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Show me the money

How to invest your money and avoid costly mistakes

It's not surprising that the world of investing can seem complex, especially in the current global economic climate. Investors face an endless supply of market news, many investment choices and often-changing market conditions.

There are a number of key principles that every investor should follow with the aim of building an effective long-term strategy designed to achieve their financial goals.

Here's our rundown of the 10 principles that every investor needs to know:

1. SET INVESTMENT GOALS

- It's important that you set yourself investment goals – this will help you stay focused and on track to achieving your financial objectives. With a well-structured plan in place, you can confidently stay committed to it.
- There are a number of factors to consider when setting your goals, such as your age, investment timeframe and risk tolerance.

2. PLAN ON LIVING A LONG TIME, AND SAVING MORE FOR IT

- People aged 65 years in the UK in 2020 can expect to live on average a further 19.7 years for males and 22.0 years for females, projected to rise to 21.9 years for males and 24.1 years for females aged 65 years in 2045[1].
- Investors should start early, invest with discipline and have a plan for their future.

3. CASH IS RARELY KING, AND INFLATION EATS AWAY AT YOUR PURCHASING POWER

- Cash is a popular asset class, but it's important to remember that it is not always king – inflation can erode the purchasing power of your cash, making it a less attractive option in the long run.
- When inflation is taken into account, cash typically lags behind other asset classes such as stocks and bonds, which can mean that over time, cash will generally be worth less in terms of purchasing power.

4. START EARLY AND RE-INVEST INCOME – COMPOUNDING WORKS MIRACLES

- Compounding is often called the eighth wonder of the world – by starting to invest early and reinvesting your income, you can take advantage of compounding to build your wealth over time.
- The power of compounding is so great that delaying investing by even just a few years, or choosing not to reinvest income, can make an enormous difference to your eventual returns.

5. RETURNS AND RISKS GENERALLY GO HAND IN HAND, SO BE REALISTIC ABOUT YOUR OBJECTIVES AND WHAT YOU CAN ACHIEVE

- Of course, you always want to aim for the highest possible return while taking on the least amount of risk. But in reality, there is usually a trade-off involved – the higher the potential return, the higher the risk. And vice versa.
- Therefore, if you want to target a higher level of return, you have to be willing, and able, to tolerate larger swings in the value of your investments along the way.

6. VOLATILITY IS NORMAL, SO KEEP YOUR HEAD WHEN ALL ABOUT YOU ARE LOSING THEIRS

- Volatility is a normal part of the market, so don't let it rattle you – keep your head when all about you are losing theirs, and remember that the best time to invest is often when others are panicking.
- So don't panic when the markets are down. Instead, stay calm and focused on your long-term goals.

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7. TIMING THE MARKET IS DIFFICULT, STAYING INVESTED MATTERS

- It's no secret that timing the stock market is difficult. In fact, it's often said that trying to time the market is a fool's errand. By staying invested you ensure that you're participating in the long-term growth of the market, which helps to mitigate the effects of volatility.
- Staying invested in the market allows you to take advantage of opportunities as they arise. By staying invested, you'll be in a position to buy when prices are low and sell when prices are high.

8. DIVERSIFICATION WORKS: DON'T PUT ALL YOUR EGGS IN ONE BASKET

- By spreading your money across different investments, you can minimise your risk and maximise your chances of success.
- Over time, different investments will tend to even out, so the aim is to grow your money even if some investments underperform due to market movements.

9. REVIEW YOUR PORTFOLIO

- Reviewing your investment portfolio allows you to monitor your progress and ensure that your investments are performing as expected, giving you the opportunity to make changes to your portfolio if necessary.
- It helps you stay disciplined and focused on your long-term goals.

10. IF IT SEEMS TOO GOOD TO BE TRUE, IT USUALLY WILL BE

- Promises of high returns with little or no risk are almost always too good to be true – there are a lot of scams out there, and many people looking to take advantage of unsuspecting investors.
- Before investing, consult with a financial professional to help you understand the risks involved.

WHAT ARE YOUR LONG-TERM WEALTH PRIORITIES?

Whatever your long-term wealth priorities, our first investment will always be in understanding your priorities and building a personal relationship with you. To discuss your plans or for further information, please contact us.

Source data:

[1] The Office for National Statistics (ONS) – Past and projected period and cohort life tables: 2020-based, UK, 1981 to 2070

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.