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Hartsfield
Planning

12 key points to consider before you start investing



Why invest, and should you invest?

There are many good reasons to consider investing money. At a high level, it can give you the opportunity to increase your net worth and make yourself independently wealthy. It can also allow you to retire sooner than you'd planned and live a more comfortable life in retirement than you'd anticipated.

Investing can also provide the means to meet certain financial goals, such as paying for your child or grandchild's school or university fees and supporting their future house purchase.

The decision to invest should be based on a wider review of your financial situation. This should involve checking your income against your outgoings because, while investing is a positive act, it should be done from a position of relative financial security. There may well be other priorities that should be dealt with first.

For example, if you have a lot of unsecured debt such as loans or credit cards, it may be beneficial to clear this debt before you start investing.

The interest rate on credit cards is typically much higher than any potential returns you'll get on a standard savings account. Paying off high-interest debt is effectively an investment in itself because you're paying off the debt and the future interest you'd be charged on it.

You should also consult with your spouse or partner before starting to invest, and ensure they are comfortable with the investment plan you finally put together.



"An investment in knowledge pays the best interest."

Benjamin Franklin

As with all financial decisions, it's always worth undertaking some research before you start investing, but it's equally worthwhile seeking the advice and support of financial experts to help you.

This guide is only intended to provide an overview of investing, and we'd strongly recommend you consult with a financial adviser for a more detailed analysis of putting together and executing a financial plan.



1) Savings vs investments

First off, it's important to clarify the difference between savings and investments.

Savings are the difference between what you earn and the amount you spend each month. This money will normally be set aside for safekeeping, often as 'rainy day' money. Savings will usually be put in a secure account that is easily accessible, with little or no risk to the value of the money, such as a bank account or a Cash ISA.

Investment is using financial products with a view to increasing the value of your money, but with the possibility that the value of the investment could go down. Popular vehicles for investing include Stocks and Shares ISAs, individual shares, investment funds, and investment bonds.

So, it's best to make sure you've got an emergency rainy day fund in place before you start investing. As we'll see in this guide, investing is for the long term, you don't want to be taking money out of your investment funds too soon if you can avoid it.



2) Have a plan... and stick to it!

You should always invest with a purpose. If you have a clear idea of what you're investing for, it makes it easier to work out how long you need to invest and how much risk you're prepared to take with your investments.

For example, investing in the stock market over a long period can deliver healthy average annual investment returns. However, stock markets can be volatile, so probably aren't the best option if you're looking for a short-term investment.

There's also the psychological aspect. If you know you're investing for something tangible, you're more likely to be able to discipline yourself to make the regular monthly commitment, rather than being tempted to divert the money elsewhere.

Although there is no minimum term for investments, they should normally be made for a period of at least five years.

3) Understanding risk and return

Different types of investment carry different levels of risk. As a simple example, buying shares or investment funds will carry more risk than simply saving in an interest-bearing savings account.

The price of shares can rise and fall, while the value of a fund in a savings account will not go down. Although considering how low interest rates are, it won't increase that much either!

However, in the longer term, shares are likely to produce a better investment return than a savings account, especially given the historic low rates of interest being paid by banks and other financial companies.



"Risk comes from not knowing what you're doing."

Warren Buffet

Beyond this simple comparison, you should also be aware that different types of investments will carry different levels of risk. The higher the risk the greater the potential level of return but, equally, the higher the risk that the value of your investments could fall.

The two tables below summarise the relationship between investment risk and return.

Table one gives a very high-level overview of the different investment risks, using common measurement criteria from one to ten, where one is the lowest and ten the highest.

Investment risk rating and types of investment

1	2	3	4	5	6	7	8	9	10
Very low-risk investor		Low to medium-risk			Medium to high-risk			Very high-risk	
Investments guaranteed not to fall but are unlikely to increase more than inflation		Potential for moderate to good investment growth in the long term, but with the possibility of some fluctuation in investment value over the term			Potential for higher investment growth than for a medium-risk investment but equally a higher risk of some investment loss.			Very risky, speculative investment that could result in high returns, but possibility of losing all money invested	
Deposit accounts and government-backed securities such as gilts		Investment in lower-risk equities, passive investments with a low equity content			Investment in higher-risk equity markets, passive investments containing high equity content.			High-risk investments such as business start-ups, mineral exploration or unlisted shares.	



Table two is a similarly high-level view of an individual's risk ratings. These can be determined by answering a series of questions designed to assess your attitude to risk. Bear in mind, that your risk rating doesn't necessarily determine every investment you should pick. It's possible to put a portfolio of different investments together with an overall risk rating to match yours.

