The 5 minute money guide to:

Investing Money

Introduction

It doesn't matter whether you are a regular, experienced, investor or a novice with money to invest for the first time; we hope that this short guide can give you some valuable tips on how to go about investing your money.

Investing is about a process and we believe that there are a number of key steps that any investor can employ and should employ to maximise their prospects of a successful outcome.

Investing well probably takes no more time than investing poorly, but the results from a successful plan can be hugely significant, if we can help you get a few percentage extra per year on your return then we believe this is a very worthwhile cause!

How to invest

So you've got some money to invest or you already have money invested: now what?

What is it that you need to do to make this work for you?

Here are 5 great tips from us to you…

TIP NO #1: Write down your wish list.

Write down what you want from your invested money in the future and write down ***exactly*** what you want.

Don't write something like "I want it to grow" or "I want income"; set out on a piece of paper exactly what you want and when.

"Where there's a will there's a way"

Now we know this phrase wasn't conjured up for people who write wills (or was it?) but this is a fantastic analogy to use. The simple fact is that people who write wills are doing so for precisely the reason that their exact wishes are clearly set out for the benefit of all to see at some later date: likewise with your intended usage of your invested money you are writing down your exact wishes that can then act as the spur for your ***investment plan***.

Write out your wish list and here's an example:

"The £50,000 I have to invest is intended to grow to £150,000 in 10 years time. I have no use for the money in the meantime so I am prepared to use investments which have limited access. I understand that to meet this target my money will need to grow on average by nearly 12% per year net of tax and charges, which I understand means I will have to take higher than normal risks and this will involve the possibility of losses along the way and on my invested capital."

Or

"The £150,000 I have today is solely for the use of helping me with my retirement income, I need to get an income of 5% per year on this money starting now. I am not prepared to take more than the most modest risk and I need to have at least £50,000 available at any time for emergencies. Capital growth is not a priority."

Or

"I am 24 years old and the £10,000 my grand-parents have just given me is for helping with a house purchase in the next 5-7 years. I need to salt this money away for that purpose, taking limited risk but hopefully getting it growing by 5% per year."

Now get a folder or something and write this out and stick it on the inside of the folder with some form of date attached and keep it there as a starting reference.

What happens if your wish list is completely ridiculous? For example "I am 30 years old and want my £1,000 available for investment to be worth £1 million this time next year (Rodney)" Well this is where tip no#2 comes in.

TIP NO #2: Get professional help.

Now I know that if I want my garden landscaped I have a choice: either I can do it myself or I can call a landscape gardener. I know which is cheaper but I also know which will end up with a nicer looking garden.

The reason why many people don't get professional help with their investments is because they are worried that the professional help will not be very good. And to be fair this is a genuine risk.

What's the solution? Get ***<u>excellent</u>*** professional help.

This is probably the biggest single tip I can give anyone looking for help to invest their money: **SPEND MORE TIME CHOOSING YOUR INVESTMENT ADVISER/HELPER THAN ANY OTHER THING YOU DO IN THIS AREA.**

A lot of people use poor helpers because they pick from the wrong starting point. Rather than picking the best adviser they pick the one who is straight in front of them.

How to get a really good adviser

How do you get a good anything? Use the three R's: Research, recommendation and results. Find out about advisers by looking on the internet, checking for length of time in business, qualifications and the quality of their offices and web sites (it matters). Then either get or ask for recommendations or as I like to call them commendations (but that doesn't begin with R). You cannot get too many (if you ask for one they will all have one, if you ask for five to ten then you'll sort out the good from the bad pretty quick). Make sure you use them!! Then ask for a demonstration of results: "if I had given you this brief and invested money to help me with 5 years, 10 years, ago what would you have done?"

Remember these are just suggestions, do what you need to do, but make sure you find a great adviser. And then you can move onto tip no #3.

TIP NO #3: Test your wish list.

