Interactive Investor, AJ Bell with its capped ETF charge) get cheaper as your balance grows. Percentage-fee platforms (Hargreaves Lansdown, Fidelity) get more expensive as your balance grows but are competitive at small balances. The cross-over for ii's Investor plan against HL's 0.45% ISA fee sits at roughly £32,000. For US readers: Fidelity, Schwab, and Vanguard all charge zero platform fees for self-directed brokerage accounts in 2026.

WHAT TO DO THIS WEEK

1. Write down your current platform's percentage cost for your account type (ISA, SIPP, GIA, Roth, 401(k), brokerage).
2. Take your portfolio's total value and multiply by that percentage. That is your platform fee for the year.
3. Compare against the two largest competing platforms in your bracket using their published 2026 fee schedules.
4. If switching saves more than 0.10% per year, start the transfer (in-specie if your platform supports it; in-specie keeps you in market while the transfer completes).

SOURCES

Hargreaves Lansdown 2026 fee schedule: hl.co.uk/investment-services/charges. Interactive Investor service plans: ii.co.uk/our-charges. Trading 212 ISA terms: trading212.com/legal. AJ Bell charges: ajbell.co.uk/charges. Figures correct as of May 2026; check the live schedule before acting.

PRINCIPLE 2 OF 10

Run total cost (P+O+T+F+X+D minus S), not just TER

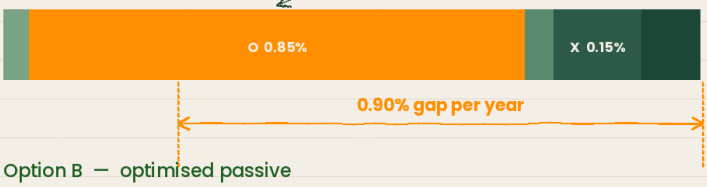
Principle 2
of the 10 Decisions guide

What does the fund really cost you?

TER is one of six cost components. The other five are usually larger.

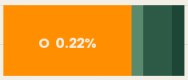
this is the only bit factsheets show you

Option A — typical retail self-directed
Active fund held on Hargreaves Lansdown ISA



1.20%
per year

Option B — optimised passive
VWRP held on Trading 212 ISA



0.30%
per year

What's in the bar:

- **P** Platform fee
- **O** Fund TER / OCF
- **T** Transaction costs
- **F** FX drag
- **X** Tax inefficiency
- **D** Tracking drift

TER and OCF are the same thing: the fund's annual management charge, before anything else.

£40,000 of terminal wealth lost
on a £100k starting balance over 20 years, at 1.20% cost versus 0.30% cost.

Methodology and sources
P+O+T+F+X+D minus S framework · allocra.co/methodology · Cost Methodology v1.1
Vanguard FTSE All-World UCITS Acc (VWRP) ISIN IE00BK5BQT80 · TER 0.22%
Hargreaves Lansdown 2026 charges · hl.co.uk/charges · Trading 212 · trading212.com
Figures correct as of May 2026.

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THE DECISION

When you compare two funds, do not stop at the TER on the factsheet. Add platform fee, transaction costs, FX drag, tax inefficiency, and tracking drift, then subtract any securities-lending rebate. That sum is the real cost of holding the fund. The TER on its own is usually a small fraction of it.

WHY THIS MATTERS

TER (Total Expense Ratio, sometimes called OCF on UCITS documents) measures only the fund's internal annual charge. It does not include the cost of holding the fund on your platform, the cost of trading it, the FX you lose when buying a US-listed fund in sterling, the tax that leaks through dividend withholding, or the drag from how well or badly the fund tracks its index. Those are five separate cost components, and they often dwarf the TER.

P (Platform): what your broker charges you to hold the fund. 0% (Trading 212) to 0.45% (HL fund ISA fee). O (OCF or TER): what the fund manager charges. 0.03% (cheapest passives) to 0.85%+ (active funds). T (Transaction): the bid-ask spread you pay each time you buy or sell. F (FX): when you buy a non-GBP-listed fund, you pay a spread on the currency conversion. 0.10% to 1.5%. X (Tax inefficiency): dividend withholding leakage when fund domicile and your residency are mismatched. D (Drift): the gap between the fund's actual return and its index, after costs. minus S (Securities lending): some funds (iShares, Vanguard) lend their holdings to short-sellers and rebate part of the income back. Typically 0.01% to 0.05%.

THE MATHS

Take a 35-year-old with £100,000 in an ISA, considering two options.

Option A: a typical retail self-directed portfolio. Held on Hargreaves Lansdown ISA (P = 0.045%, capped at £45/year for ETFs), in an active UK equity fund (O = 0.85%), with monthly contributions (T = 0.05%), GBP-bought (F = 0%), in a UK-domiciled fund with imperfect tax treaty coverage (X = 0.15%), with calendar rebalancing drift (D = 0.10%), no securities lending (S = 0%). Total: 1.20%.

Option B: an optimised passive portfolio. Held on Trading 212 ISA (P = 0%), in Vanguard FTSE All-World UCITS Acc, ticker VWRP (O = 0.22%), quarterly contributions (T = 0.02%), GBP-listed (F = 0%), Ireland-domiciled with strong tax treaty coverage (X = 0.05%), tight tracking (D = 0.02%), small securities-lending rebate (S = -0.01%). Total: 0.30%.

Same £100,000, same wrapper. Cost difference: 1.20% versus 0.30%, a gap of 0.90 percentage points per year. Over 20 years at 5% gross real return, that gap compounds to roughly £40,000 of terminal wealth lost on a £100k starting balance. The fund choice alone accounts for less than half the gap. The other half comes from the components most factsheets do not show you.

WHERE IT FLIPS

Two situations where TER-only comparison is defensible. First, if you are comparing two ETFs on the same platform with the same listing currency and same domicile, the only varying components are O, T, and S. Second, in tax-advantaged accounts (ISA, SIPP, Roth, 401(k)) the X component is often near zero. But P, T, F, and D still apply, so the headline TER is still misleading on its own.

