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WEALTH MANAGEMENT

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GUIDE TO

THE TOP 10 FUNDAMENTALS FOR SUCCESSFUL INVESTING

Whether you're planning to build a nest egg, investing for your children or planning for a wealthier retirement

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THE TOP 10 FUNDAMENTALS FOR SUCCESSFUL INVESTING

Whether you're planning to build a nest egg, investing for your children or planning for a wealthier retirement

Welcome to our *Guide to the Top 10 Fundamentals for Successful Investing.*

Investing serves as a mechanism for amplifying your wealth. It can assist you in expediting the repayment of your mortgage, augmenting your retirement savings or safeguarding your child's financial future. However, before you invest your money, be ready for a long-term engagement.

Though your money is safe in a bank, fluctuating interest rates and inflation may diminish its value over time. On the other hand, invested money can potentially increase in value, though there's also a risk it could decrease. Investing might not suit you if you cannot commit your money for at least five years.

Maintaining an emergency fund sufficient to cover three to six months of living expenses is prudent before investing. This fund can provide reassurance that you have a financial safety net for unexpected events without tapping into your investment capital.

There are numerous investment avenues, most of which expose you to various 'asset classes'. Each asset class carries differing risk and return profiles. Generally, the risk level corresponds with the potential return or loss, implying that high-risk asset classes offer the possibility of higher returns but also greater losses.

10 fundamentals for successful investing to help guide your journey

1. Set and prioritise your financial objectives

Starting your investment journey requires a clear plan, which includes understanding your unique goals and the strategies to achieve them. Are you investing for a specific purpose? Do you aim for investment growth, income, or both? Having a well-defined plan prevents deviation and ensures your decisions align with your investment goals.

Remember, there's no universal approach to achieving financial objectives. Your goals should reflect your individual circumstances, preferences and ambitions. By identifying and prioritising your financial objectives, you can concentrate on what's most important in a sequence that suits you. This step also guides you in making necessary compromises.

2. Ensure smooth portfolio performance

Investing doesn't necessitate a large initial sum. Drip-feeding an affordable amount each month – or gradually depleting a lump sum – can be advantageous in times of geopolitical, stock market and economic uncertainty. Known as pound cost averaging, this can offer a safeguard against value depreciation in markets that inherently have the propensity to decline and ascend.

Rather than committing a substantial amount of money at a single market point, which a

price drop could potentially follow, regular investments would purchase units as the prices of the underlying assets decrease. This could lead to obtaining more units for your capital, resulting in a higher return if the market situation becomes favourable and prices start rising.

3. Utilise tax-efficient allowances

Remember your Individual Savings Account (ISA) allowance, which resets annually on 6 April. For the 2023/24 tax year, this limit is £20,000 for each adult. Investments within an ISA grow tax-efficiently, allowing more of your money to contribute towards your future goals. ISAs come in four different types, each catering to different types of investments: Cash ISAs, Stocks & Shares ISAs, Innovative Finance ISAs, and Lifetime or Help to Buy ISAs. The latter comes with a 25% tax-free bonus of up to £1,000 per year.

You can distribute your £20,000 ISA allowance across these four types of accounts as you see fit. You can also make multiple subscriptions to the same type of ISA account. However, a limit of £4,000 per year can be invested in a Lifetime ISA. If you have minor children, you or a relative can invest up to £9,000 per child in the current tax year into a Junior ISA.

4. Practise the art of patience

Long-term investment goals require ample patience. While prices fluctuate daily, adopting a buy-and-hold strategy is crucial. Avoid attempting to time the market or base decisions on short-term fluctuations. Market timing – predicting changes in stock prices or index values – often leads to poor decision-making.

Instead, focus on your overall investment goals and adhere to your plan. As many investors say, 'There are only two types of people when it comes to market timing: those who can't do it, and those who haven't realised they can't.' If you're patient enough to ignore the noise, the market will eventually recognise an asset's underlying value.

