A GUIDE FOR NEW INVESTORS

You may have recently come into some money either by inheritance, redundancy, sale of property or another windfall and are looking to put the money to work for you. There are so many different types of investments available – some that will be right for you and some that won't. How to determine what is appropriate for you will depend on:

- Your requirements for growth and/or income
- Your timescale
- Your attitude to risk

You need to be clear about what you want from your investment. You may be investing for a specific purpose in the future or looking to provide extra income. You may just want something better than a bank deposit account.

Some Things to Think About

- How much can you afford to invest?
- How long can you afford to be without the money you have invested (most investments should be invested for at least a 5 year period in order to achieve potentially higher returns)
- What do you want to achieve? Income, growth or a combination of the two?
- How much risk are you comfortable with? What type of risk are you prepared to take to achieve better returns?
- Are you happy to invest alone or do you want to share costs and risks with other investors (e.g. by using collective funds)
- What is you tax position and do you want investments that will improve your tax position?

Risk

When thinking about whether to invest your money, it is important that you consider whether you would feel comfortable with a short term loss in order to have the opportunity to make long term gains. Risk is a very personal thing – what may be a small amount of risk for one person may be huge to another.

The important thing to remember is that even if your investments go down, you will only physically make a loss if you cash it in at that time. If you see your investment fall, this is known as a paper loss as it is not a real loss until you sell it.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment at some point.

When recommending an investment, your adviser should explain the risks clearly, provide you with a risk warning and ensure that the investment is suitable for you.

Living With Risk

Risk cannot be eliminated completely but it is possible to manage it by diversification – spreading your risk.

Most investments have a degree of risk attached to them and different investments behave in different ways and are subject to different risks. Putting your money into a range of different investments can help reduce any loss, should one or more of them fall.

It is important to remember the relationship between risk and reward. The more risk you are prepared to take, the higher the potential reward. If you are not prepared to lose any of your money under any circumstances then you will have to accept a lower level of return and an investment is probably not a product you should be considering. If you see an investment offering a high return for little or no risk, it is likely to be too good to be true and you should be very wary.

There are many types of investments to consider from cash and government gilts (low risk and low returns) to overseas equities (higher risk and higher potential returns).

Currency Risk

Some investments will be subject to currency risk where they invest in other countries. Currencies move in relation to each other. If you are putting your money into investments in another country then their value will move up and down in line with currency changes as well as the normal share-price movements. However many funds are protected against this risk as the managers will use a process called hedging.

Inflation Risk

Inflation means that you will need more money in the future to buy the same things as now. When investing, beating inflation is an important aim, whether for growth or income, particularly over the longer term. Investing in cash in unlikely to beat inflation in the long term.

Timescale

When making decisions about investing, it is important to consider the timescale available for the investment. If you require the funds at a certain time, it is important to choose a suitable investment for this length of time. For example, if you only want the funds to be invested for up to five years, you should not invest in investments that require a longer timeframe to provide potentially higher returns, such as shares or property, which can fluctuate in value over the shorter term.