WHAT TO DO THIS WEEK

1. List your three largest fund holdings.
2. For each, find the published TER, your platform's fee schedule, the listing currency (and your platform's FX spread if non-GBP), and the fund's domicile.
3. Sum the six components on paper. Compare against an equivalent low-cost passive holding (VWRP for global equity, VAGS for global bonds).
4. If the gap is more than 50 basis points, write down why you are paying it. If not, you have your switching candidate.

Want help running the maths? The Allocra Total Cost calculator runs the full P+O+T+F+X+D minus S calculation across your holdings in one screen. Free during beta. Join the waitlist at allocra.co.

SOURCES

Allocra Cost Methodology v1.1: allocra.co/methodology. Hargreaves Lansdown 2026 charges: hl.co.uk/charges.
Trading 212 ISA terms: trading212.com/legal.
Vanguard FTSE All-World UCITS ETF (VWRP) factsheet ISIN IE00BK5BQT80: vanguard.co.uk.
Figures correct as of May 2026; check live schedules before acting.

PRINCIPLE 3 OF 10

Check for overlap before you add a fund

Principle 3
of the 10 Decisions guide

Diversified by ticker is not diversified.

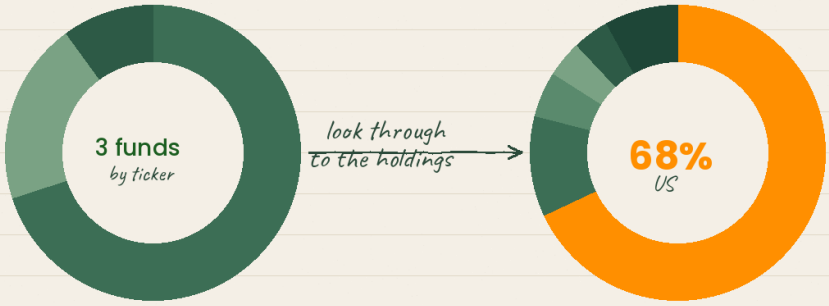
The same portfolio, shown two ways. The numbers tell different stories.

What it looks like

(three funds, three colours, looks diversified)

What it actually is

(country weights of the underlying holdings)



- VWRP · 70%
- CSPX · 20%
- Active US · 10%

- United States · 68%
- Europe ex-UK · 11%
- Japan · 5%
- UK · 4%
- Other developed · 4%
- Emerging markets · 8%

68% of this 'diversified' portfolio sits in US equity.
Up from 60% (global market weight) because two of the three funds are also majority US. The diversification was an illusion.

Sources
Vanguard FTSE All-World UCITS ETF (VWRP) ISIN IE00BK5BQT80 · vanguard.co.uk
iShares Core S&P 500 UCITS ETF (CSPX) ISIN IE00B5BMR087 · ishares.com
MSCI ACWI Index country weights · msci.com · figures correct as of May 2026.

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THE DECISION

Before you add a fund to your portfolio "for diversification," look at the underlying holdings of what you already own. If the new fund overlaps materially with what you have, you are not diversifying; you are concentrating. The look-through is a five-minute job on the fund's factsheet.

WHY THIS MATTERS

Most retail self-directed portfolios drift toward an unintended US large-cap concentration because investors pick funds by name without checking what they actually hold. The classic version: hold Vanguard FTSE All-World (VWRP) for "global exposure," then add iShares Core S&P 500 (CSPX) for "US exposure," then add an active US growth fund "for the tech tilt." All three funds are mostly the same 30 to 50 US companies. The portfolio looks diversified by ticker count. It is not diversified by underlying holding.

THE MATHS

VWRP holds approximately 60% US equity as of May 2026. The top 10 holdings of VWRP are Apple, Microsoft, NVIDIA, Amazon, Alphabet, Meta, Tesla, Berkshire Hathaway, JPMorgan, and Eli Lilly. Those same 10 names make up roughly 30% of the S&P 500 (CSPX), and roughly 50%+ of most US-focused active funds.

Take a portfolio with 80% in VWRP and 20% in CSPX. The total US weighting is 80% × 60% + 20% × 100% = 68% US, up from 60%. You have added 8 percentage points of US concentration, not diversification. If you then add a 10% slug of an active US growth fund, the US weighting climbs further and your top-10 single-stock concentration rises with it.

The same trap exists in reverse. Holding both a "developed markets" fund and a "world" fund overlaps heavily. The diversification illusion comes from ticker count, not holdings.

WHERE IT FLIPS

Two cases where adding an overlapping fund is defensible. First, if you have a specific factor or sector tilt you genuinely want, adding a sector fund on top of a global tracker is a deliberate concentration, not an accidental one. Fine, as long as you have written down why. Second, if you are building a portfolio from components rather than buying an all-in-one fund: holding CSPX plus VEVE plus EMIM at market weights costs less in blended TER than holding VWRP alone for the same exposure. That is a cost optimisation strategy, not a diversification strategy.

WHAT TO DO THIS WEEK

1. List every fund you hold.
2. For each, look up the country weights (top 10 countries) and the top 10 holdings. Both appear on page 1 of any decent factsheet.
3. Sum the country weights across your whole portfolio, weighted by your allocation to each fund. Compare against a global market portfolio (approximately 60% US, 15% Europe ex-UK, 4% UK, 6% Japan, 5% other developed, 10% emerging).
4. If your portfolio shows more than 70% US, more than 10% UK home bias, or a top-10 single-stock concentration above 25%, you have an overlap problem regardless of how many tickers you hold.

SOURCES

Vanguard FTSE All-World UCITS ETF (VWRP) holdings: vanguard.co.uk, ISIN IE00BK5BQT80. iShares Core S&P 500 UCITS ETF (CSPX) holdings: ishares.com, ISIN IE00B5BMR087.
MSCI ACWI Index country weights: msci.com/index/factsheet/MSCI-ACWI.
Figures correct as of May 2026.

