Make More of Your Money

There are times in our lives when it's important to look ahead. At such times an understanding of investments and their associated risks and potential rewards is useful as it can help you plan for the different financial requirements and situations you will encounter during your life.

This document aims to:

- Help you think about your financial position and objectives so that you can make an informed decision about whether investing is for you
- Help you to determine what level of risk you are prepared to take with your money
- Explain how you can manage risk by using investment funds to meet your needs
- Outline the types of savings and investment available including fund management companies and funds

When thinking about what to do with your money, it is important to consider your finances and your personal circumstances as a whole.

Debt

It seems strange to talk about debt when you might want to invest money. However it is often a good idea to pay off debts on which you are paying a lot of interest, such as credit cards, before considering putting money away. This is because the interest you pay on those debts may be higher than the interest you could earn on new savings.

Money for an Emergency Fund

It is important to have access to enough money in the event of an unplanned financial emergency. One way of doing this is by having money in an easily accessible bank or building society account. That way in an emergency you can quickly get your hands on some money.
We recommend a minimum of 3 months income to be set aside for this purpose.

Savings and Investments

When deciding whether to invest there are 3 key questions to ask yourself:

"What risks am I prepared to take in order to make my money grow?"

"What return am I expecting on my investment?"

"When will I want access to my money?"

Your answers will help you to choose the most suitable type of investment for you.

There are many different investment categories, or 'assets', in which you can invest for the future, for example:

- **Cash and National Savings -** including premium bonds
- **Stocks and Shares –** also known as equities
- **Government and Corporate Bonds –** where you lend to a government or company for a fixed interest return
- **Property, Second Homes, Buy to Let or Commercial Property –** like offices or retail parks

Each of these 'asset classes' has its own level of risk and expected rate of return. It is possible to combine a variety of asset classes in, a pooled investment fund or focus on one to meet your needs.

We will explain in a moment how that's done but let's look first at what we mean by risk.

Your Attitude to Risk

Let's assume you have dealt with the debt and emergency fund cash; what sort of investment is right for you?
If you are going to invest in an asset backed investment in the hope of greater reward than a deposit account a key question to ask yourself is:

"How comfortable would I be facing a short term loss in order to have the opportunity to make long term gains?"

If you are not prepared to take any risk whatsoever then an asset backed investment may not be for you.

How much risk do you feel comfortable with?

The length of time you invest for is also crucial a question you therefore need to ask yourself is:

"How long have I got before I need to spend the money?"

Generally the longer it is before you need your money the greater the amount of risk you may be able to take in the expectation of greater reward.

