

Wealth creation

Spreading risk by accessing different types of assets

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Investing in a pooled investment, also known as a 'collective investment scheme', provides investors to access investments through a fund, rather than buying direct assets on their own. Investing in a fund, such as a unit trust, an Open-Ended Investment Company (OEIC) or an investment trust, can give investors exposure to a wide range of companies and enables the spread of risk by providing access to different types of assets. Fund managers make the decisions about when to buy and sell assets.

HIGHER OR FASTER GROWTH

Different funds take different levels of risk. Some are

relatively low risk – for example, they might invest mostly in cash. Others are very risky, investing in new, uncertain companies or markets with the aim of higher or faster growth. And there's everything in between. By obtaining professional financial advice before you invest, you can ensure that your fund choices offer the right level of investment risk.

Dipping in and out of the market and trying to pick the best times to invest is an extremely risky strategy, as no one knows for certain which way markets are likely to move next. One aspect of long-term investing is that it almost entirely removes your emotions from the equation.

AVOID MAKING UNWISE DECISIONS

Staying invested over the longer term, preferably five years but ideally longer, gives investments a greater chance of positive returns, though there can be no guarantees. This means investors don't need to

focus on daily or short-term volatility that might occur. By monitoring performance only occasionally, investors should avoid making unwise decisions to cash them in earlier than necessary. Instead, the focus should be on the long-term growth potential of the investments.

Investing on a regular basis not only suits most people's income streams, but it also helps to create discipline. Making a commitment to set aside an affordable amount each month is unlikely to affect someone's lifestyle. Regularly investing money into the stock market rather than putting in a lump sum could also smooth returns over time, because investors can benefit from so-called 'pound-cost averaging'.

SMOOTH OUT MARKET VOLATILITY

Investing regularly enables investors to take advantage of pound-cost averaging. By investing each month, investors benefit from times when

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the markets are falling and are able to buy more units in a fund. This means the investment can acquire more shares when prices are low, and less when they are more expensive, with the theory being that investors effectively pay the average price over a fixed period, which can help smooth out market volatility. However, this strategy, as with any other, won't always work and could lead to lower returns than if the investor had invested one lump sum at the outset.

Investors should consider investing in a variety of assets – including cash, fixed-interest bonds, equities and property. This provides diversification and avoids relying on one particular investment to produce gains. This also helps reduce the risk of losing money, as the asset types that are performing well can hopefully offset those that at the same time are experiencing a period of lower performance. ■

REVIEWING YOUR INVESTMENT PORTFOLIO

Building a diversified portfolio can seem an onerous task. Successful investing isn't just a question of allocating your savings to various assets and then sitting back to wait for the profits to roll in. If only it were that simple. To discuss your investment goals, please contact us – we look forward to hearing from you.

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