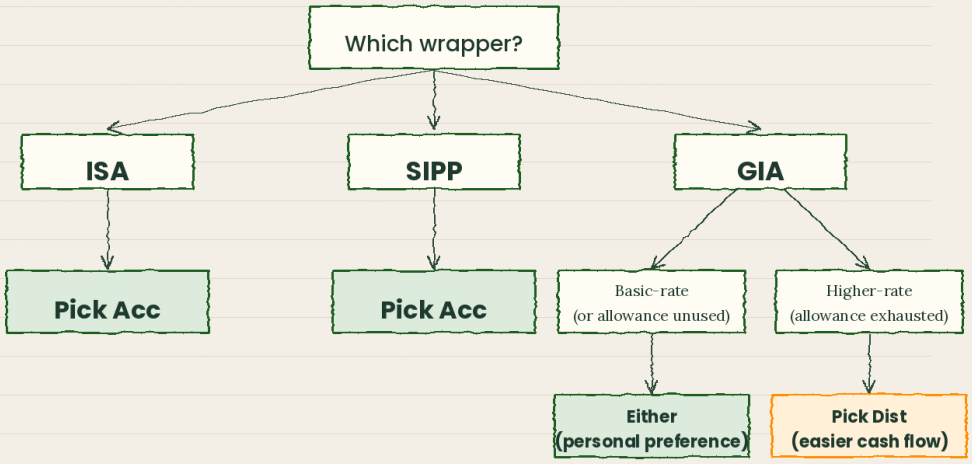
PRINCIPLE 4 OF 10

Match Acc and Dist to your tax position

Principle 4
of the 10 Decisions guide

Acc or Dist?
Look at the wrapper.

Not on whether you like getting paid. The tax wrapper makes the call for you.



Worked example

VWRP or VWRL · £50,000 held in a GIA
1.8% dividend yield = £900 of dividends per year.
Dividend allowance covers the first £500.
The remaining £400 is taxed at higher-rate 33.75%.

Tax owed either way:

£400 × 33.75% = £135

Acc and Dist both owe £135. Only the cash flow differs.

Sources

HMRC dividend tax 2026/27 · gov.uk/tax-on-dividends | VWRP ISIN IE00BK5BQT80
VWRL ISIN IE00B3RBWM25 | Notional distributions · HMRC manual SAIM8000
Figures correct as of May 2026.

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THE DECISION

Acc (accumulating) and Dist (distributing) are two share classes of the same fund. Acc reinvests dividends inside the fund; Dist pays them to your cash account. Pick based on the tax wrapper the fund sits in and your dividend tax position, not on whether you "like getting paid."

WHY THIS MATTERS

Many self-directed investors default to distributing share classes because the income arrives visibly in their account. Inside an ISA or SIPP this is harmless but very slightly worse. In a general investment account (GIA), it can be materially worse depending on your dividend allowance and marginal rate.

THE MATHS

Inside an ISA or SIPP. No UK tax on dividends or capital gains. Acc and Dist are economically equivalent in total return, but Acc is operationally cleaner: dividends compound automatically inside the fund at zero cost. The cost of cash drag on a 2% dividend yield reinvested quarterly is roughly 0.02% to 0.04% per year. Default to Acc.

Inside a GIA (taxable). UK dividend allowance for 2026/27 is £500. Dividends above that are taxed at 8.75% (basic), 33.75% (higher), or 39.35% (additional). Holding Acc does not avoid this: HMRC treats Acc fund dividend reinvestment as a "notional distribution" taxable in the year it occurs. You still owe the tax. The only difference is administrative: Dist gives you the cash to pay the bill; Acc requires you to find it elsewhere.

Worked example. VWRP (Acc) and VWRL (Dist) are the same Vanguard FTSE All-World fund, same 0.22% TER. Both yield approximately 1.8% in dividends. On £50,000 in a GIA for a higher-rate taxpayer, either share class generates £900 of taxable dividend. Tax owed: first £500 at 0% (allowance), remaining £400 at 33.75% = £135 of dividend tax. Both share classes owe the same tax; only the cash flow differs.

WHERE IT FLIPS

Two cases. First, if you are managing for income explicitly (you want dividends to fund living costs), Dist is the right choice everywhere. Second, US investors face a different set of rules: 1940-Act US ETFs distribute dividends at the fund level by structural design. The Acc-versus-Dist decision largely does not exist for US-domiciled funds.

WHAT TO DO THIS WEEK

1. List your current holdings and check whether each is Acc or Dist (the share class is named in the fund title; the ISIN identifies it).
2. For each, note the wrapper (ISA, SIPP, GIA, Roth, 401(k), taxable brokerage).
3. ISA and SIPP holdings: default to Acc; switch only if there is a specific reason not to.
4. GIA holdings: choose based on whether the dividend cash is easier to have available (Dist) or whether you want simpler operational reinvestment (Acc, knowing the tax bill still applies).

SOURCES

HMRC dividend tax rates 2026/27: gov.uk/tax-on-dividends. VWRP (Acc) ISIN IE00BK5BQT80 and VWRL (Dist) ISIN IE00B3RBWM25: vanguard.co.uk.
Notional distribution treatment for Acc funds: gov.uk/hmrc-internal-manuals/savings-and-investment-manual/saim8000.
Figures correct as of May 2026.

PRINCIPLE 5 OF 10

Pick a domicile-appropriate ETF

Principle 5
of the 10 Decisions guide

Match the fund's home to yours.

Cross-buying creates tax leakage. Sometimes catastrophic.

	UCITS fund *(Ireland or Luxembourg)*	US-domiciled fund *(1940-Act, e.g. VTI)*
UK *investor*	✓ **Standard. Default.** 15% withholding on US dividends via Ireland-US treaty. Approx. 0.16% portfolio drag. Manageable.	! **Mostly blocked.** UK platforms restrict access under PRIIPs (no KIID). If held, 15% withholding with W-8BEN.
US *investor*	✗ **Tax disaster. PFIC.** Ordinary-rate on all gains. Annual Form 8621 per fund. Do not do it.	✓ **Standard. Default.** Long-term capital gains rate. Qualified dividend rate. No PFIC issues.

this is the only quadrant you must avoid.

