Lync Wealth Management

A guide to investing

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Introduction

Investing is a powerful tool for building wealth and achieving financial security, but it can often seem complex and intimidating to those just starting out. Whether you're looking to grow your savings, plan for retirement, or achieve other financial goals, understanding the basics of investing is crucial.

When considering investing, it is important to always start with understanding the facts:

- What is your current financial situation?
- What are your financial goals?
- Do you understand the meaning of risk?
- How much risk are you comfortable taking to achieve your goals?

Investing involves risks, and it's important to understand that the value of your investments can go up or down. There is no guarantee that you will earn a profit, and you may lose some or all of the money you invest. The level of risk varies with different types of investments; typically, higher potential returns come with higher risks. Market conditions, economic factors, and other external events can impact the performance of your investments. Before making any investment, it's crucial to do your research, consider your financial goals, risk tolerance and consult with a financial adviser. Remember, past performance is not indicative of future results.

The bigger picture: Investing for the long-term

If you are looking to generate money to meet a specific goal, such as preparing yourself for retirement, this would usually be considered to be a medium to long-term strategy, depending on the age in which you start investing.

In this scenario, you wouldn't be as affected by short-term changes in the market but would be focused on your end goal and what your finances could look like once you reach it. Longer-term goals like these are usually achieved by setting up a regular monthly or annual investment, rather than a one-off injection of money.

Should you come into money that you wish to invest, you can of course invest a one-off lump sum. An approximate timescale of short/medium/long term investments could be seen as:

Short: 3-5 years
Medium: 5-10 years
Long: 10+

What is the purpose of investing?

So why invest? No one knows what is around the corner and when you might need extra money, so building this pot of money for your own personal use is both wise and beneficial for offering the peace-of-mind that you have access to future capital should you need it.

Saving now can help you to beat any rising costs of inflation and ensure that you maintain the standard of living that you desire. Prior to any form of investment, we recommend you look at the following key areas:

- You have acknowledged and are managing any outstanding debt.
- You have adequate money left in an 'emergency fund' after you start investing (typically 3-6 months of essential outgoings).
- You have taken out financial protection to cover you for situations where you might be unable to work due to injury or illness.

If you are unsure of what your financial needs would be in these scenarios, your financial adviser will be able to help you and will make recommendations to address them, in line with your investment requirements.

Fact finding and getting to know you

Fact-finding is a critical first step in the financial planning process, where a financial adviser gathers detailed information about a client's financial situation, goals, and needs. This process is essential for developing a tailored financial plan that aligns with the client's objectives.

During fact-finding, the adviser will ask a series of questions to understand the client's

- Income
- Living expenses
- Assets
- Liabilities
- Insurance coverage
- Investment experience
- Future financial goals
- Risk tolerance
- Investment time horizon

By conducting a thorough fact-finding session, the adviser ensures that any advice or financial plan provided is personalised and designed to help the client achieve their financial aspirations while navigating potential risks. This step is foundational to building a trusting relationship and setting the stage for long-term financial success.

Understanding risk and how it affects your investments

One of the main factors in determining how and where to invest is your comfort level when it comes to risk. Not many people are willing to put all of their money into a high-risk investment because if it doesn't come in, they lose everything. But, without some degree of risk, you are unlikely to see your money grow.

For most people, their first experience of investing is to save with a bank as this is perceived as risk-free and keeps your money easily accessible should you need it. So why not just keep all of your money in the bank? Because along with the low level of risk, comes a lower rate of interest – typically lower than inflation, or the cost of living. What this means in real terms is that if your investment rate with the bank is less than inflation, then that money is guaranteed to lose money. If you are looking to get a return on your investments greater return than inflation, you will need to take some risk.

Attitude to risk

Many advisers will guide you through the risk profiling process with a series of questions and asked to respond with a 'Strongly Agree', 'Agree', 'No strong opinion', 'Disagree' or 'Strongly Disagree', or words to that effect.

Some sample questions may be:

- I would go for the best possible return even if there were risk involved.
- If I had money invested in shares I would be nervous about the stock market crashing in the short term.
- I consider myself a risk taker in general life.

Your answers to this questionnaire would help your financial adviser gain a better understanding of what investment choices to offer you. But this does not determine your attitude to risk alone.

Your capacity for loss

How you personally feel about risk is not the only criteria a financial adviser will use to determine your risk profile.

As no investments are guaranteed, your financial adviser will have an open and honest conversation with you to help you to understand your capacity for loss; the level of potential loss you could afford and feel comfortable with.

Your attitude towards risk and your capacity for loss may be different. It is not usual, for example, to be prepared to take a lot of risk, but not have the emergency funds in place should your investments fall in value.

Your willingness to take risk

You may not wish to take any form of risk with your investments. From an emotional perspective, this is understandable. From a practical perspective though, you might need to take some risk if you are to meet your financial investment goals.

Any implications will be discussed with you and fully explained as it's absolutely essential that you understand any potential risk behind any investment you choose to make.

