ROTHESAY BENNETT

FINANCIAL PLANNING

GUIDE TO

INVESTING

Could your money be working harder so you don't have to?

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Rothesay Bennett Financial Planning
Top Floor 287/289, Kenilworth Road, Balsall Common, CV7 7EL
Tel: 01676 533692 **Web:** www.rothesaybennett.co.uk

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GUIDE TO

INVESTING

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WELCOME

Welcome to our *Guide to Investing*. It's not surprising that the world of investing can seem complex. Investors today face often-changing market conditions. An endless supply of market news. And many, many investment choices.

Investing enables you to potentially grow your money. Whether you're looking to pay off your mortgage more quickly, boost your retirement fund or provide financial security for your child's future, investing could help you get there sooner.

If you're new to investing, knowing where to start can be a daunting task. In our guide, we take you through your investment journey, from what to consider before you start, the different types of investment options that might suit you, and the various asset classes. You'll also learn why it's important to focus on the long term as an investor and create a diversified portfolio that includes a range of different investments.

Having specific goals in mind is essential when it comes to picking appropriate investments. Are you looking for short-term security or long-term gains? How much growth do you need to reach your goal? Answering questions like these will keep you focused on building a portfolio that's right for you and your needs.

The most successful investors are often those with discipline. Those who invest for the long term and don't tinker with their portfolios too much. The ultimate secret to financial success lies in having your money doing the work so that you have peace of mind that your cash is working hard.

It's also important to remember that any investment comes with risk. All investments can go down as well as up, and you may get back less than you invest.

Ready to start a conversation?
In our guide we look to debunk the myth that investing is only for the very wealthy. Investing means different things to different people. If you would like to find out more or arrange an appointment, please contact us – we look forward to hearing from you.

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CONTENTS

02 WELCOME
Could your money be working harder so you don't have to?

04 VISION WITHOUT ACTION IS MERELY A DREAM
Staying focused and confident you're on the right path

06 GOALS-BASED INVESTING
Clear, concise, detailed and written down

07 'WHAT IF' SCENARIOS
Adapting to any life changes to keep your plans on track

08 OBJECTIVES AND MOTIVATIONS
Assessing current and forecasted wealth

10 INFLATION MATTERS
Guarding against rising inflation eating away at your investments

11 TALKING THROUGH YOUR FINANCIAL OBJECTIVES
Knowing yourself, your needs and goals, and your appetite for risk is essential

13 GOAL-BASED INVESTMENT STRATEGY
Investing is a lifelong process, and the sooner you start, the better

15 FOCUSING ON LONG-TERM HORIZONS
A strategy that reflects your risk tolerance and time horizon

17 RISK FOR RETURN
Improving your chances of achieving your investment goals

18 SIX PRINCIPLES OF INVESTING
How to invest your money and avoid costly mistakes

19 NAVIGATING THE UPS AND DOWNS OF THE MARKET
Maintaining a clear purpose for your investment strategy

20 MAINTAINING A DIVERSIFIED PORTFOLIO
Reducing risk and improving your overall portfolio returns

22 ASSET ALLOCATION
Potential returns available from different kinds of investment

24 EVOLUTION OF ESG INVESTING
Changing face of investor ethics and behaviours

25 REALISTIC PERFORMANCE EXPECTATIONS
Managing overall exposure to market volatility

26 POUND COST AVERAGING
Smoothing out the ups and downs of the market

27 POOLING RESOURCES
Collective investment schemes

28 IN CONCLUSION
Taking charge of your financial security

VISION WITHOUT ACTION IS MERELY A DREAM

Staying focused and confident you're on the right path

> **VISION WITHOUT ACTION IS MERELY A DREAM.**

No two people have identical financial circumstances, which is why it's essential you have a tailored financial planning solution in place that meets your individual needs and investment goals.

During periods of any market volatility, it is understandable for investors to fight the urge to respond inappropriately or irrationally when markets aren't performing.

Goal-based financial planning enables investors to act in a systematic and disciplined manner to achieve their set goals. It also enables investors to remain focused and unaffected by short-term volatility in markets.

PLANNING FOR FINANCIAL SUCCESS

Although investors may have very different goals depending on what life stage they are at, goals can be broadly categorised into essential needs, lifestyle wants and legacy aspirations.

Planning for financial success in each of these areas can be complicated in today's world. A broad knowledge of everything from complex retirement and investment products to risk management strategies and tax laws is required.

A financial roadmap should provide clarity about the future. It should detail every aspect of your vision – your hopes, fears and goals. It should also describe exactly how your future will look and help you to know exactly where you are headed and when you are likely to arrive.

HELPING YOU MAINTAIN FOCUS

Building wealth takes time and a little effort. Like any activity, be it growing a business or learning a new skill, you need to decide early on what your long-term objectives are. It's exactly the same when you are building wealth – it is important to set financial goals.

Without a goal, your efforts can become disjointed and often confusing. Being able to keep track of your progress towards achieving a goal is only possible if you set one in the first place. Being able to measure progress is extremely rewarding and will help you maintain focus.

Procrastination is something we all battle with from time to time. However, when you set goals in life, specific goals for what you want to achieve, it helps you understand that procrastination is dangerous. It is wasted time. It is another day you aren't moving closer to that goal.

Setting financial goals is essential to financial success. Once you've set your goals you can then write and follow a roadmap to realise them. It helps you stay focused and confident you're on the right path.

TAKE SOME TIME AND ASK YOURSELF THESE QUESTIONS:

- Can I sleep comfortably knowing I'll have enough money for my future?
- Do I have the security of knowing where I'm heading financially?
- Am I going to be able to maintain my current lifestyle once I stop working?
- Do I feel empowered financially to live the life I want today and tomorrow?
- Have I made sufficient financial plans to live the life I want and not run out of money?
- Do I have a complete understanding of my financial position?
- What is 'my number' to make my current and future lifestyle secure?

IDENTIFYING YOUR FUTURE LIFESTYLE

Initially you need to identify the goal for which you wish to invest and assess the time you have to reach it. Once that is done, it is important to find how much the goal costs today. Add a reasonable amount of inflation to that, and then you would know what the goal would cost you in the year you wish to accomplish it.

This process requires you to understand 'your number' – in other words, the amount of money you'll ultimately need to ensure complete peace of mind in knowing your future lifestyle is secure and making sure you don't run out of money before you run out of life.

MAKING THE RIGHT FINANCIAL CHOICES

By getting to know you and what you want to achieve, we'll be able to provide you with a detailed action plan that is focused on you. Using a holistic financial planning process, we can get a clear view of your current lifestyle and the life you want to live.

Your financial roadmap will enable you to make the right financial choices and get the balance right between current responsibilities and future aspirations. All of this should be designed in a way so that you can achieve your desired lifestyle goals and objectives reliably over time. ●

GOALS-BASED INVESTING

Clear, concise, detailed and written down

Goals-based investing is an approach that aims to help people meet their personal and lifestyle goals, whatever they may be. If you do not know where you are going, how will you know when you get there? This is very true about financial goals.

You need to set financial goals to help you make wise financial decisions, and also as a reward for your efforts. Goals should be clear, concise, detailed and written down. Unwritten goals are just wishes.

Goals might be to maintain your same standard of living (planning for retirement, or in the case of an entrepreneur, anticipating the sale of your business), buying property, paying for children's or grandchildren's education, passing on a proportion of your wealth, making charitable donations, covering unplanned financial needs, etc. Each of these goals will make up a specific portfolio.

But in order to achieve all of your goals, you will need a plan. Starting from assets you already have available, you need to determine how much more you require to accumulate and when you will need it.

Don't neglect to consider that the price of your goal items might actually increase as well. Depending upon how you invest your savings over time, you might receive interest, dividends or capital gains to help you along – you should consider this as well.