How to check your fund's domicile:

The ISIN prefix tells you instantly.

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IE…  =  Ireland-domiciled UCITS  (e.g. VWRP, CSPX, IE00BK5BQT80)
LU…  =  Luxembourg-domiciled UCITS
US…  =  US-domiciled  (e.g. VTI, US9229087690)
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Sources

US-Ireland tax treaty · irs.gov/businesses/international-businesses
PFIC + Form 8621 · irs.gov/instructions/i8621 | PRIIPs · fca.org.uk/firms/priips

Figures correct as of May 2026.

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THE DECISION

UK investors should default to UCITS funds, almost always domiciled in Ireland. US investors should default to US-domiciled 1940-Act funds, typically Delaware-registered. Cross-buying (UK investor holding US-domiciled, or US investor holding UCITS) creates tax problems that can dominate every other decision in this guide.

WHY THIS MATTERS

The domicile of an ETF determines two things: how dividends paid by the fund's underlying holdings are taxed at the fund level (dividend withholding tax under tax treaties) and how your country's tax authority treats your ownership of the fund. Get the match right and tax leakage stays minimal. Get it wrong and the leakage can exceed every other cost component you have spent time optimising.

THE MATHS

UK investor holding an Ireland-domiciled UCITS ETF, e.g. VWRP. US companies inside the fund pay 15% dividend withholding under the US-Ireland tax treaty. The remaining 85% flows into the fund and compounds. Total drag from US-source dividend withholding, applied to ~60% of the fund weight at 1.8% yield: approximately 0.16% per year. Manageable.

UK investor holding a US-domiciled ETF, e.g. VTI. Two problems. UK platforms generally restrict access under PRIIPs regulation. Even if held, the IRS withholds 15% on the distribution to a UK investor (with W-8BEN) or 30% (without). Not always catastrophic, but no advantage.

US investor holding an Ireland-domiciled UCITS ETF. This is the catastrophic case. The IRS treats foreign-domiciled pooled funds as PFICs (Passive Foreign Investment Companies). PFIC rules apply punitive tax treatment: ordinary-income rates on all gains, interest charges on deferred tax, and Form 8621 reporting per fund. A US person holding a UCITS fund is in a tax disaster. Do not do it.

US investor holding a US-domiciled ETF, e.g. VTI. Standard US tax treatment: long-term capital gains rate, qualified dividend rate, no PFIC issues. The correct path for US investors.

WHERE IT FLIPS

Two cases of nuance. First, dual citizens and US persons resident outside the US face a structural problem: UK platforms cannot hold US-domiciled funds, and PFIC rules forbid UCITS funds. The practical answer is usually individual stocks (no PFIC), a US-based brokerage account that accepts non-US residents (Schwab International, Interactive Brokers), or specialist tax advice. Second, UCITS funds domiciled in Luxembourg behave very similarly to Ireland-domiciled for UK investors.

WHAT TO DO THIS WEEK

1. For each fund you hold, look up its domicile. The ISIN prefix tells you: IE (Ireland, UCITS), LU (Luxembourg, UCITS), US (US-domiciled).
2. UK investors: every fund should be IE or LU prefixed.
3. US investors: every fund should be US-prefixed. If you have a UCITS fund (IE or LU prefix), see a US tax advisor before doing anything else.
4. Dual UK/US or US persons living outside the US: see a specialist tax advisor before any new investment. The wrong move here can be expensive in five-figure or six-figure terms.

SOURCES

US-Ireland tax treaty dividend withholding rates: irs.gov/businesses/international-businesses/ireland-tax-treaty-documents. PFIC rules and Form 8621 instructions: irs.gov/instructions/i8621.
PRIIPs regulation and UCITS KIID requirements for UK retail access: fca.org.uk/firms/priips.
Vanguard FTSE All-World UCITS ETF (VWRP) ISIN IE00BK5BQT80. Vanguard Total Stock Market ETF (VTI) ISIN US9229087690.
Figures correct as of May 2026.

PRINCIPLE 6 OF 10

Hedge bonds. Do not hedge equities.

Principle 6
of the 10 Decisions guide

Hedge bonds.
Don't hedge equities.

Hedging costs nothing on bonds and a lot on equities. The default is asymmetric.

Equity

Vanguard FTSE All-World

Unhedged
VWRP · TER
0.22%

GBP Hedged
IWDG · TER
0.55%

Hedging cost = 0.33% per year

Bonds

iShares Global Aggregate Bond

Unhedged
AGGG · TER
0.10%

GBP Hedged
AGBP · TER
0.10%

Hedging cost = 0.00% per year

The asymmetry is the point.

Bond hedging is free at the fund level (same TER). Equity hedging costs an extra 0.33 percentage points per year. Hence the default: hedge bonds, do not hedge equities.

£15,000 of forgone terminal wealth
from hedging £100k of equity for 20 years
at 5% gross. Hedge only if you have a reason.

Sources
VWRP ISIN IE00BK5BQT80 · IWDG ISIN IE00B441G979 · vanguard.co.uk · ishares.com
AGGG ISIN IE00B43QJJ40 · AGBP ISIN IE00BDBRDM35 · ishares.com
Figures correct as of May 2026.

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THE DECISION

Pick a hedging policy for the whole portfolio. The common default for UK investors is hedge bonds, do not hedge equities. Once you have picked, apply it consistently across every fund you hold.

WHY THIS MATTERS

Currency exposure is a real source of risk in any portfolio holding non-domestic assets. A UK investor in Vanguard FTSE All-World (VWRP) carries exposure to roughly 95% non-GBP currencies. Sterling strength or weakness can dominate the return on any 12-month view, regardless of what the underlying equities did. Hedging removes that risk; the trade-off is that hedging costs money (0.10% to 0.30% per year) and removes one source of diversification.

THE MATHS

The cost of hedging is not uniform across asset classes.