Individual's risk ratings

1	2	3	4	5	6	7	8	9	10
Very low-risk investor		Low to medium-risk investor			Medium to high-risk investor			Very high-risk investor	
Not prepared to accept any risk to money invested whatsoever.		Prepared to accept a certain level of investment risk in return for the possibility of higher investment returns over the long term.			Happy to accept a higher level of risk on investment if this results in higher investment returns. Prepared to accept some loss to investments.			Very speculative investor, willing to accept the loss of some or even all of their investment in return for the possibility of very high returns.	



"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

Paul Samuelson



4) Diversify your investments

Diversification is, effectively, not putting all your eggs in one basket.

Once you've decided to invest, you'll find there are many different ways to invest, and many different options of where to invest your money, usually referred to as markets or sectors.

Whatever money you invest, it's important and advisable to ensure that it's not all invested in one specific investment market, but instead spread across different sectors. Diversifying your investments in this way has the effect of reducing investment risk. So, if a particular market sector suffers a fall, only part of your fund is exposed to this and there remains the possibility of enjoying investment growth in other sectors.

You don't necessarily have to have a series of investment products to diversify in this way. Many Stocks and Shares ISA providers, for example, will enable you to hold different investments within a single ISA 'wrapper'.

5) Passive and active investments

When you're researching investments, you'll see reference to 'passive' and 'active' investment. It's important to understand the difference.

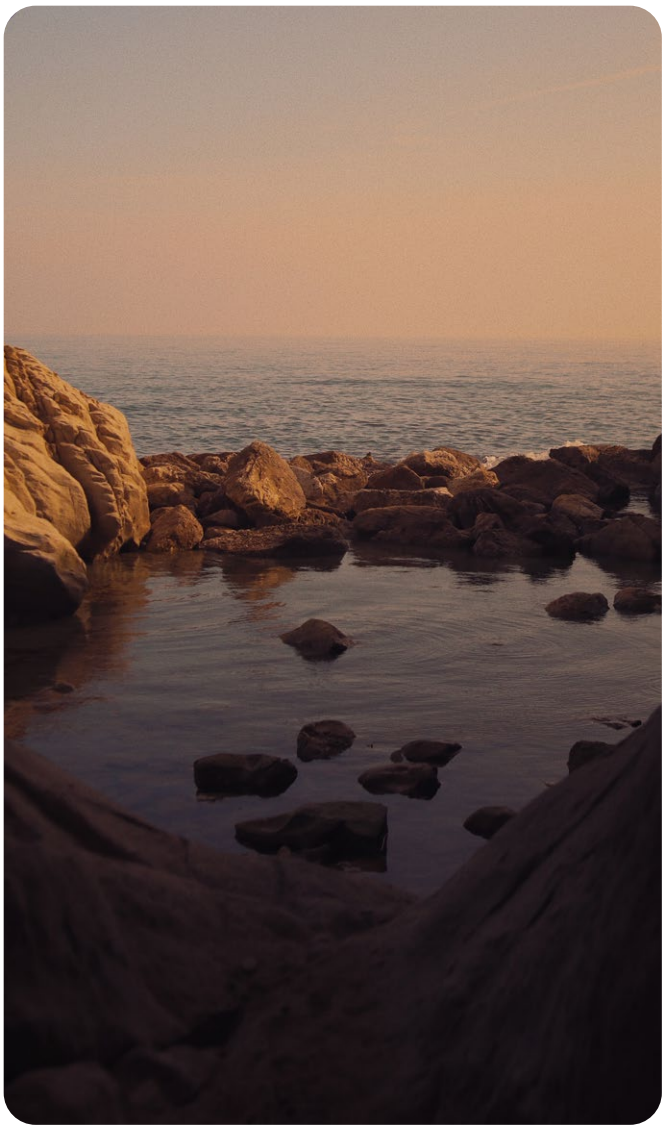
Active funds are dependent on regular investment decisions made by a fund manager. Within the investment remit of the fund they manage, they will buy and sell the holdings in the fund to try to increase the value of the fund.

Passive investment involves investing in one or more investment indexes. Passive investments will track a single market, such as the FTSE 100 or the Dow Jones, or a selection of markets.

When choosing where to invest, don't forget it doesn't have to be a binary decision. As we covered earlier, investment diversity is crucial, so you may well want to consider an element of both passive and active investments in your portfolio.

Investment expression: investment volatility

This determines how much, and how quickly, the value of different investments can change. A highly volatile investment could see its value rise and fall dramatically and rapidly, whereas a low volatility investment will see much slower growth or fall, and losses and gains will be lower.





6) The impact of charges

Different investment vehicles carry different charges. Regardless of what happens to your investments, charges still need to be paid.

Over time, charges can have a big impact on the value of your investment funds. Charges can eat away at your investment and, don't forget, you'll be paying charges on the total value of your fund, not the contributions you are making into it.