SPECIFIC

Your financial and personal goals need to be as specific as possible, because otherwise they won't give you enough direction to follow through. Look at your goals like a lamp lighting the way – the brighter the light, the clearer the road ahead. If you don't have clearly defined goals, this can lead to procrastination. Think about your life and what you want to achieve, and what action you need to take to achieve the outcomes you want.

MEASURABLE

Give yourself realistic deadlines. Adding specific dates, amounts, etc. makes your progress quantifiable to complete your goal and visualise a finish line.

ATTAINABLE

Be honest with yourself and set realistic goals. Decide what you want to accomplish. So, start with the goals that are highest on your priority list. It's easy to be overwhelmed by everything that needs to be done, so start simple.

RELEVANT

Align your goals with the direction you want your life to take. Balancing the alignment between long term and short term will give you the focus you'll need.

TIME-BOUND

Having a finish line will mean you'll get to celebrate when you accomplish your goal. Having set deadlines gives you a sense of urgency that is lacking when goals are open-ended.

SETTING REALISTIC GOALS

Each goal will be assigned an amount, an investment period, a level of risk and an order of priority. Do you have the means to make additional investments necessary to accumulate the required assets to achieve your goals? Don't neglect to consider the effects of taxes on your savings and investments.

After considering the foregoing, you might determine that you can achieve some goals in less time. Or you might find that it could take longer. The time horizon is important to setting realistic goals. ●

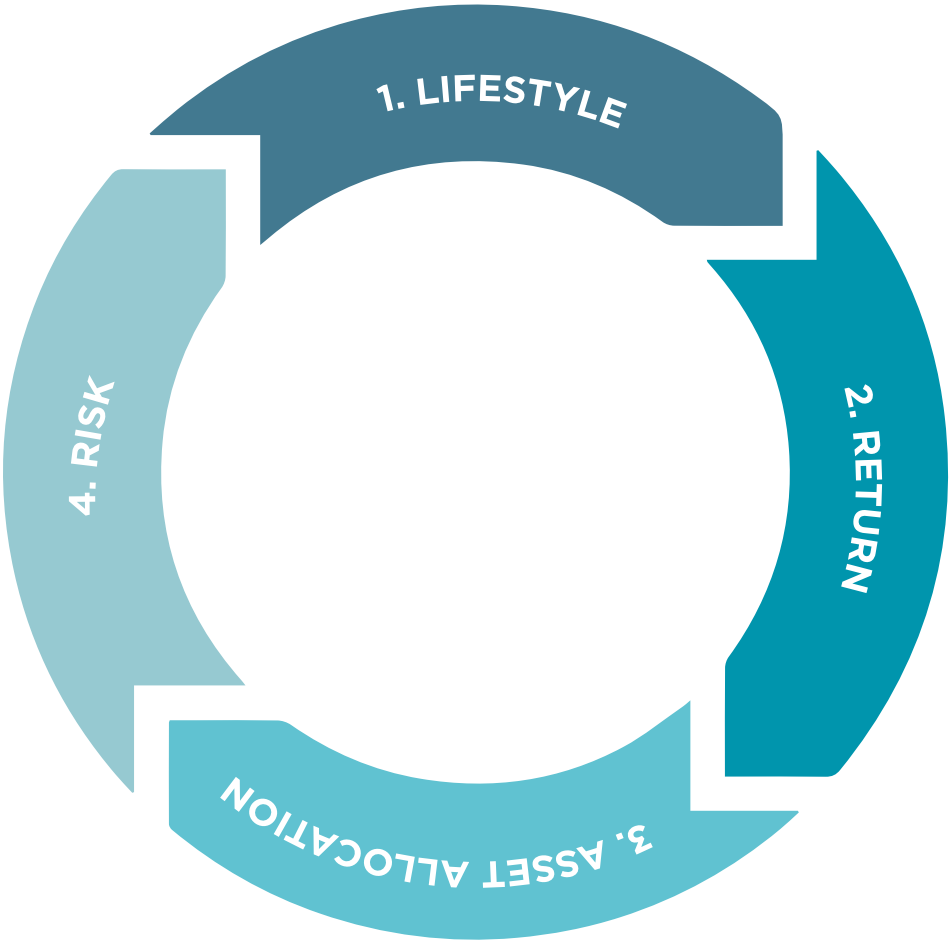
‘WHAT IF’ SCENARIOS

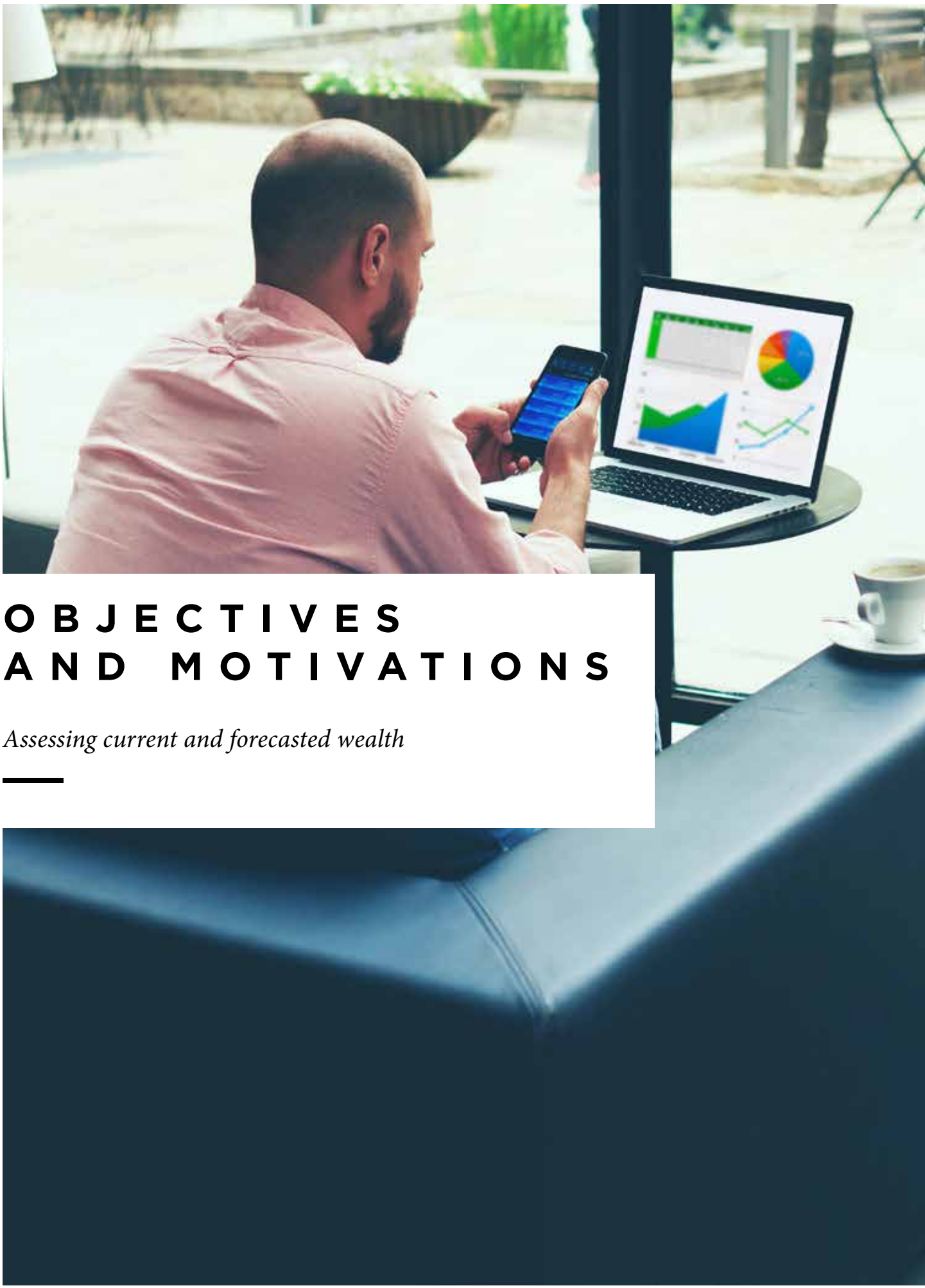
Adapting to any life changes to keep your plans on track

It’s important to have realistic expectations of what your financial resources can achieve, to give you peace of mind that you can achieve what you want, when you want, without putting your future plans at risk. Key to this is understanding how each financial decision can affect other areas of your financial plans.