Equities. For UK investors, hedged global equity is more expensive than unhedged. Compare VWRP (unhedged, 0.22% TER) against iShares MSCI World GBP Hedged (IWDG, 0.55% TER). Roughly 0.33 percentage points per year of additional cost at the fund level. Over 20 years on a £100,000 equity allocation at 5% gross, that adds up to approximately £15,000 of forgone terminal wealth.

Bonds. Different picture. Many UCITS bond funds offer GBP-hedged versions at the same TER as the unhedged. iShares Global Aggregate Bond UCITS (AGGG, 0.10% TER) and the GBP-hedged equivalent (AGBP, 0.10% TER) cost the same. Currency volatility can dominate bond returns over short windows, so hedging removes a layer of noise without adding cost.

This is why the "hedge bonds, do not hedge equities" default works: it is honest about where the cost of hedging actually shows up.

WHERE IT FLIPS

Two cases. First, if your time horizon is long (20+ years), the case for hedging equity weakens further; currency moves tend to mean-revert across long horizons. Second, if you are drawing down soon and short-term currency moves could affect the value at which you sell, hedging equity for the few years leading up to drawdown can be defended. US investors have a structurally different setup because the US dollar is the global reserve currency; the case for hedging international exposure back to USD is weaker.

> **WHAT TO DO THIS WEEK**
>
> 1. Write down your hedging policy in one sentence: "I hedge bonds. I do not hedge equities." (Or whatever you have chosen.)
> 2. Check every fund you hold. The share class name will say "Hedged" or "GBP Hedged" if it is.
> 3. Identify any mismatches and decide whether to switch.
> 4. Apply the policy to every new purchase going forward.

SOURCES

VWRP ISIN IE00BK5BQT80. iShares MSCI World GBP Hedged UCITS ETF (IWDG) ISIN IE00B441G979. iShares Global Aggregate Bond UCITS ETF (AGGG) ISIN IE00B43QJJ40 and GBP Hedged (AGBP) ISIN IE00BDBRDM35.

Figures correct as of May 2026.

PRINCIPLE 7 OF 10

Physical replication is the default

Principle 7
of the 10 Decisions guide

Physical or synthetic?
It only matters for US equity.

Same index, two different ways. One pays US dividend tax; the other does not.

Physical

CSPX · iShares Core S&P 500

Fund holds 500 US companies

↓

US dividends paid - 15% US withholding

↓

85% of dividend compounds in fund NAV

0.22% drag /yr

the structural difference

Synthetic

XSPX · Xtrackers S&P 500

Fund holds collateral and a swap with a bank

↓

Bank delivers total return no US withholding

↓

100% of dividend compounds in fund NAV

0.02% drag /yr

0.20% per year saved by holding the synthetic.

Trade-off: counterparty risk on the swap (capped at 10% of NAV under UCITS rules; collateral posted daily).

For everything except US equity, physical is the default.

Sources

iShares Core S&P 500 UCITS ETF (CSPX) ISIN IE00B5BMR087 · ishares.com
Xtrackers S&P 500 UCITS ETF (XSPX) ISIN IE00BM67HT60 · dws.com
UCITS Directive Article 52 counterparty limits · Figures correct as of May 2026.

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10 Decisions Behind Every Self-Directed Portfolio · Principle 7 of 10

THE DECISION

Hold physical ETFs (the fund actually owns the underlying assets) by default. Use synthetic ETFs (the fund uses swap contracts to deliver the index return) only where the structure delivers a clear advantage you have understood and accepted.

WHY THIS MATTERS

Physical and synthetic ETFs can track the same index but deliver subtly different outcomes. Physical is simpler: the fund holds the assets, you own a slice. Synthetic uses a derivative contract with a counterparty bank, which introduces a small counterparty risk and changes the tax treatment in some markets. For most exposures the choice does not matter. For one specific exposure (S&P 500 from a UCITS fund) synthetic can be materially cheaper because of how dividend withholding is handled.

THE MATHS

S&P 500 exposure, the case where synthetic wins. Take iShares Core S&P 500 UCITS (CSPX, physical, TER 0.07%) against Xtrackers S&P 500 UCITS (XSPX, synthetic, TER 0.07%). The TERs are identical. CSPX holds the actual S&P 500 stocks; the US withholds 15% on dividends paid to the Ireland-domiciled fund, which costs ~0.22% of fund NAV per year. XSPX uses a swap to deliver the total return including dividends, and under US tax law swaps on US equities are not subject to the same withholding. Net outperformance of XSPX over CSPX: approximately 0.20% per year.

Counterparty risk. Synthetic UCITS funds cap counterparty exposure at 10% of fund NAV (UCITS Directive Article 52). Swap is typically with a major bank (DB, BNP, JPM). Collateral posted daily. Real but small risk.

Other exposures. For global ex-US, EM, bonds, and sector funds, the synthetic advantage is minimal. Physical is the default everywhere except S&P 500.

WHERE IT FLIPS

Two cases. First, if you are deeply uncomfortable with derivative structures or counterparty risk at any level, hold physical CSPX and accept the 0.20% cost. Second, for US investors holding US-domiciled funds (the standard case), this entire question is largely moot; almost all US-domiciled ETFs are physical.

> **WHAT TO DO THIS WEEK**
>
> 1. For each ETF you hold, check the factsheet for "replication method." It will say "physical" or "full replication" or "sampling," or "synthetic" or "swap-based."
> 2. If you hold a physical S&P 500 UCITS fund (CSPX is the common one), consider whether the synthetic alternative (XSPX or Invesco SPXS) is worth the structure trade-off to you.
> 3. For everything else, physical is the default.

SOURCES

iShares Core S&P 500 UCITS ETF (CSPX) ISIN IE00B5BMR087. Xtrackers S&P 500 UCITS ETF (XSPX) ISIN IE00BM67HT60. Invesco S&P 500 UCITS ETF (SPXS) ISIN IE00B3YCGJ38.