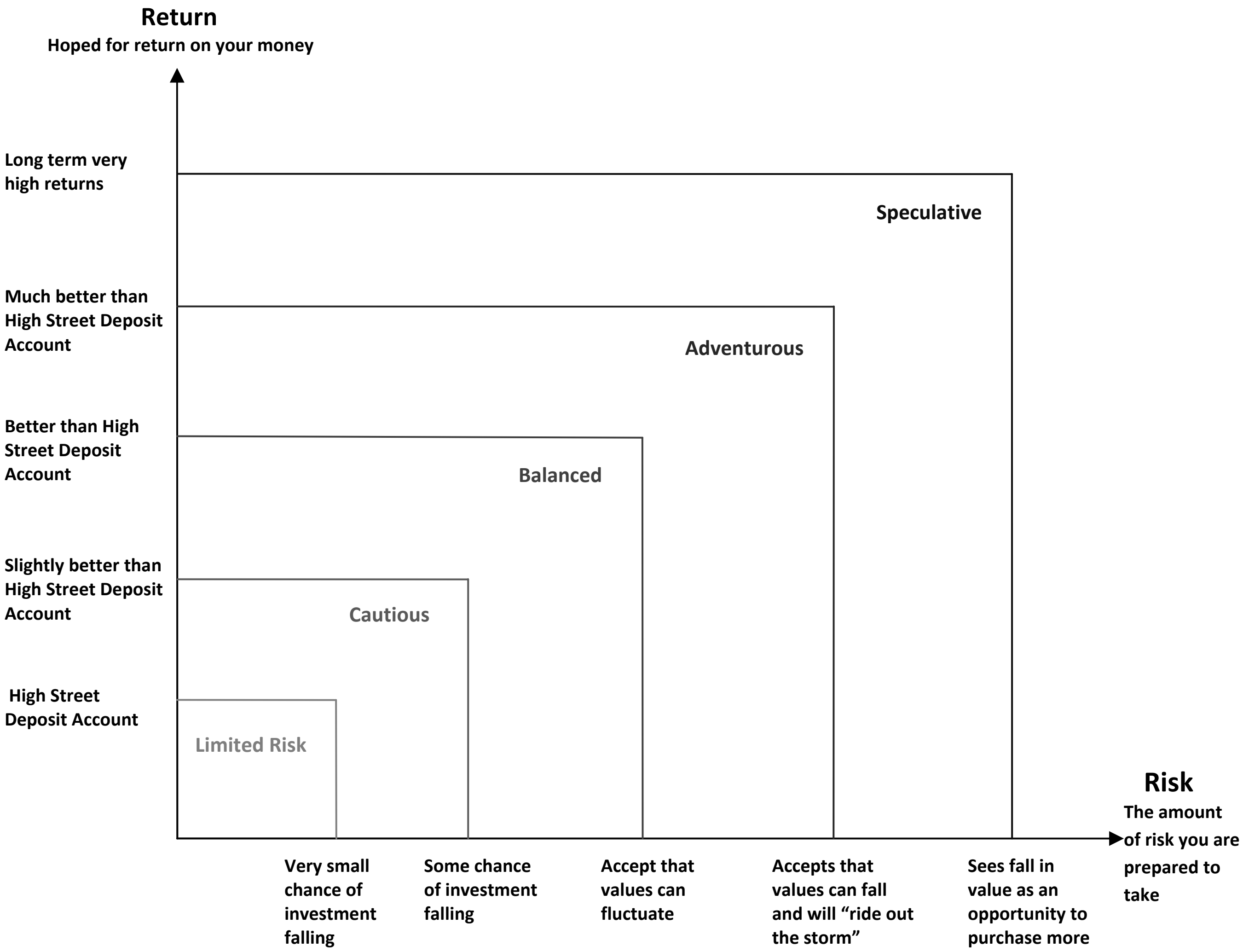
1 Limited Risk 2	3 Cautious 4	5 Balanced 6	7 Adventurous 8	9 Speculative 10
A Limited Risk Investor looks for an investment where the probability of any fall and the size of any fall in the value of their capital is low or non-existent. The return, therefore, is likely to be similar to that available from a high street deposit account and as a result the Limited Risk Investor runs the risk that inflation may reduce its real value over the longer term.	A Cautious Investor looks for an investment where the potential return is slightly better than that available from a high street deposit account. They accept that the value of the investment could fall as well as rise. However they would feel uncomfortable if their investments were to rise and fall in value rapidly.	A Balanced Investor looks for higher returns than those available from a deposit account and is willing to accept a certain amount of fluctuation in the value of their investments. However they would feel uncomfortable if their investments were to fall significantly in value.	An Adventurous Investor is willing to accept a higher level of risk on their investment in return for higher returns in the long run. They accept that amount of fluctuation in the value of their investments as a result. They would feel comfortable if their investments fell in value in one year and would see this as a time to ride out the storm rather than a time to invest more.	A Speculative Investor is willing to accept a much higher level of risk on their investment in return for higher returns in the long run. They accept an amount of short term fluctuation in the value of their investments as a result. They would feel comfortable if their investments were to fall in value in one year and may well see this as an ideal time to invest more because of their cheaper purchase price.

Your Attitude to Risk – A Summary

Investing is about balancing the risk you are comfortable with, this typically falls into two categories; the risk of your investment falling in value and the risk of your investment growing too slowly to meet you objectives. Achieving the right balance between these two factors should determine which investment is best for you and how you structure your overall portfolio.

Your investment objectives and attitude to investment risk are personal to you and nay change from time to time our risk/reward information can help illustrate this concept. It is not exhaustive but covers a wide range of funds and investments and shows the general principle that as the level of risk increases so the potential for higher returns increases also.

Please note the diagram below is only intended to be a general indicator of relative risk and may vary in certain circumstances.



Typically over a ten year period asset backed investments tend to outperform cash deposits which are more susceptible to erosion due to inflation.
However there are no guarantees and the value of your investment can fall.
The money deposited in a building society account is secure. The value of any investment is not guaranteed and you may not get back the money you invested.

What investment fund will suit me?