You also need to visualise that if there are any future bumps in the road on your journey, you’ve considered different ‘what if’ scenarios and have taken the right approach to protecting yourself and your family against the consequences.

Regular reviews of your personal plans and financial circumstances will also help you to adapt to your life changes and make you feel more financially secure and independent. ●





OBJECTIVES AND MOTIVATIONS

Assessing current and forecasted wealth

Every important journey has a destination. Similarly, every investment should have a goal, and each goal should be time based. Quantifying the amount of money needed to achieve that goal is important.

Evaluating your goals in greater depth is essential if you want to get a picture of your objectives and aspirations. With a full understanding of your circumstances and priorities, we'll provide you with advice that is custom-tailored to suit your specific lifestyle goals, and together develop a strategy based on your personal circumstances.

CASH FLOW MODELLING

In order to develop your financial plan, you need clarity over your goals, your objectives and your motivations. An integral part of the lifestyle financial planning process includes cash flow modelling. It gives you a graphic representation of your financial future and an insight into how life events will have an impact. This illustrates what might happen to your finances in the future and enables you to plan to ensure that you make the most of your money to achieve your financial objectives.

The process shows your current position relative to your preferred position and your goals by assessing your current and forecasted wealth, along with income inflows and expenditure outflows to create a picture of your finances, now and in the future. This detailed picture of your assets includes investments, debts, income and expenditure, which are projected forward, year by year, using calculated rates of growth, income, inflation, wage rises and interest rates.

A cash flow model calculates the growth rate you'll require if you are to meet your investment objectives. This rate is then cross-referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Looking at your financial journey in this way enables you to implement a detailed plan that outlines how to deliver your financial future. To ensure that, over time, you achieve your desired lifestyle goals, it is important for us to regularly review your financial plan and make any necessary amendments should your personal circumstances change.

ASSET ALLOCATION MIX

Cash flow modelling can determine what recommendations and best course of action are appropriate for your particular situation and the right asset allocation mix. The growth rate you require is calculated to meet your investment objectives. This rate is then cross-referenced with your attitude to risk to ensure your expectations are realistic and compatible with the asset allocation needed to achieve the necessary growth rate.

Where this approach becomes particularly useful is the analysis of different scenarios based on decisions you may make – this could be lifestyle choices or perhaps investment decisions. By matching your present and expected future liabilities with your income and capital, recommendations can be made to ensure that you don't run out of money throughout your life.

HOW MUCH TO SAVE, SPEND AND INVEST

A snapshot in time is taken of your finances. The calculated rates of growth, income, tax and so on that are used to form the basis of any cash flow modelling exercise will always be assumptions. This is why regular reviews and reassessments are required to ensure you remain on track.

Nearly all decisions are based on what is contained within the cash flow. This will include how much to save and spend, to how funds should be invested to achieve the required return, so there is a lot that needs to be managed.

A LIFETIME CASH FLOW PLAN SHOULD ENABLE YOU TO:

- Produce a clear and detailed summary of your financial arrangements
- Define your family's version of the 'good life' and begin working towards it
- Work towards achieving and maintaining financial independence
- Ensure adequate provision is made for the financial consequences of the death or disablement of you or your partner
- Plan to minimise your tax liabilities
- Produce an analysis of your personal expenditure planning assumptions, balancing your cash inflows and your desired cash outflows
- Estimate future cash flow on realistic assumptions
- Develop an investment strategy for your capital and surplus income in accordance with risk/reward, flexibility and accessibility with which you are comfortable
- Become aware of the tax issues that are likely to arise on your own death and that of your partner

RUN THROUGH THE NUMBERS

With every financial corner you turn, it is important to 'run through the numbers', which will help you make the right financial decisions. It is important to be specific. For example, it is not enough to say, 'I want to have enough to retire comfortably'. You need to think realistically about how much you will need – the more specific you are, the easier it will be to come up with a plan to achieve your goals.

If your needs are not accurately established, then the cash flow will not be seen as personal, and therefore you are unlikely to perceive value in it. Some years, there may not be any change, or just small tweaks.

However, in other years, there may be something significant; either way, you will need to ensure things are up to date and to keep your own peace of mind knowing your plans are still on track.

It is vital that you are made aware that certain assumptions have been made in the making of your plan. Projected inflation and growth rates need to be made clear, and it should be explained that the plan and cash flow model is only as good as the information provided, so it is critical that it is reviewed. ●

INFLATION MATTERS

Guarding against rising inflation eating away at your investments

Understanding inflation is an important factor when it comes to investing and your financial success. If you don't factor inflation in when deciding where to put your money – whether that's savings accounts or investing – you could find your wealth shrinks over the years.

As the post-pandemic recovery takes hold, prices of various goods and services are rising. The recent causes of higher inflation that we've been experiencing are largely COVID-related. The easing of lockdowns has boosted consumer confidence and unleashed pent-up demand. At the same time, bottlenecks in production and distribution are squeezing supplies – from building materials to foodstuffs. This supply and demand imbalance has forced up some prices.

Before the pandemic, UK Consumer Prices Index (CPI) inflation rate was around 2% - the rate the Bank of England aims for. However, as with everything else, COVID has played havoc with headline inflation figures. For most of the last year, prices have been rising at a rate of less than 1% a year. However, in June inflation rose to 2.5% (CPI).

GROWING REALISATION

A sustained period of low inflation may have blunted some people's concerns about inflation. But there's now a growing realisation that high inflation could be around the corner, which reduces your purchasing power and what you could buy with your savings over time.

Some investors and savers may underestimate the damaging effects of inflation on their wealth. Keeping money in the bank typically earns interest, but if the interest rate is lower than inflation, money or purchasing power is effectively being lost.

PENSION SAVERS

People on fixed incomes – such as those whose pensions aren't inflation-linked or workers on a static wage – are especially vulnerable to the effects of inflation. As living costs rise, your money doesn't go so far.

Pension savers need to think about what their savings might be worth during retirement – often a long time into the future. Inflation can make the difference between an enjoyable retirement and a frugal, worrisome one.

ABOVE-INFLATION RETURNS

That's why you should consider mitigating the effects of inflation by investing at least some of your money in assets that aim to offer above-inflation returns.

Arguably, we can expect inflation to settle back to lower levels once the post-pandemic surge in demand has been sated and supply chains are smoothed out. But even so, with the global economy poised for a strong rebound, most central banks are keen to get back to 'normal' monetary conditions. So rock-bottom interest rates can't last forever.

GOOD INVESTMENT

Bonds and other assets that pay a fixed income and/or a fixed investment return are especially vulnerable to inflation. Bonds become less valuable as inflation and interest rates rise, reflected in falling bond prices and rising yields.

Conversely, shares are generally a good investment during periods of modest inflation. A company's fortunes typically track consumer demand and economic growth. If demand is strong, companies can raise prices, boosting the profits from which they pay dividends to their share-holders.

TRACK RECORD

Besides shares, there are other assets with a track record of doing well during times of moderate inflation. These include infrastructure assets, where income streams increase as demand grows and the assets mature.