Look at your wish list with your new (great) adviser. Is this realistic, how does it fit with your overall position, is this the right approach and so on. Let him/her hold up a mirror and then test the wish list for realism, for reflection (does it really reflect your wishes?) and in line with your circumstances. Look at the risk bit of the wish list, if you want to target 12% per year returns are you *really* prepared and understand the risks required and entailed?

Go through this until you are both happy that your wish list is

(a) what you really want.
(b) achievable.
(c) clearly worded.

If it is you are now onto the next part: which is tip no #4.

TIP NO #4: Create your investment plan.

Some people refer to this as an investment portfolio, I like to call it a plan, for the simple reason that I think it is a better description and the portfolio bit only comes in at the end.

"The best laid plans of mice and men………"

Do mice really have plans?

The reason I like plans as the word to use is because it gives it a better feel for what will happen. Which is: we don't know.

The plan is all about the way we will convert the money into a segmented series of "holdings" which are aiming to meet your wish list requirements AND will include targets, benchmarks and points in time when everything can be reviewed and rebalanced.

The plan MUST be written out and signed off by both you the investor and your adviser. It needs to include contingencies, a description of the risks and a clearly stated marrying of the holdings you will use with the position you are in.

I haven't enough space or time (I have only 5 minutes of your reading time) to give you an example of a comprehensive plan, so here's a snapshot example of what it needs to include:

1. Your personal details (name, address, job, earnings, tax position, marital and family position etc.)

2. Your current financial position

3. Your risk position (profile and tolerance)

4. Your goals (which will reflect your wish list)

5. The Asset Allocation you will employ

6. The intended investments:
And then a breakdown for each investment of why it was chosen, it's target, when it will be reviewed, what will happen and when if it does better than expected or worse than expected.

This then becomes the reference for all future meetings, reviews and discussions.

There are two stages to the allocation of the monies (shown as steps 5 + 6 above) where one leads to the other. Step 5 is the asset allocation, this will determine exactly what asset areas will be used and in what proportions and this will be based upon the earlier steps.

An asset allocation example for a higher risk approach and requirement might be:

25% UK shares
10% US shares
10% Far East shares
5% European shares
5% Emerging Markets shares
10% Commodities
10% Global Property
10% UK Gilts
5% UK Corporate Bonds
5% Overseas Fixed Interest
5% Cash

This would then lead to a split of holdings which would include direct holdings (e.g. investing directly into shares, gilts or whatever), funds, or other appropriate vehicles (e.g. ISAs) and then the companies and specific holdings themselves. This is the "portfolio" which concludes the plan.

TIP NO #5: Review and rebalance.

"Its not where you start it's where you finish"

All of the above gets you in the right starting position: you now have a workable programme and plan which sets out your stall. But one thing we do know is that the plan will not work as we think! There is bound to be change and adjustment along the way and this is where you need to ensure with your adviser that you have regular reviews.

These reviews will probably need to be at least half yearly and may be they need to be mixed up, so some would be general reviews, some specific. Flexibility should be inherent because you may also need to have unscheduled reviews (for example 9/11 and its aftermath/impact would surely have led to such a review).

Specific reviews should include every other year or so "rebalancing" reviews. This is where you need to look at your asset allocation and see if it remains valid.

Apart from anything else you may have to rebalance simply to adjust for discrepancies in performance. If you consider our asset allocation example above what is the position after three years if all the shares have doubled in value and the rest of the portfolio has stayed the same? The shares now represent over 70% of the total invested whereas when we started they were 55%. Rebalancing would adjust this back to the starting point by disposing of some of the shares and buying more of the remaining assets in place to get back to the 55% position. This is a great way of taking profits in a structured form and closing out "winning" positions.

Conclusion

Investing is predominately a discipline which follows certain steps. Essentially a science rather than an art, successful investing with successful results is within the domain of any individual, whether experienced or a novice.

It is the process which counts most and getting the process right is the key to a successful outcome.

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