UCITS Directive Article 52 counterparty limits: esma.europa.eu.

Figures correct as of May 2026.

PRINCIPLE 8 OF 10

Anchor on long-run evidence, not last quarter

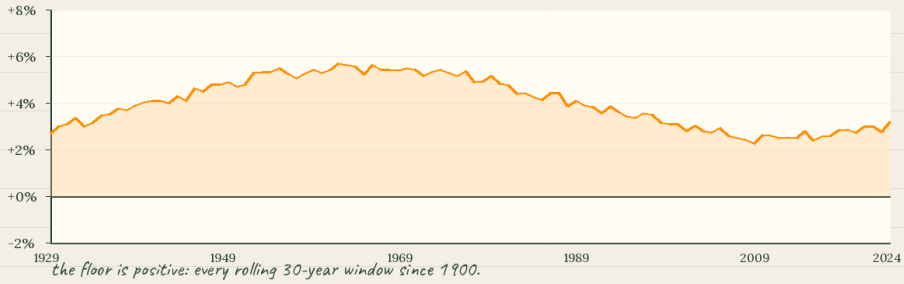
Principle 8
of the 10 Decisions guide

Anchor on 30 years. Ignore the noise.

Same data, two windows. Long-run gives you a signal; short-run gives you noise.

Rolling 30-year real returns, global equity (1929 to 2024)

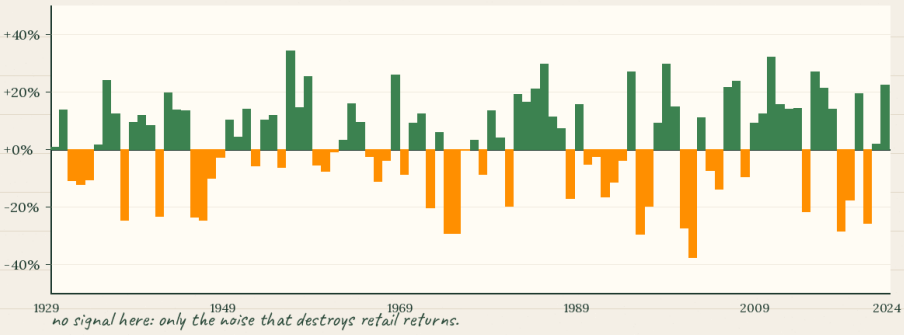
every period positive · range 2.0% to 6.5%



the floor is positive: every rolling 30-year window since 1900.

Annual returns, global equity (same period)

wild swings · range -41% to +43%



no signal here: only the noise that destroys retail returns.

1.7% per year lost to timing

Morningstar 'Mind the Gap' — the average gap between fund returns and investor returns. Caused by reacting to short-window data.

Sources

Dimson Marsh Staunton · Global Investment Returns Yearbook (LSE / UBS)
Morningstar 'Mind the Gap' study · morningstar.com | Shiller US data · shillerdata.com
Charts illustrative; values approximate the published series. Correct as of May 2026.

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10 Decisions Behind Every Self-Directed Portfolio · Principle 8 of 10

THE DECISION

Size your portfolio against base rates that have held across multiple decades and economic regimes. Treat the last 12 months of returns as noise. The maths of mean reversion is unforgiving for investors who chase recent winners.

WHY THIS MATTERS

The single biggest source of underperformance in retail investing is timing. Investors buy after good performance, sell after bad, and end up earning meaningfully less than the funds they hold. The Morningstar "Mind the Gap" study estimates this gap at 1.7 percentage points per year on average. Funds compound at the headline return; investors compound at the headline return minus their timing mistakes. Anchoring on long-run evidence is the single behavioural defence against this.

THE MATHS

The Dimson-Marsh-Staunton dataset (LSE Business School, updated annually) covers global equity returns from 1900 to 2024 across 21 markets.

Headline real returns, 1900 to 2024: Global equities approximately 5.0% per year real. 60/40 global equity/bond portfolio approximately 4.0%. Global bonds approximately 1.5%. Cash (UK Treasury bills) approximately 0.7%.

Rolling 30-year periods within that 125-year history: every 30-year period for global equities has delivered positive real returns. Every one. The worst was the 1929 to 1959 window (Great Depression plus WWII), which still returned approximately 2% per year real. The best was the 1979 to 2009 window at approximately 6.5%.

Compare against the shortest windows: 1-year returns for global equity have a standard deviation of around 16%. A bad year can be down 30% to 40%. A good year can be up 30% to 40%. There is no useful signal in any 1-year window.

The practical takeaway: size your equity allocation as if you will earn somewhere between 3% and 6% real per year over 20 to 30 years. Plan against the range, not the headline. Do not rebuild your portfolio because last year was good or bad.

WHERE IT FLIPS

Long-run base rates are the right input for sizing decisions. Current data is the right input for tactical inputs: today's cash rate tells you what cash is yielding now, today's TIPS yield tells you what protected real bonds are pricing in, today's CAPE ratio tells you something about US equity valuations relative to history. Use long-run base rates for the structure; use current data for the inputs to that structure.

WHAT TO DO THIS WEEK

1. Look up the historical real return for each asset class in your portfolio (Credit Suisse Global Investment Returns Yearbook is free and authoritative).
2. Write down your expected return for each asset class over the next 20 years.
3. If your expectation is above the long-run base rate, write down why you think the future will be better than the past.
4. If your portfolio is constructed around return expectations based on data shorter than 10 years, find longer data and redo the construction.

Want to filter funds by long-window evidence? The Allocra ETF Screener defaults its performance filter to 10-year and 20-year windows rather than 12 months, precisely because of the principle above. Free during beta. Join the waitlist at allocra.co.

SOURCES

Credit Suisse / UBS Global Investment Returns Yearbook (Dimson, Marsh, Staunton at LSE): publications.credit-suisse.com (and successor at ubs.com).
Robert Shiller US historical data: shillerdata.com. Aswath Damodaran NYU historical risk premia: pages.stern.nyu.edu/~adamodar.
Morningstar "Mind the Gap" study: morningstar.com.
Figures correct as of May 2026.