Likewise, gold and other commodities can be useful stores of value to hedge against inflation. So the good news is that it is possible to get an inflation-beating return on your savings, as there are different investment opportunities. However, these involve taking on a little more risk than with a cash savings account. ●

TALKING THROUGH YOUR FINANCIAL OBJECTIVES

Knowing yourself, your needs and goals, and your appetite for risk is essential

A financial review is a great way to take a fresh look at your finances and plan for the journey ahead. More importantly, it enables you to talk through your long-term financial objectives and discuss with us a way forward to deliver your plan and achieve them.

You need to consider what you really want from your investments. A review will also ensure you are on top of your overall asset allocation and individual shares and funds. We'll make sure they are consistent with how much risk you want to – and can afford to – take. Knowing yourself, your needs and goals, and your appetite for risk is essential.

1. CONSIDER YOUR REASONS FOR INVESTING

It's important to know why you're investing. The first step is to consider your financial situation and your reasons for investing.

For example, you might be:

- Looking for a way to get higher returns than on your cash savings
- Putting money aside to help pay for a specific goal such as your children's or grandchildren's education or their future wedding
- Planning for your retirement

Determining your reasons for investing now will help you work out your investment goals and influence how you manage your investments in future.

2. DECIDE ON HOW LONG YOU CAN INVEST

If you're investing with a goal in mind, you've probably got a date in mind too. If you've got a few goals, some may be further away in time than others, so you'll probably have different strategies for your different investments.

Investments rise and fall in value, so it's sensible to use cash savings for your short-term goals and invest for your longer-term goals.

Short term

Most investments need at least a five-year commitment, but there are other options if you don't want to invest for this long, such as cash savings.

Medium term

If you can commit your money for at least five years, a selection of investments might suit you. Your investments make up your 'portfolio' and could contain a mix of funds investing in shares, bonds and other assets, or a mixture of these.

Long term

Let's say you start investing for your retirement when you're fairly young. You might have 20 or 30 years before you need to start drawing money from your investments. With time on your side, you might consider higher-risk fund exposure that can offer the chance of higher returns in exchange for an increased risk of losing your money.

As you get closer to retirement, you might sell off some of these riskier investments and move to safer options with the aim of protecting your investments and their returns.

How much time you've got to work with will have a big impact on the decisions you make. As a general rule, the longer you hold investments, the better the chance they'll outperform cash – but there can never be a guarantee of this.

3. MAKE AN INVESTMENT PLAN

Once you're clear on your needs and goals, and you've assessed how much risk you can take, we'll help you identify the types of investment options that could be suitable for you.

4. BUILD A DIVERSIFIED PORTFOLIO

Holding a balanced, diversified portfolio with a mix of investments can help protect it from the ups and downs of the market. Different types of investments perform well under different economic conditions. By diversifying your portfolio, you can aim to make these differences in performance work for you.

You can diversify your portfolio in a few different ways through funds that invest across:

- Different types of investments
- Different countries and markets
- Different types of industries and companies

A diversified portfolio is likely to include a wide mix of investment types, markets and industries. How much you invest in each is called your 'asset allocation'.

5. MAKE THE MOST OF TAX ALLOWANCES

As well as deciding what to invest in, think about how you'll hold your investments. Some types of tax-efficient account mean you can normally keep more of the returns you make. It's always worth thinking about whether you're making the most of your tax allowances too.

You need always to bear in mind that these tax rules can change at any time, and the value of any particular tax treatment to you will depend on your individual circumstances.

6. REVIEW PORTFOLIOS PERIODICALLY

Periodically, a financial review will provide the opportunity to check and see if your portfolio's wide mix of investment types and markets still aligns with your goals.

These are some aspects of your portfolio you may want to check up on annually:

Changes to your financial goals

Has something happened in your life that calls for a fundamental change to your financial plan? Maybe a change in circumstances has changed your time horizon or the amount of risk you're willing to handle. If so, it's important to take a hard look at your portfolio to determine whether it aligns with your revised financial goals.

Asset allocation

An important part of investment planning is setting an asset allocation that you feel comfortable with. Although your portfolio may have been in line with your desired asset allocation at the beginning of the year, depending on the performance of your portfolio, your asset allocation may have changed over the period in question. If your actual allocations are outside of your targets, then perhaps it's time to readjust your portfolio to get it back in line with your original targets.

Diversification

Along with a portfolio with a proper asset class balance, you will want to ensure that you're properly diversified inside each asset class. Diversification means owning a variety of assets that perform differently over time, but not too much of any one investment or type.

There are four main asset classes – cash, fixed-interest securities, property and equities – and having exposure to them all will help reduce the overall level of risk of your investment portfolio. If one part of your portfolio isn't doing well, the other investments you've made elsewhere should compensate for any market corrections.

Performance

Consider if there are certain aspects of your portfolio that need rebalancing. You may also want to consider selling to help offset capital gains you might make throughout the year.

The primary goal of a rebalancing strategy is to minimise risk relative to a target asset allocation, rather than to maximise returns. Over time, asset classes produce different returns that can change the portfolio's asset allocation. To recapture the portfolio's original risk-and-return characteristics, the portfolio should therefore be rebalanced. ●

GOAL-BASED INVESTMENT STRATEGY

Investing is a lifelong process, and the sooner you start, the better

A lifestyle financial plan has no value unless it is properly implemented through an appropriate goal-based investment strategy. If you've got a sufficient amount of money in your cash savings account – enough to cover you for between at least three to six months – and you want to see your money grow over the long term, then you should consider investing some of it.

Investing is a lifelong process, and the sooner you start, the better off you may be in the long run. Regardless of the financial stage of life you are at, you will need to consider what your investment objectives are, how long you have to pursue each objective, and how comfortable you are with risk.

CURRENT FINANCES AND FUTURE GOALS

The right savings or investments for you will depend on how happy you are taking risks and on your current finances and future goals. Investing is different to simply saving money, as both your potential returns and losses are greater.

If you're retiring in the next one to two years, for example, it might not be the right time to put all of your savings into a high-risk investment. You may be better off choosing something like a cash account or bonds that will protect the bulk of your money, while putting just a small sum into a more growth-focused option such as shares.

CONSIDERING CASH OR TERM DEPOSITS

You may be a few months away from putting down a deposit on your first home loan. In this case, you might be considering cash or term deposits. You might also choose a more conservative investment that keeps your savings safe in the short term.

On the other hand, if you have just recently started working and saving, you may be happy to invest a larger sum of your money into a higher-risk investment with higher potential returns, knowing you won't need to access it in the immediate future.

PROTECT WEALTH FROM MARKET UPS AND DOWNS

If appropriate, you should consider a range of different investment options. A diverse portfolio can help protect your wealth from market ups and downs. There are four main types of investments, also called 'asset classes', each with their own benefits and risks.

DEFENSIVE INVESTMENTS

Defensive investments focus on generating regular income as opposed to growing in value over time. The two most common types of defensive investments are cash and fixed interest.

CASH INVESTMENTS INCLUDE:

High interest savings accounts

The main benefit of a cash investment is that it provides stable, regular income through interest payments. Although it is the least risky type of investment, it is possible the value of your cash could decrease over time, even though its pound figure remains the same. This may happen if the cost of goods and services rises too quickly (also known as 'inflation'), meaning your money buys less than it used to.

FIXED INTEREST INVESTMENTS INCLUDE:

Term deposits, government bonds, corporate bonds

A term deposit lets you earn interest on your savings at a similar, or slightly higher, rate than a cash account (depending on the amount and term you invest for), but it also locks up your money for the duration of the 'term' so you can't be tempted to spend it.

Bonds, on the other hand, basically function as loans to governments or companies, who sell them to investors for a fixed period of time and pay them a regular rate of interest. At the end of that period, the price of the bond is repaid to the investor.