5. Diversify your portfolio

'Don't put all your eggs in one basket' is sage advice when investing. Diversification spreads risk across various investments and sectors, helping you navigate market volatility. Asset allocation and diversification allow you to create an investment mix with potential for growth and a level of risk that suits your comfort zone.

In a diversified portfolio, the less correlated the assets, the better. The concept is straightforward: if you invest everything in one sector – like technology – and it plummets due to regulatory changes, your investment suffers too.

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6. Regularly review your portfolio

Consistent monitoring of your investment portfolio is crucial to ensure that it aligns with your financial objectives and you're not excessively exposed to risks. Rebalancing is an essential practice in this process. It involves adjusting the allocations of different assets within your portfolio to maintain the 'weight' or proportion that best matches your initial investment goal.

Market performance can cause the value of each holding in your portfolio to rise or fall over time, altering its proportion within the overall portfolio. As these proportions deviate from their original weightings, the risk profile of your portfolio changes accordingly. High-return assets typically carry higher risk, meaning these high-risk investments may increasingly dominate your portfolio over extended periods, elevating your risk level beyond your initial plan.

7. Embrace discipline over emotion

Investing can stir emotions, making discipline paramount. Don't allow greed or fear to dictate your investment decisions. Instead, keep your eyes on your goals and adhere to your plan. The potential power of compounded returns over decades is immense if you consistently save and invest in financial markets. You may start small, but the key is to start.

In the world of investing, cashing in your investments is known as 'being out of the market'. When you're out of the market, you can potentially miss out on the best days for investment gains and performance.

8. Establish a time horizon

A crucial component of investment strategy is setting a defined time horizon for your investments. For example, if your goal is to build a retirement nest egg, your investment period will likely be more extended than that of someone investing in their child's higher education. Although it's generally possible to liquidate your investments whenever you want, maintaining a presence in the market often enhances your prospects for greater returns.

It also allows for compound growth when you reinvest dividends or interest. Investments should last at least five years, but ten years or longer is preferable. The determination of this period will hinge on how much you can afford to invest on a monthly or yearly basis to meet your financial objectives. Also, evaluating whether there's sufficient time for your investment to mature and withstand potential market volatility is important.

9. Brace for potential hurdles

The journey of investment is seldom a smooth ride. As evidenced in recent years, there will be instances when markets take a downturn or your investments don't perform as expected. Foreseeing these obstacles and having a contingency plan to manage them effectively is crucial. Even if you're a novice investor, you're likely aware of the market's volatility. Where there's a chance for profit, there's also a risk of loss.

High-risk investments may yield higher returns, but if you're susceptible to worry or feel inclined to pull out your investment following a loss, a lower-risk investment might suit you better. Investment strategies aren't one-size-fits-all, so don't be discouraged if your method differs from others. Always tailor your goals and investment amounts to what makes you feel at ease.

10. Obtain professional guidance

Professional financial advice is essential to construct a diversified portfolio. We are dedicated to assisting you in creating, managing and growing your investment portfolio while maintaining an acceptable level of investment risk.

We take a holistic approach, considering every facet of your life. This includes your personal goals and dreams, as well as the aspirations of your extended family. We also think about the legacy you wish to leave behind. Our comprehensive approach ensures that your portfolio is not just about numbers but reflects your life's journey and future ambitions. ■

LOOKING FOR COMPREHENSIVE KNOWLEDGE ON ALL INVESTMENT MATTERS?

Venturing into the realm of investments can appear intimidating, especially for beginners. If there's any uncertainty about the best way to invest your funds, we will provide you with comprehensive knowledge on all investment matters and instil the confidence you need to embark on your investing journey. To discuss your investment goals, please contact us.

HOW SHOULD I INVEST MY MONEY?

Investing for your future is a great way to prepare for a rainy day and for whatever life brings, and developing an investing strategy will help you if you're working towards a specific savings goal.

Contact us today for personalised advice and guidance.

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