PRINCIPLE 9 OF 10

Fill tax-advantaged wrappers before taxable accounts

Principle 9
of the 10 Decisions guide

Fill the wrapper before the taxable.

Every pound or dollar inside the wrapper compounds without tax. Outside, it does not.

fill from the top

UK *(2026/27 allowances)*

1. **ISA**
   £20,000 per year · no tax on dividends or CGT
2. **SIPP**
   Up to £60,000 per year · tax relief at marginal rate
3. **LISA (if under 40)**
   £4,000 per year · 25% government bonus
4. **Junior ISA**
   £9,000 per child per year · same ISA rules
5. **General Investment Account**
   Only after all wrappers are full

US *(2026 contribution limits)*

1. **401(k) up to employer match**
   Free money · never leave it on the table
2. **HSA (if eligible)**
   $4,150 / $8,300 · triple tax advantage
3. **Roth IRA**
   $7,000 · tax-free growth and withdrawal
4. **401(k) up to limit**
   $23,500 · pre-tax growth
5. **Taxable brokerage**
   Only after all wrappers are full

£56,400 in the SIPP after 25 years
from a single £10k net contribution by a higher-rate taxpayer.
Same £10k in a GIA grows to roughly £30k after tax drag.

Sources
UK ISA / SIPP / LISA / JISA · gov.uk/individual-savings-accounts · gov.uk/tax-on-your-private-pension
US 401(k) / IRA / HSA · irs.gov/retirement-plans | Allowances 2026/27 (UK) and 2026 (US).
Figures correct as of May 2026. Income / age limits apply to some accounts.

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10 Decisions Behind Every Self-Directed Portfolio · Principle 9 of 10

THE DECISION

Always max out your tax-advantaged accounts before contributing to a taxable account. The maths of tax-free compounding is so much better than after-tax compounding that nothing else in this guide will move the needle as much as this one decision.

WHY THIS MATTERS

Money inside an ISA or SIPP (UK) or 401(k), Roth IRA, or HSA (US) grows free of income tax, dividend tax, and capital gains tax for as long as it stays inside the wrapper. Money in a general investment account or taxable brokerage pays tax on dividends each year and CGT when you sell at a gain. Over 30 years, that drag is the difference between two materially different ending balances.

THE MATHS

UK allowances for 2026/27. ISA £20,000 per year. SIPP up to £60,000 per year (subject to annual allowance taper). Junior ISA £9,000 per year. LISA £4,000 per year (counts within ISA limit).

UK worked example. A 45-year-old higher-rate taxpayer earning £80,000, with £30,000 to invest. Path A: £20,000 ISA + £10,000 GIA. The GIA portion sees ongoing dividend tax and CGT. Path B: £20,000 ISA + £10,000 SIPP. The SIPP contribution attracts immediate higher-rate relief: £10,000 net becomes £16,667 gross. No dividend tax or CGT inside. Over 25 years at 5% real return, Path A's £10,000 GIA portion grows to roughly £30,000 net of tax drag. Path B's £16,667 SIPP grows to roughly £56,400. Path B comes out materially ahead even at the worst marginal rate at drawdown.

US allowances for 2026. 401(k) elective deferral $23,500 ($31,000 with catch-up at 50+). Roth IRA $7,000 ($8,000 at 50+). HSA $4,150 individual / $8,300 family.

US priority order. 1. 401(k) up to the employer match (free money). 2. HSA if eligible (triple tax advantage). 3. Roth IRA up to the limit (or backdoor Roth). 4. 401(k) up to the elective deferral limit. 5. Taxable brokerage.

WHERE IT FLIPS

If you need the money before you can access the wrapper (age 57 for SIPPs, 59.5 for IRAs and 401(k)s), the wrapper is not the right place. For genuinely short-term goals (house deposit, near-term major purchase), a GIA or taxable brokerage is the correct choice. The principle is about long-term retirement and wealth-building money, not all money.

WHAT TO DO THIS WEEK

1. Add up what you have already contributed to tax-advantaged accounts this tax year (UK 6 April to 5 April; US 1 January to 31 December).
2. Subtract from the annual limits. The gap is your unused tax-free space.
3. Redirect any GIA or taxable brokerage contributions into the wrapper until the limits are exhausted.
4. Set up automated monthly contributions sized to consume the full annual limit. ISA £1,666 per month, SIPP up to £5,000 per month at the limit.

SOURCES

UK allowances: gov.uk/individual-savings-accounts and gov.uk/tax-on-your-private-pension.

US allowances: irs.gov/retirement-plans. SIPP tax relief: gov.uk/tax-on-your-private-pension/pension-tax-relief.

Figures correct as of May 2026; check live limits before acting.

PRINCIPLE 10 OF 10

Rebalance on thresholds, not timetables

Principle 10
of the 10 Decisions guide

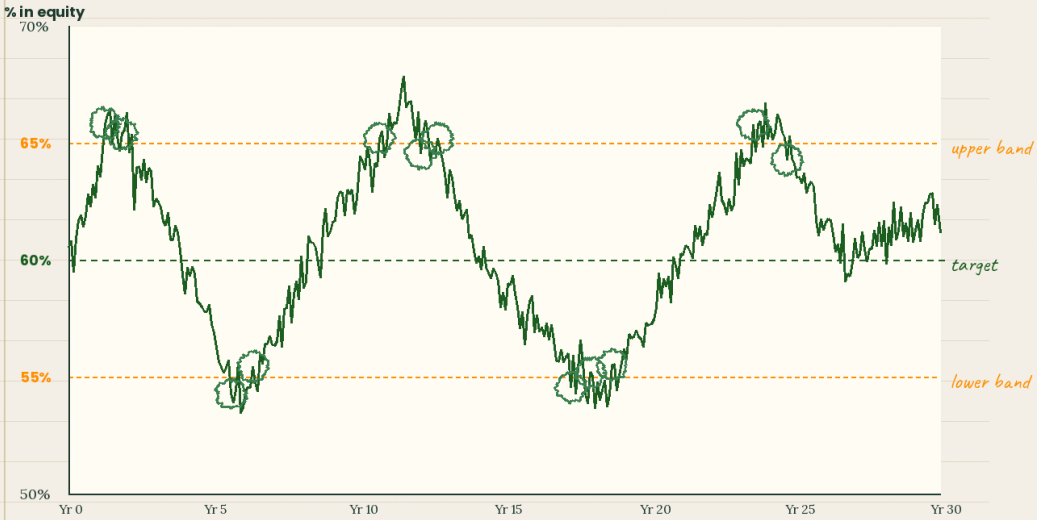
Rebalance on drift. Not on the calendar.