Although bonds are considered a low-risk investment, certain types can decrease in value over time, so you could potentially get back less money than you initially paid.

GROWTH INVESTMENTS

Growth investments aim to increase in value over time, as well as potentially paying out income. Because their prices can rise and fall significantly, growth investments may deliver higher returns than defensive investments. However, you also have a stronger chance of losing money.

The two most common types of growth investments are shares and property.

SHARES

At its simplest, a single share represents a single unit of ownership in a company. Shares are generally bought and sold on a stock exchange. Shares are considered growth investments because their value can rise. You may be able to make money by selling shares for a higher price than you initially pay for them.

If you own shares, you may also receive income from dividends, which are effectively a portion of a company's profit paid out to its shareholders.

The value of shares may also fall below the price you pay for them. Prices can be volatile from day to day, and shares are generally best suited to long-term investors, who are comfortable withstanding these ups and downs.

Although they have historically delivered better returns than other assets, shares are considered one of the riskiest types of investment.

PROPERTY

Similarly to shares, the value of a property may rise, and you may be able to make money over the medium to long term by selling a house or apartment for more than you paid for it.

PROPERTY INVESTMENTS INCLUDE:

- Residential property such as houses and units
- Commercial property such as individual offices or office blocks
- Retail premises such as shops or hotels
- Industrial property such as warehouses

Prices are not guaranteed to rise though, and property can also be more difficult than other investment types to sell (liquidate) quickly, so it may not suit you if you need to be able to access your money easily.

RETURNS

Returns are the profit you earn from your investments.

DEPENDING ON WHERE YOU PUT YOUR MONEY, IT COULD BE PAID IN A NUMBER OF DIFFERENT WAYS:

- Dividends (from shares)
- Rent (from properties)
- Interest (from cash deposits and fixed interest securities)

The difference between the price you pay and the price you sell for are your capital gains or losses. ●

FOCUSING ON LONG-TERM HORIZONS

A strategy that reflects your risk tolerance and time horizon

Trying to second-guess how events will impact on markets – or even attempting to make a bet on them – rarely pays off. Instead, investors who focus on long-term horizons – at least five to ten years – have historically fared much better.

Sensible diversification – owning a mix of assets, including shares, bonds and alternative investments such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection.

RISK TOLERANCE AND TIME HORIZON

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and time horizon, so remain committed. This will help you navigate through periods of uncertainty when some investors are panicking or acting out of fear. Volatility is not all bad, as long as you are prepared to take advantage of the unique opportunities it brings.

Be aware of the psychological effect this type of volatility has on you as an investor, and resist the urge to be reactive. When you turn on the radio or television, or log on to Twitter or Facebook, you might assume volatility is a terrible thing, requiring all investors to react and make changes to their portfolio immediately.

PROPER DIVERSIFICATION AND PERSEVERANCE

It's important to understand that this movement is not all bad for investors. Some commentators may talk about volatility as a detriment to markets and investors, but not mention the opportunities that arise for investors during periods of market volatility.

No one knows how severe any market turbulence will be or what the market will do next. It could be over quickly or become more protracted. However, no matter what lies ahead, proper diversification and perseverance over the long term are very important.

UPS AND DOWNS OF DIFFERENT TYPES OF MARKET CONDITIONS

It's likely that the coronavirus pandemic will continue to have an impact on markets over the coming months and even years. However, major events causing markets to fall, particularly in the short term, is something we've seen time and time again. And it doesn't mean that markets won't recover, so try not to worry too much.

History shows again and again that the ups and downs of different types of market conditions are part and parcel of investing, and there have been many times in the past when events have caused short-term corrections.

EXPERIENCE OF DEALING WITH DIFFERENT TYPES OF MARKET

Stock markets around the world have recently experienced some very turbulent activity, so as the virus spreads around the world, investors need to be able to cope with some pain. The key to remember when stock markets fall is to remain calm. Don't panic. Don't frantically sell. If you can avoid it, don't even log into your investment account.

At moments like this, the skills and experience of professional financial advisers come into their own. Not only do advisers have the experience of dealing with different types of market conditions, but they can also help to take the emotion out of your decisions. ●

RISK FOR RETURN

Improving your chances of achieving your investment goals

If you want to plan for your financial future, it helps to understand risk. If you understand the risks associated with investing and you know how much risk you are comfortable taking, you can make informed decisions and improve your chances of achieving your goals.

You might be familiar with the concept of risk for return, which states that the higher the risk of a particular investment, the higher the possible return. Risk for return is a general trade-off underlying nearly anything from which a return can be generated. Anytime you invest money into something, there is a risk, whether large or small, that you might not get your money back.

So, put simply, risk is the possibility of losing some or all of your original investment. Often, higher-risk investments offer the chance of greater returns, but there's also more chance of losing money. Risk means different things to different people. How you feel about it depends on your individual circumstances and even your personality. Your investment goals and timescales will also influence how much risk you're willing to take. What you come out with is your 'risk profile'.

DIFFERENT TYPES OF INVESTMENT

None of us like to take risks with money, but the reality is there's no such thing as a 'no-risk' investment. You're always taking on some risk when you invest, but the amount varies between different types of investment.

For example, funds that hold bonds tend to be less risky than those that hold shares, but there are always exceptions.

LOSING VALUE IN REAL TERMS

Money you place in secure deposits such as savings accounts risks losing value in real terms (buying power) over time. This is because the interest rate paid won't always keep up with rising prices (inflation).

On the other hand, index-linked investments that follow the rate of inflation don't always follow market interest rates. This means that if inflation falls, you could earn less in interest than you expected.

INFLATION AND INTEREST RATES OVER TIME

Stock market investments might beat inflation and interest rates over time, but you run the risk that prices might be low at the time you need to sell. This could result in a poor return or, if prices are lower than when you bought, losing money.

You can't escape risk completely, but you can manage it by diversifying investments over the long term. You can also look at paying money into your investments regularly, rather than all in one go. This can help smooth out the highs and lows and cut the risk of making big losses.

CAPITAL RISK

Your investments can go down in value, and you may not get back what you invested. Investing in the stock market is normally through shares (equities), either directly or via a fund. The stock market will fluctuate in value every day, sometimes by large amounts. You could lose some or all of your money depending on the company or companies you have bought. Other assets such as property and bonds can also fall in value.

INFLATION RISK

With inflation, the purchasing power of your savings declines. Even if your investment increases in value, you may not be making money in 'real' terms if the things that you want to buy with the money have increased in price faster than your investment. Cash deposits with low returns may expose you to inflation risk.

CREDIT RISK

Credit risk is the risk of not achieving a financial reward due to a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk is closely tied to the potential return of an investment, the most notable being that the yields on bonds correlate strongly to their perceived credit risk.

LIQUIDITY RISK

You are unable to access your money when you want to. Liquidity can be a real risk if you hold assets such as property directly and also in the 'bond' market, where the pool of people who want to buy and sell bonds can 'dry up'.

CURRENCY RISK

Currency risk is the potential risk of loss from fluctuating foreign exchange rates when investments are exposed to foreign currency or in foreign-currency-traded investments.

INTEREST RATE RISK

Changes to interest rates affect your returns on savings and investments. Even with a fixed rate, the interest rates in the market may fall below or rise above the fixed rate, affecting your returns relative to rates available elsewhere. Interest rate risk is a particular risk for bondholders. ●

SIX PRINCIPLES OF INVESTING

How to invest your money and avoid costly mistakes

01

HAVE A PLAN AND STICK TO IT

It is one thing to have a target, but a sound financial plan can be the difference between simply hoping for the best and actually achieving your goals. You can review your plan regularly with your professional financial adviser and make adjustments when necessary, but staying focused on your plan will help you to not be distracted by short-term market uncertainty

02

THINK TWICE BEFORE PUTTING YOUR MONEY IN CASH

Putting all of your money in cash can seem appealing as a safe and secure option – but inflation is likely to eat away at your savings. For most people with longer-term investment plans, cash needs to be supplemented with investment in other asset classes that can beat the perils of inflation and offer better capital growth potential.