An investment fund pools money from its many investors and invests it on their behalf in a range of assets such as shares, commercial property, fixed interest bonds and cash, or in a single asset class. Investors buy ‘units’ or ‘shares’ in the fund; these will vary in price daily depending on the performance of the underlying assets.

A spread of assets, known as ‘diversification’, helps reduce the loss should one of the underlying assets in the fund suffer a downturn.

Managing this risk is a skill. It requires a high level of numeracy, a good understanding of why and how the value of investments can change, the presence of mind not to be swayed by every bit of news you hear and the ability to be objective. It also takes time. This is what your fund manager will do.

There are two types of fund management

Single Manager
Run by one Fund Management Company

A single Fund Management Company will invest in a variety of different assets. They are likely to have a number of individuals managing different aspects of the fund. They are responsible for managing the fund and taking all investment decisions about buying and selling the assets within the fund. They are also responsible for setting the charges.

Multi Manager
Spreads the investment across several Fund Management Companies

The Multi Manager splits the portfolio between several single Fund Managers to run different parts of the portfolio. This enables the funds to combine differing skills across the market, from the style of the manager to managing different investment types.

Both of these types of funds make a charge for managing the assets within it. Due to the additional layer of fund management multi manager funds are typically more expensive than a single manager fund. The multi manager will attempt to recover these costs through a better performance.

When we have chosen the most appropriate fund we will make sure that you understand the charges and how they will be applied.

The following six styles of fund are typical of those you can invest in.

Protected

A fund that will protect some of your capital.

A protected fund seeks to protect most of your investment from a fall in the stock market by continuous unit price protection. This means that part of the fund is in equities and part in cash. In turbulent times the fund manager will move into cash, reducing the exposure to equities. Over time a pure equity fund is likely to offer greater potential for returns but with less stability. For that reason protected funds often appeal to the more cautious investor looking to balance their investment portfolio.

Best Ideas

A fund to provide you with exposure to new markets or asset classes.

If you are attracted to the idea of investing in new areas e.g. Natural Resources or Ethical Funds, or are prepared to take significant risks in order to potentially make large gains then these funds may be applicable to you. You will probably be an adventurous or speculative investor, as the funds carry a higher degree of risk, but may offer the opportunity for higher levels of returns.

Distribution

A fund that will pay out only the income it receives from the underlying assets.

You may need income but are concerned about having to take capital from the fund to receive it. Taking just the arising income does not deplete the capital, although the capital will go up and down with the performance of the underlying assets. The amount of income will also vary for the same reason.

Lifestyle

A fund that changes its underlying investments over time.

These funds are designed to offer a changing asset mix over time tailored to your changing objectives. In the early years they will invest in assets that match your risk profile. As you come closer to needing access to your savings, often in the last seven years, your investment will automatically move into safer assets, such as cash or government bonds to preserve the fund that you have built up. This approach assumes that you will become more cautious as the investment nears maturity.

Smoothed

A fund that takes the bumps out of the journey.

You may want better returns than cash deposits but you dislike the value of your investment going up and down by large amounts on a daily basis. A "With Profits" product/fund seeks to provide a steady return by smoothing out the ups and downs of the stock market.
Here the fund manager keeps back some money when the value of the underlying assets rises more quickly than expected. The surplus is then used when they fall or rise more slowly than expected. It means that the change in value of your fund won't be as dramatic as that of the underlying investments, which may suit the more cautious investor. Remember that smoothing cannot cancel out the impact of a sustained fall in investment returns.

Property

A fund that invests in commercial property.

These funds allow you to invest in the commercial property market. The value of the fund is linked directly to the price of the properties held by the fund.
An independent valuer determines the value of the properties in the fund. In some circumstances, e.g. when the market is depressed, you may experience a delay of up to 12 months in cashing all or part of your investment. At times the value of the property in the fund could rise or fall quite sharply.

You should not use past performance as a suggestion of future performance. It should not be the main or sole reason for making an investment decision. The value of investment and any income from them can fall as well as rise. You may not get back the amount you invested. If at any time you are unsure about which funds are suitable for you, you should speak to your adviser.
So before investing for your future make sure you have sorted out your current debts and made provision for any downturns in your fortunes. Then decide why you are investing, for how long and how much risk you can put up with. Investing in pooled funds has proved to be a way of achieving better returns than you can get from a deposit account on the High Street – providing you are prepared to accept the risk.