Same portfolio, two rebalancing rules. The principled rule fires less than half as often.

Equity allocation versus 60% target · 30-year simulation

with rebalancing markers from each rule

The line below is the equity slice of a 60/40 portfolio, drifting as markets move.
The amber bands at 55% and 65% are the trigger zones for the threshold rule (5pp tolerance).



Calendar rebalancing: 30 events · one per year, regardless of drift

Threshold rebalancing: 12 events · only when allocation crosses 55% or 65%

18 fewer rebalances over 30 years

Fewer trades, lower transaction costs, fewer tax events in a taxable account, less to think about.

Same risk-adjusted return. Vanguard's research confirms it.

Sources

Vanguard 'Best practices for portfolio rebalancing' · vanguard.com/research
Threshold vs calendar academic literature · Journal of Financial Planning
Chart illustrative; figures approximate. Correct as of May 2026.

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10 Decisions Behind Every Self-Directed Portfolio · Principle 10 of 10

THE DECISION

Rebalance when an allocation drifts more than a defined band from target. Not on a fixed calendar. Threshold rebalancing triggers fewer trades, generates less tax friction, and manages risk just as well as calendar rebalancing.

WHY THIS MATTERS

"Rebalance once a year" is a common piece of advice. It is also arbitrary. Calendar rebalancing fires whether the portfolio has actually drifted or not, generating unnecessary trades. Threshold rebalancing only fires when there is genuine misalignment worth correcting. Same risk management; fewer trades; lower frictional cost; less mental load.

THE MATHS

Take a 60/40 target portfolio with a 5 percentage point band (rebalance when the equity allocation drifts to 65% or 55%).

Vanguard's "Best practices for portfolio rebalancing" paper tested calendar rebalancing against threshold rebalancing across decades of historical data. The findings are consistent. Threshold rebalancing with a 5% band generates approximately 0.05 fewer rebalances per year on average than annual calendar rebalancing, with no detectable difference in long-run risk-adjusted return.

Worked example. £200,000 portfolio, 60/40 target, 5pp bands. Calendar rebalancing (annual): 30 rebalances over 30 years. Threshold rebalancing: typically 10 to 15 rebalances over 30 years. The £270 to £360 saving over 30 years is small in absolute terms. The bigger benefits are in a taxable account (each rebalance triggers CGT events) and in the reduced mental load.

WHERE IT FLIPS

Two cases. First, inside an ISA or SIPP where there is no CGT and many platforms offer commission-free trading, calendar rebalancing is essentially free. Second, for very small portfolios (under £20,000) the absolute drift in pounds is tiny, and threshold rebalancing might mean you never rebalance.

WHAT TO DO THIS WEEK

1. Write down your target allocation for each asset class.
2. Set rebalancing thresholds. 5 percentage points is the standard default. Narrower (3pp) if you want tighter control; wider (7pp or 10pp) if you want fewer trades.
3. Check your current portfolio against the thresholds. Rebalance only if you have crossed.
4. Set a quarterly calendar reminder to check, not to rebalance. Checking is free; trading is not.

Want drift alerts done for you? The Allocra Portfolio Rebalancer emails you when any holding crosses your threshold and shows the exact trades to execute. Free during beta. Join the waitlist at allocra.co.

SOURCES
Vanguard "Best practices for portfolio rebalancing" research paper: vanguard.com/research.
Academic literature on threshold versus calendar rebalancing: Journal of Financial Planning.
Figures correct as of May 2026.

How these decisions compound

Run all ten decisions on a portfolio and the cost drag drops from a typical retail-self-directed figure of around 1.55% per year to something closer to 0.30%. On a £500,000 portfolio held for 10 years at 5% gross, that cost gap compounds into roughly £93,000 of terminal wealth. On a £100,000 portfolio held for 20 years, roughly £40,000. The Allocra Cost Methodology v1.1 sets out the full derivation if you want to see how the figures are built.

None of this requires market timing. None of it requires you to read a 400-page textbook. It requires you to make ten decisions in the right order, and then to leave the portfolio alone while it compounds.

If you work through these ten decisions carefully, you will be applying the same principles a fee-only adviser would apply, with the same maths and the same evidence base behind them. The thinking is the same; the difference is who does it. That said, this guide is not a substitute for personalised advice. If your situation is complex or your portfolio is large, an adviser remains a sensible step.

IMPORTANT DISCLOSURE
This guide is general educational content for UK and US self-directed investors. It is not investment, tax, financial, or any other form of regulated advice. Nothing in this guide constitutes a personal recommendation. The decisions described here are described in general terms and may not be appropriate for your specific circumstances.
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Investments can fall in value as well as rise; you may get back less than you invested. Past performance is not a guide to future returns. If your situation is complex (large portfolio, recent inheritance, expat tax status, business structure), if your portfolio is large enough that a mistake would be material, or if you are unsure whether a particular approach is right for you, consult a qualified independent financial adviser. Fee-only advisers charged hourly are listed at unbiased.co.uk and VouchedFor (UK) and through NAPFA (US).

Beta opens 20 July 2026.

The Allocra toolset (Screener, Optimiser, Tax, Dividends, Rebalancer) runs the calculations above in your browser. Inputs stay on your device. No affiliate links, no recommendations, no sales pitch.

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