03

DIVERSIFY AND ALWAYS CONSIDER YOUR INVESTMENTS AS A WHOLE

When markets are fluctuating, it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. But when one asset class is performing poorly, others may be flourishing in the same market conditions. A diversified portfolio, including a range of different assets, can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

04

START INVESTING EARLY IF YOU CAN

As a general rule, the earlier in life you start investing, the better your chances of long-term growth. Compound growth (the ability to grow an investment by reinvesting the earnings) is a powerful force but it takes time to deliver. The right time to invest is when you and your financial adviser have formulated a clear financial plan that requires growth.

05

'ACTIVITY BIAS': THE URGE TO 'JUST DO SOMETHING'

Some people suffer from what behaviourists call 'activity bias': the urge to 'just do something' in a crisis, whether the action will be helpful or not. When investments are falling in value, it can be tempting to abandon your plans and sell them – but this can be damaging because you won't be able to benefit from any recovery in prices. Markets go through cycles, and it's important to accept that there will be good and bad years. Short-term dips in the market tend to be smoothed out over the long term, increasing the potential for healthy returns.

06

NO SUBSTITUTE FOR A PLAN THAT'S TAILORED SPECIFICALLY FOR YOU

Every single investor's needs are different and, while the points above are good general tips, there's no substitute for a plan that's tailored specifically for you. What's more, in volatile times, advice can help you take the emotion out of investing and provide an objective view. It may just be the best investment you ever make.

NAVIGATING THE UPS AND DOWNS OF THE MARKET

Maintaining a clear purpose for your investment strategy

Without a plan, investors are prone to making knee-jerk reactions when there are swings in the market. A well thought-out investment strategy provides the guidance needed to help you stay on track when inevitable market fluctuation occurs. It can also point you towards the types of investments that best align with your financial goals.

Investors are continually faced with ever-changing market conditions, an often overwhelming amount of information from the media and an increasing number of investment choices. It's not surprising that the world of investing can seem complex.

By maintaining a clear purpose for your investment strategy, you help yourself stay on track and confidently navigate the ups and downs of the market.

WHEN DEVELOPING YOUR INVESTMENT STRATEGY, CONSIDER THE FOLLOWING FACTORS:

1. Your investment goals
Specifically, for what or whom are you accumulating funds? Your investment goals will help you determine suitable investments.

2. Your time horizon
How many years will it be until you need to use what you have invested? Longer time horizons may provide flexibility for more aggressive investment choices.

3. Your tolerance for risk
Take your broader financial situation into account, and consider how comfortable you are with varying degrees of risk as you pursue your investment goals. ●

MAINTAINING A DIVERSIFIED PORTFOLIO

Reducing risk and improving your overall portfolio returns

When you start investing, or even if you are a sophisticated investor, one of the most important tools available is diversification. Whether the market is bullish or bearish, maintaining a diversified portfolio is essential to any long-term investment strategy. It's crucial if you're looking to reduce risk and improve your overall portfolio returns.

An investor's objectives can rarely be met by investing in a single asset class. Instead, a portfolio that actively invests across multiple asset classes has more sources of potential return, can better adapt to changing market conditions and can diversify portfolio risk for a better overall experience.

The process of diversification allows an investor to spread risk between different kinds of investments (called 'asset classes') to potentially improve investment returns. This helps reduce the risk of the overall investments (referred to as a 'portfolio') underperforming or losing money.

With some careful investment planning and an understanding of how various asset classes work together, a properly diversified portfolio provides investors with an effective tool for reducing risk and volatility without necessarily giving up returns.

If you have a lot of cash – more than six months' worth of living expenses – you might consider putting some of that excess into investments like shares and fixed interest securities, especially if you're looking to invest your money for at least five years and are unlikely to require access to your capital during that time.

If you're heavily invested in a single company's shares – perhaps your employer – start looking for ways to add diversification.

DIVERSIFYING WITHIN AN ASSET CLASS

There are many opportunities for diversification, even within a single kind of investment.

For example, with shares, you could spread your investments between:

- Large and small companies
- The UK and overseas markets
- Different sectors (industrial, financial, oil, etc.)

DIFFERENT SECTORS OF THE ECONOMY

Diversification within each asset class is the key to a successful, balanced portfolio. You need to find assets that work well with each other. True diversification means having your money in as many different sectors of the economy as possible.

With shares, for example, you don't want to invest exclusively in big established companies or small start-ups. You want a little bit of both (and something in between, too). Mostly, you don't want to restrict your investments to related or correlated industries. An example might be car manufacturing and steel. The problem is that if one industry goes down, so will the other.

With bonds, you also don't want to buy too much of the same thing. Instead, you'll want to buy bonds with different maturity dates, interest rates and credit ratings. ●

MAIN FOUR ASSET CLASSES

Cash[1]	Savings and current account balances, savings bonds, Premium Bonds and other NS&I products, Cash ISAs and any cash you have.	Low risk, but your money's buying power is eroded over time if inflation is higher than the interest rates paid. Cash you put into authorised UK banks or building societies is protected by the Financial Services Compensation Scheme up to £85,000.
Fixed Interest Securities – also called 'bonds'. Essentially a loan to a company or government for a fixed period.	Gilts (government bonds), overseas bonds, local authority bonds and corporate bonds (loans to companies).	Relatively low risk and returns predictable if held to maturity. However, traded prices can be volatile. Your money's buying power can still be eroded over time if inflation is higher than the interest rate paid on the bond.
Shares – also known as 'equities'. A stake in a company.	You can hold shares directly or through an investment fund where you pool your money with other people's, like with a unit trust, OEIC (Open-Ended Investment Company) or life fund.	Investing in a single company is high risk. Investing in a fund provides more diversification, but risk levels will depend on the type of shares in the fund.
Property	Includes residential or commercial property and buy-to-lets, and investments in property companies or funds.	Price can vary and be more volatile than with bonds. Potential for gains but also losses. You might not be able to access your capital quickly if you have invested into property directly. Access to capital might also be restricted through property funds if closed to redemptions, meaning you will not have access until the redemption restriction has been lifted.

[1] Cash you put into UK banks or building societies (that are authorised by the Prudential Regulation Authority) is protected by the Financial Services Compensation Scheme (FSCS). The FSCS savings protection limit is £85,000 (or £170,000 for joint accounts) per authorised firm.

ASSET ALLOCATION

Potential returns available from different kinds of investment

Understanding investment risk and determining what level of risk you feel comfortable with before you invest is an important part of the investment decision process. Your potential returns available from different kinds of investment, and the risks involved, change over time as a result of economic, political and regulatory developments, as well as a host of other factors.

Asset allocation simply means deciding how to spread your money across the different asset classes (including equities, bonds, property and cash) and how much you want to hold in each.

FUTURE CAPITAL OR INCOME NEEDS

Your overall asset allocation needs to reflect your future capital or income needs, the timescales before those capital sums are required or the level of income sought, and the amount of risk you can tolerate. Investing is all about risk and return.

Not only does asset allocation naturally spread risk, but it can also help you to boost your returns while maintaining, or even lowering, the level of risk of your portfolio. Most rational investors would prefer to maximise their returns, but every investor has their own individual attitude towards risk.

INVESTMENT CHARACTERISTICS

Determining what portion of your portfolio should be invested into each asset class is called 'asset allocation' and is the process of dividing your investment/s among different assets. Portfolios can incorporate a wide range of different assets, all of which have their own characteristics, like cash, bonds, equities (shares in companies) and property.