Determining your attitude to risk, your capacity for loss and your willingness to take risk to meet your investment objectives, enables the adviser to determine your overall risk profile.

It could also be the case that we advise not to take as much risk because needs could be met via a lower risk solution.

Understanding your risk profile

Now that you have a better understanding of the appropriate level of risk that is right for you in order to meet your investment goals, your adviser will be able to better understand what your risk profile looks like.

The following six risk profiles give an overview to the typical types of investors, of which there will be one that you are most aligned with.

Very cautious: You are prepared to take only a small amount of investment risk.

Cautious: You are prepared to take only a small amount of investment risk.

Low end of cautious to moderate: You are prepared to take a limited investment risk in order to increase the chances of achieving a positive return, but you only want to risk a small part of your capital to achieve this.

Adventurous: You are prepared to take a substantial degree of risk with your investment in return for the prospect of the highest possible longer term investment performance.

Moderate to adventurous: You are prepared to take a medium degree of risk with your investment in return for the prospect of improving longer term investment performance.

Very adventurous: You are prepared to take a substantial degree of risk with your investment in return for the prospect of the highest possible longer term investment performance.

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Diversifying to spread the risk

Even if you are an Adventurous Investor, we need to determine the most appropriate way to invest your money.

One of the most important things to look at is how we can spread your risk – both across different types of investments and different companies.

This way, if something doesn't go to plan, your entire investment won't be affected.

Different investment types are known as asset classes and together we will decide the best asset classes to invest in based on your desired return and your risk profile.

The following examples showcase the different asset classes that may be available to you, ranked from a higher to a lower risk category:

Commodities: Commodity investments place your capital in raw materials or primary agricultural products and are a good way to achieve portfolio diversification.

Equities (Shares): Investing in tradable shares of a company, either within the UK or internationally, offers long-term growth potential for both capital and dividend income, although performance, particularly in the short term, can be volatile.

Hedge funds: Hedge funds are a higher risk financial partnership that use a pooled fund to invest in the market.

Commercial property: Investing in property as an asset offers the potential to generate ongoing capital in the long term.

Fixed interest (Bonds): Bonds pay a guaranteed amount of interest over a set length of time.

There are a variety of government and corporate bonds available and they are often combined with equity investments, as the performance of them does not usually correlate, meaning that you will have a better diversified portfolio with a greater spread of the risk involved.

Cash: While cash can be one of the most risk-free investments, it also typically offers the lowest returns. Once you take into account inflation, cash can actually give you virtually no return on your investment at all.

Choosing investment funds

The type of funds you choose to invest in will be somewhat based on your risk profile.

A risk averse investor is likely to invest in lower risk assets such as cash, for example, while an adventurous investor is likely to choose higher-risk funds, such as equities, commodities and property.

While higher-risk funds often result in higher returns, it's important to realise that there are no guarantees.

The value of your investments can go down as well as up and you may not get back as much as you put in.

Types of investment funds

Investment funds are a popular way for individuals to grow their wealth by pooling their money with other investors to access a diversified portfolio of assets. Whether you're new to investing or looking to expand your portfolio, understanding the different types of investment funds is crucial.

Cash and cash-like funds

Less risk and lower volatility with returns linked to bank and building society deposit rates. Returns will be lower though and there is no guaranteed capital protection.

Multi-asset passive management funds

Investment in multi-asset classes. Some, or all, of the fund management is based on tracking a particular market or index and will attempt to mirror their performance.

Some, or all, of the investment computer programme managed so do not include active fund management or processes.

Multi-asset single manager funds

Investment in multi-asset classes and funds from a single investment fund house. Funds may be managed by specialist managers within the single investment fund house or by the individual single manager.

Funds may invest across different asset classes or single managed funds may be blended from within that fund house to meet a specific risk profile and asset allocation.

This type of fund is actively managed to achieve the expected return.

Multi-asset multi-manager funds

A specialist multi-manager chooses a number of single managed funds from the whole of the market, combining them to meet a specific risk profile and asset allocation. Asset allocation is actively managed to achieve the expected return.

The multi-manager will monitor the market and switch between funds and sectors when appropriate, with the aim of reducing volatility. This gives the investor access to a wide range of different fund managers and asset types.

Discretionary fund management

Often considered a more personal approach consisting of a portfolio of investment vehicles rather than a fund of funds. A portfolio of varying assets and investment types will be constructed based on your risk profile and agreed investment strategy.

The discretionary fund manager will monitor the market and switch between funds and sectors when appropriate, rebalancing your portfolio assets in line with the agreed strategy.

A minimum overall investment value is usually needed for this service, in line with your investment requirements.

Why you should regularly review your financial plans

Your financial plans should not be static objects. It is crucial to review your plans over time and on a regular basis to ensure that you remain on track towards your goals. You also need to adapt your financial plans as your circumstances change.

When should you review your financial plan?

This can depend on your circumstances, but it should certainly be at least annually, and probably also when something major happens to your personal or financial situation.

Having an expert on hand to support you with your investment decisions is the best thing you can do for your own peace-of-mind.

Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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Important information

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