Also bear in mind that higher charges on a fund don't necessarily translate into higher returns. Charges will often be determined by the type of investment and how your money is invested.

The table below shows the impact of charges on a regular investment of £250 per month over 20 years. It assumes a growth rate of 5% per year.

Annual investment charge	Value after 20 years	Impact of charges (£)	Impact of charges (%)
0%	£103,186	N/A	N/A
0.5%	£97,394	£5,792	5.6%
1%	£92,000	£11,186	10.84%
1.5%	£86,970	£16,216	15.71%

7) Invest for as long as possible

As we covered in section one, establishing why you're investing gives you a clear idea of how much you need to invest, what risk you're happy to take and for how long you'll need to invest.

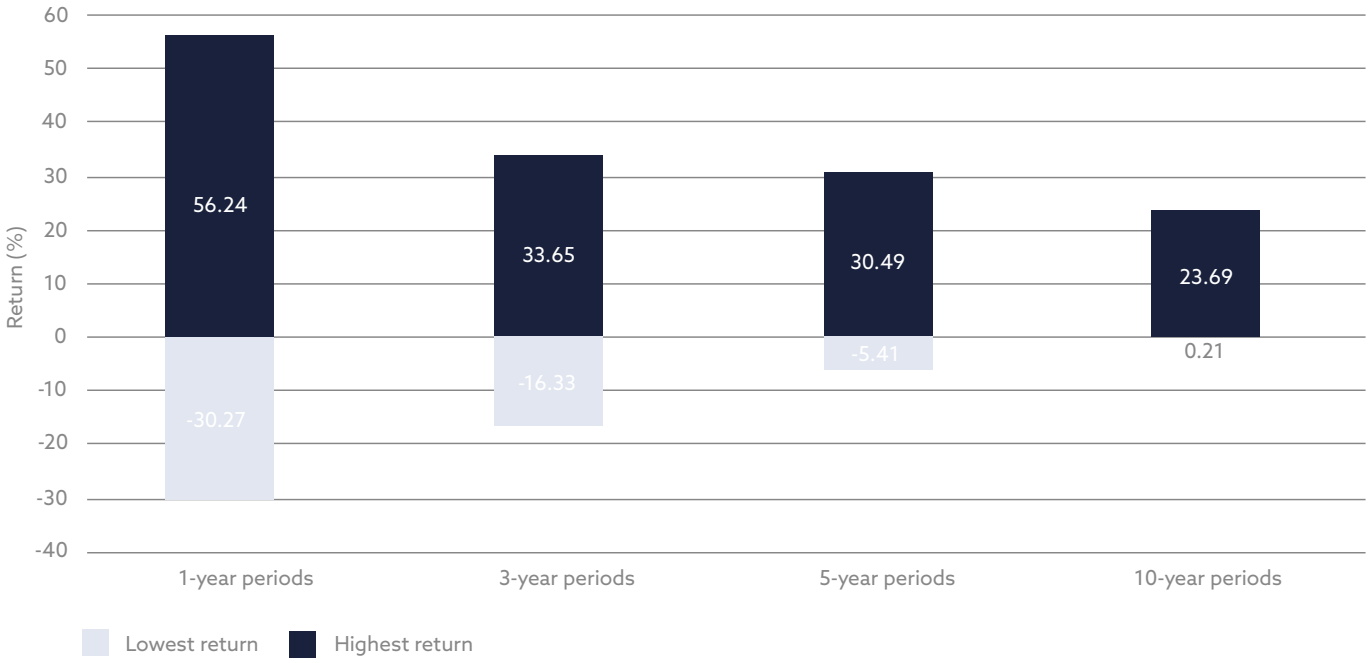
One key fact which is reiterated by investment experts is that you should look to invest for as long as you can.

We saw earlier that short-term volatility will impact on many investment types. So, to avoid this having a detrimental effect on your investments, you should look to invest for at least five years.

Investment expressions: It's not timing the market, it's time in the market

Even the most experienced investment experts can't predict when investment markets will rise and fall, so it's incredibly difficult to 'time the market'. In other words, invest your money just before values start increasing and take your money out when they reach a peak. It's much better to consider that short-term volatility is the price you pay for longer-term growth.

The graph below illustrates the impact of volatility on different investment terms by considering the performance of the MSCI World Index (a basket of more than 1,600 large and mid-sized companies across 23 developed countries) since 1970. It shows the highest and lowest annualised returns for different investment terms.



Over one year, the highest return is 56%, but the lowest is minus 30%. Over ten years, however, the highest is 23% and the lowest is just 0.12%. This shows that, by investing for longer, you're decreasing the chances of investment loss.