The idea behind allocating your money among different assets is to spread risk through diversification and to understand these characteristics and their implications on how a portfolio will perform in different conditions – the idea of not putting all your eggs in one basket.

LOOKING INTO THE FUTURE

Investments can go down as well as up, and these ups and downs can depend on the assets you're invested in and how the markets are performing. It's a natural part of investing.

Moreover, the potential returns available from different kinds of investment, and the risks involved, change over time as a result of economic, political and regulatory developments, as well as a host of other factors. Diversification helps to address this uncertainty by combining a number of different investments.

Your risk tolerance will change over time. For example, investors in their 20s may not be too worried about a 30% fall in the market, reasoning they have time to ride it out. Investors in their 40s, however, if they have responsibilities such as a mortgage and a family, may focus more on protecting against this kind of loss.

ASSET CLASSES

When putting together a portfolio, there are a number of asset classes, or types of investments, that can be combined in different ways. The starting point is cash – and the aim of employing the other asset classes is to achieve a better return than could be achieved by leaving all of the investment on deposit.

CASH

The most common types of cash investments are bank and building society savings accounts and money market funds (investment vehicles that invest in securities such as short-term bonds to enable institutions and larger personal investors to invest cash for the short term).

Money held in the bank is arguably more secure than any of the other asset classes, but it is also likely to provide the poorest return over the long term. But it's important to be able to pay unexpected expenses, or to deal with an unexpected loss of income, without tapping into your core portfolio.

There's no sure way to protect your money from the effects of inflation. The only rule is that cash savings accounts are generally the worst places to put your money long term – the interest is almost always lower than inflation, so you're constantly losing money.

BONDS

Bonds are effectively IOUs issued by governments or companies. In return for your initial investment, the issuer pays a pre-agreed regular return (the 'coupon') for a fixed term, at the end of which it agrees to return your initial investment.

Depending on the financial strength of the issuer, bonds can be very low or relatively high risk, and the level of interest paid varies accordingly, with higher-risk issuers needing to offer more attractive coupons to attract investment.

As long as the issuer is still solvent at the time the bond matures, investors get back the initial value of the bond.

However, during the life of the bond, its price will fluctuate to take account of a number of factors, including:

- Interest rates – as cash is an alternative lower-risk investment, the value of government bonds is particularly affected by changes in interest rates. Rising base rates will tend to lead to lower government bond prices, and vice versa
- Inflation expectations – the coupons paid by the majority of bonds do not change over time. Therefore, high inflation reduces the real value of future coupon payments, making bonds less attractive and driving their prices lower
- Credit quality – the ability of the issuer to pay regular coupons and redeem the bonds at maturity is a key consideration for bond investors. Higher-risk bonds such as corporate bonds are susceptible to changes in the perceived creditworthiness of the issuer

EQUITIES

Equities, or shares in companies, are regarded as riskier investments than bonds, but they also tend to produce superior returns over the long term. They are riskier because, in the event of a company getting into financial difficulty, bond holders rank ahead of equity holders when the remaining cash is distributed.

However, their superior long-term returns come from the fact that, unlike a bond which matures at the same price at which it was issued, share prices can rise dramatically as a company grows.

Returns from equities are made up of changes in the share price and, in some cases, dividends paid by the company to its investors.

Share prices fluctuate constantly as a result of factors such as:

- Company profits – by buying shares, you are effectively investing in the future profitability of a company, so the operating outlook for the business is of paramount importance. Higher profits are likely to lead to a higher share price and/or increased dividends, whereas sustained losses could place the dividend or even the long-term viability of the business in jeopardy
- Economic background – companies perform best in an environment of healthy economic growth, modest inflation and low interest rates. A poor outlook for growth could suggest waning demand for the company's products or services. High inflation could impact companies in the form of increased input prices, although in some cases companies may be able to pass this on to consumers. Rising interest rates could put strain on companies that have borrowed heavily to grow the business
- Investor sentiment – as higher-risk assets, equities are susceptible to changes in investor sentiment. Deterioration in risk appetite normally sees share prices fall, while a turn to positive sentiment can see equity markets rise sharply

PROPERTY

In investment terms, property normally means commercial real estate – offices, warehouses, retail units and the like. Unlike the assets we have mentioned so far, properties are unique – only one fund can own a particular office building or shop.

The performance of these assets can sometimes be dominated by changes in capital values. These unusually dramatic moves in capital value illustrate another of property's key characteristics, namely its relative illiquidity compared to equities or bonds. Buying equities or bonds is normally a relatively quick and inexpensive process, but property investing involves considerable valuation and legal involvement.

The more normal state of affairs is for rental income to be the main driver of commercial property returns. Owners of property can enhance the income potential and capital value of their assets by undertaking refurbishment work or other improvements.

Indeed, without such work, property can quickly become uncompetitive and run down. When managed properly, the relatively stable nature of property's income return is key to its appeal for investors.

DIVERSIFICATION

If we could see into the future, there would be no need to diversify our investments. We could merely choose a date when we needed our money back, then select the investment that would provide the highest return to that date.

It might be a company share, or a bond, or gold, or any other kind of asset. The problem is that we do not have the gift of foresight. Diversification helps to address this uncertainty by combining a number of different investments.

In order to maximise the performance potential of a diversified portfolio, managers actively change the mix of assets they hold to reflect the prevailing market conditions. These changes can be made at a number of levels, including the overall asset mix, the target markets within each asset class and the risk profile of underlying funds within markets.

As a rule, an environment of positive or recovering economic growth and healthy risk appetite would be likely to prompt an increased weighting in equities and a lower exposure to bonds. Within these baskets of assets, the manager might also move into more aggressive portfolios when markets are doing well and more cautious ones when conditions are more difficult. Geographical factors such as local economic growth, interest rates and the political background will also affect the weighting between markets within equities and bonds.

In the underlying portfolios, managers will normally adopt a more defensive positioning when risk appetite is low. For example, in equities they might have higher weightings in large companies operating in parts of the market that are less reliant on robust economic growth. Conversely, when risk appetite is abundant, underlying portfolios will tend to raise their exposure to more economically sensitive parts of the market and to smaller companies. ●

EVOLUTION OF ESG INVESTING

Changing face of investor ethics and behaviours

The coronavirus (COVID-19) pandemic has prompted a desire to move into ethical and sustainable investing for more than half (51%) of advised UK adults, according a new report[1]. And while the trend is common across the generations, it's Millennials who are leading the charge.

The report, which looks at intergenerational planning and wealth transfer between advised families amid the financial volatility and insecurity of the pandemic, found that 61% now care more about the environment and the planet than they did before the pandemic.

FINANCIAL RETURNS WITH A POSITIVE CONTRIBUTION

Investing sustainably means putting your money to work on issues ranging from adapting to and mitigating climate change, and improving working conditions and diversity, to tackling inequality. More and more, investors want to invest sustainably and they want to combine investing for a financial return with a positive contribution to the environment, society or both.

More than a quarter (26%) of respondents admit they are more concerned than they've ever been. One in five (21%) say they are more worried now that they have children and grandchildren.

APPETITE FOR SUSTAINABLE INVESTMENTS

The pandemic has undoubtedly fuelled investor demand for sustainable investing and this is trickling down through the generations – 60% of Millennials, 44% of Gen X and 35% of Baby Boomers confirmed that COVID-19 has increased their appetite for sustainable investments. And many investors go further: 45% confirmed that since the pandemic they now only want to invest in sustainable companies and funds.

Despite the desire for ethical and sustainable investing, more than a third (36%) of UK adults admit they actually have no idea what their current investments – including workplace and private pensions – are invested in, as they have little to no control.

BEGINNING AN 'INVESTMENT JOURNEY'

For many, the crisis has shifted their financial priorities, prompting more to seek professional financial advice. One in two (53%) respondents said they had either already sought advice – or were planning to because of the pandemic. And just over one in five (21%) were seeking advice to begin their 'investment journey', potentially fuelled by individuals who had built up savings not having the traditional outlets for spending their income.

With £5.5 trillion in personal wealth due to be passed to the next generation by 2047[2], the role that intergenerational planning advice played prior to the pandemic was already a significant one. Yet the crisis has reframed financial priorities. Not just for those in later life with Inheritance Tax liabilities, but for all generations.

PLANET, ENVIRONMENT AND SOCIETY

Once perhaps viewed as a fad, sustainable investing is becoming normalised, making it a fundamental building block within intergenerational financial planning. It also enables parents to leave their children more than just a financial legacy in terms of planet, environment and society.

Two in five advised clients surveyed confirmed they expect to increase the amount they invest in Environmental, Social and Governance (ESG) investments over the next five years.●

Source data:

[1] Research was carried out by Opinium for Prudential UK & Europe, part of M&G plc, among a UK representative sample of 1,000 advised families. The study was completed in November 2020.

[2] Kings Court Trust's Inheritance Economy Research Papers: Passing on the Pounds and Wealth Transfer in the UK. Research conducted by The Centre for Economics and Business Research.

REALISTIC PERFORMANCE EXPECTATIONS

Managing overall exposure to market volatility

Trying to navigate the ups and downs of market returns, investors seem to naturally want to jump in at the lows and cash out at the highs. But no one can predict when those will occur. Fortunately, there are a number of time-tested strategies that may help you deal with market volatility. Two of the most prevalent are: invest for the long-term, and maintain realistic performance expectations when it comes to returns.

By coupling these strategies with maintaining proper portfolio diversification and avoiding the pitfalls of market timing, you'll have the foundation needed to help manage your overall exposure to market volatility.

Historically, the stock market has been up more than down. Often after a lengthy bull market, some investors may lose sight of the fact that their investments could generate negative returns. In order to keep market volatility in perspective, it's important to maintain realistic expectations about your investments, especially if returns move closer to their historical average.

It's important to focus on your long-term goals and not become distracted by short-term volatility. While losing money in the financial markets is never easy to accept, remember the old adage: Time is on your side.

Typically, the longer an investment portfolio is held, the more likely overall positive results are realised. The lesson here is to prepare for the long haul and try not to overreact to periods of uncertainty. ●

POUND COST AVERAGING

Smoothing out the ups and downs of the market

Pound cost averaging is a technique that reduces exposure to falling markets from investing a lump sum. Investing at regular intervals can be a good idea to help smooth out the ups and downs of the market. Timing the exact moment to enter or leave the market can be extremely difficult and investors inherently run the risk of investing at the top of a market cycle, or exiting at the bottom.

Pound cost averaging versus lump sum investing is one of the most important concepts in investing. Buying at regular intervals means that the average price you pay can be lower than if you'd made one lump sum investment at the peak of the market. In other words, over time, regular investments can help smooth out the peaks and troughs.

Pound cost averaging is the practice of investing a fixed amount at regular intervals, regardless of the ups and downs of the markets. But with lump sum investing you need to decide when you're going to invest.

INSTILLING A SENSE OF INVESTMENT DISCIPLINE

The basic idea behind pound cost averaging is straightforward. One way to do this is with a lump sum that you'd prefer to invest gradually – for example, by taking £200,000 and investing £20,000 each month for ten months.

Alternatively, you could pound cost average on an open-ended basis by investing, say, £2,000 every month. This principle means that you invest no matter what the market is doing. Pound cost averaging can help investors limit losses, while also instilling a sense of investment discipline and ensuring that you're buying at ever-lower prices in down markets.

GIVE SAVINGS A VALUABLE BOOST EACH MONTH

Any costs involved in making the regular investments will reduce the benefits of pound cost averaging (depending on the size of the charge relative to the size of the investment and the frequency of investing).

As the years go by, it is likely that you will be able to increase the amount you invest each month, which would give your savings a valuable boost. No matter how small the investment, committing to regular saving over the long term can build to a sizeable sum. ●

POOLING RESOURCES

Collective investment schemes

Pooled investment funds are usually large funds built by aggregating relatively small investments from individuals. A professional fund manager (or a team of fund managers) determines which assets to invest in and then purchases accordingly. They are also known as 'collective investment schemes'.

By pooling resources with other investors, you are all able to achieve something greater than what you could achieve on your own. There is a diverse range of funds that invest in different things, with different strategies – high income, capital growth, income and growth, and so on.

POPULAR TYPES OF POOLED INVESTMENT FUND

Unit trusts and Open-Ended Investment Companies
Unit trusts and Open-Ended Investment Companies (OEICs) are professionally managed collective investment funds. Managers pool money from many investors and buy shares, bonds, property or cash assets, and other investments.

Underlying assets
You buy shares (in an OEIC) or units (in a unit trust). The fund manager combines your money together with money from other investors and uses it to invest in the fund's underlying assets. Every fund invests in a different mix of investments. Some only buy shares in British companies, while others invest in bonds or in shares of foreign companies, or other types of investments.

Buy or sell
You own a share of the overall unit trust or OEIC – if the value of the underlying assets in the fund rises, the value of your units or shares will rise. Similarly, if the value of the underlying assets of the fund falls, the value of your units or shares falls. The overall fund size will grow and shrink as investors buy or sell.

Some funds give you the choice between 'income units' or 'income shares' that make regular payouts of any dividends or interest the fund earns, or 'accumulation units' or 'accumulation shares' which are automatically reinvested in the fund.

Higher returns
The value of your investments can go down as well as up, and you might get back less than you invested. Some assets are riskier than others, but higher risk also gives you the potential to earn higher returns.

Before investing, make sure you understand what kind of assets the fund invests in and whether that's a good ft for your investment goals, financial situation and attitude to risk.

Spreading risk
Unit trusts and OEICs help you to spread your risk across lots of investments without having to spend a lot of money. Most unit trusts and OEICs allow you to sell your shares or units at any time – although some funds will only deal on a monthly, quarterly or twice-yearly basis. This might be the case if they invest in assets such as property, which can take a longer time to sell.

Investment length
However, bear in mind that the length of time you should invest for depends on your financial goals and what your fund invests in. If it invests in shares, bonds or property, you should plan to invest for five years or more.

Money market funds can be suitable for shorter time frames. If you own shares, you might get income in the form of dividends. Dividends are a portion of the profits made by the company that issued the shares you've invested in.●

IN CONCLUSION

Taking charge of your financial security

Investing is important, if not critical, to make your money work for you. You work hard for your money and your money should work hard for you. Investing is how you take charge of your financial security. It allows you to grow your wealth but also generate an additional income stream if needed ahead of retirement.

It's never too late to become an investor. You may be well into middle age before realising that life is moving quickly, requiring a plan to deal with old age and retirement. Fear can take control if waiting too long to set investment goals, but that should go away once you set the plan into motion.

Remember that all investments start with the first pound, whatever your age, income or outlook. That said, those investing for decades have the advantage, with growing wealth allowing them to enjoy the lifestyle that others cannot afford.

Warren Buffett, the American business magnate, investor and philanthropist, summed up investing perfectly, 'The investor of today does not profit from yesterday's growth.' ●

WHERE WILL YOUR MONEY TAKE YOU?

Whatever personal goals and ambitions you have in life, knowing where you stand financially and knowing what this empowers you to achieve, is key to a life well-lived. We will help you navigate life's journey, to achieve financial freedom and bring you the peace of mind of knowing where your money can take you.

To review your current situation or to discuss the options available, please contact us for further information – we look forward to hearing from you.

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