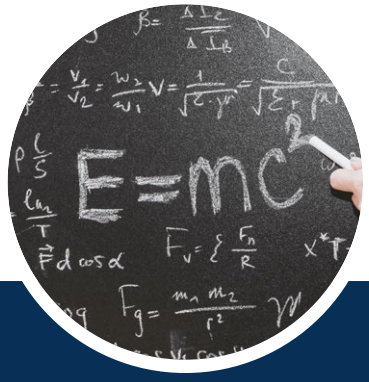
8) Remember compounding and dividends

Compounding means that you'll get investment growth on the whole value of your investment fund, not just the original amount you invested.

For example, £1,000 invested and growing at 5% each year will be worth £1,050 at the end of the first year. A further 5% growth in the second year will be growth on £1,050, rather than £1,000 and so on.

If you invest in shares in a specific company, you can also benefit from dividends. These are the bonuses paid to shareholders, usually annually, from company profits or reserves. You can opt to have these automatically reinvested to purchase more shares in the company, so the following year you'll get a dividend payment on the new shares, as well as the shares you already hold.

Dividends are one of the main reasons why stock market investments over the longer term will usually deliver a positive average return over that period.



"Compounding is the eighth wonder of the world."

Attributed to Albert Einstein

9) Always consider an ISA

When it comes to choosing where to invest, the Individual Savings Account (ISA) is often the first consideration for many people. The government allows you to invest up to £20,000 in an ISA tax-free (tax year 2020/21).

This means that any growth on your ISA investment isn't subject to Income or Capital Gains Tax, and when you come to take the money out, you don't pay any tax on it.

Additionally, they are very simple products; easy to administer and understand.

There are different types of ISA, including the Stocks and Shares ISA, Cash ISA and Lifetime ISA. Bear in mind that each individual has an ISA allowance – so both you and your spouse or partner can currently invest up to £20,000 a year, of which £4,000 can be in a Lifetime ISA.

If you have a child or grandchild under the age of 18 then you may also be able to invest in a Junior ISA. The subscription limit for a Junior ISA is currently £9,000 (2020/21 tax year).

Investment expressions: You're never too young to start investing

This applies to yourself, but also your children or grandchildren, if you want to invest on their behalf. The longer the money is invested, the more it will grow over time (see compounding). Investing for children will help get them into the habit and investing for yourself will help your investments grow over a longer period. Even small amounts invested over a long period can produce worthwhile results and investment returns.



10) Other investment vehicles

As well as ISAs, covered in section nine, there are many other investment products designed to help you invest your money, both regular and single amounts.

We've set out some of them here.

Stocks and shares

These are shares in individual companies. The value of them will generally reflect the success of the company and the health of their national economy.

Investment funds

These are collective funds, often worth hundreds of millions of pounds, that will be managed by an investment fund manager who will look to grow the value of the fund by buying and selling different elements of the fund. Types of funds include equity funds (investing in companies), index funds that track a particular stock market, specialty funds such as property or a particular industry, and funds that are defined by their level of diversity.

Investment bonds

Investment bonds are life insurance policies where you'll invest a single payment into an investment fund. Many of these are written on a 'whole of life' basis, so the value of your fund will be paid to your beneficiaries on your death. Others are for a fixed period where the value will be paid to you at the end of the term.

National Savings and Investments

These are government-backed contracts that enable you to save or invest regular or single amounts. As they are backed by the government, they are very secure, but the growth on them can be lower than other investments.

11) Review regularly, but not too regularly

Once you've got your plan in place, and you've established your investment portfolio, try and avoid tampering with it.

An old financial industry adage is that the value of a portfolio will rise in inverse proportion to the number of times you check its value!

Obviously, this isn't quite the case, but it does make the point that the nature of some types of investment means that their value can be quite volatile in the short term. You might be tempted to change investments if you see that the value has fallen suddenly. By doing this, you may very well miss out on investment growth, with no guarantee that whatever you switch to will provide a greater investment return.

Investments should always be considered in the long term (at least five years) and it's best to try and avoid 'chasing the market' whenever possible.

Working with a financial adviser and reviewing your holdings on an annual basis can help you to keep on track.





12) Seek financial advice

In the introduction to this guide, we stated that your decision to start investing should be part of a wider review of your financial affairs, and we'd always recommend that you speak to a financial adviser or planner as part of this process.

An adviser will also be able to help you with all the aspects of investing we've covered in this guide, from how much to invest, ascertaining your attitude to risk, and the best ways of helping you achieve your financial aims.

They will also be able to help you with the different taxation implications for each investment product, so you maximise the tax advantages and avoid any unnecessary tax charges.

If you would benefit from professional, expert financial planning advice, please get in touch.

Investing can help you achieve your goals. If you'd like to discuss how investing can fit into your wider financial plan, please contact us.

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Please note:

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.



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