

Investing in your future

Knowing where to invest your hard-earned cash is difficult at the best of times, but it can be particularly tricky when the economy is fragile and the outlook for the year ahead is far from certain. This article explores some of the options available to help you grow your money and what you should consider before you commit to an investment.

Why invest?

The main aim of investing is to grow your assets – which may include cash, shares or property – while taking a level of risk with which you are comfortable. More cautious people tend to feel better placing their money in lower risk investments, while others are happy to ride the ups and downs of the stock market, which is potentially more risky.

Risk and reward

Historically it has been shown that the more risk you take with an investment, the more potential there is for a greater reward. Shares have generally produced the best returns over time but bring more volatility along the way. Cash is less risky but will yield lower returns. Barclays Capital Equity Gilt Study 2011 provides data on the annual returns from equities, government bonds and cash in the UK going back to 1899. Over this 111-year period, the real return (i.e. return less inflation) from equities was 5.1% on an annualized basis against 1.0% for cash. The study also shows that over a 10-year period there is a 92% probability of shares outperforming cash and an 81% probability of them outperforming gilts. However, past performance is not a guide to future performance.

Some of the things you should think about before making any investment are:

- The level of risk you are prepared to take
- The level of return you would like to see
- The time period that you are prepared to lock your money away for.

Some more common types of investment classes are detailed below.

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Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk

Cash

All investments involve some level of risk but putting your money into a bank or building society is probably one of the safest options. Cash offers relatively easy access to your money and you are unlikely to end up with less than you put in. The danger here is that during periods of low interest rates and higher inflation, such as that we are currently experiencing, the return will be minimal and over the long-term savings could lose value as you can not buy as much as you could previously with the same amount of money.

Fixed interest investments

Fixed interest investments, some also known as bonds, are generally considered a lower-risk asset class than shares. Bonds are issued by governments and companies to, for example, raise new capital for investment. They pay interest for a fixed period of time and, at the end of this period, the value of the bond debt is paid in full. Government bonds are often referred to as gilts and these are generally more secure investments than corporate bonds as there is little danger that the government will not be able to repay your debt.

Shares

Owning shares or equities in a company means you own part of that company and receive a share of its profits through dividends. This can be rewarding, but also risky. While share prices are ultimately driven by a company's potential profitability, stock market anxiety can send share prices falling.

Rather than buying individual shares in companies, a less risky way might be to invest in a fund where your money is pooled together with that from other investors. A fund manager will invest the fund in a number of carefully selected different companies, thereby reducing risk as your money is spread across a diversified portfolio. There are a large number of funds to choose from, to suit low to high risk investors.

Property

Property has historically been a popular form of investment as the value of bricks

and mortar has tended to go up over time. There are many ways to invest in property, from the purchase of an overseas rental property or a buy-to-let house, through to buying land or investing in a property fund.

Existing investors should now be benefiting from lower rate mortgages and those who invest for rental returns rather than capital growth may be tempted by the fall in property prices. However, the recent slump in the market shows that property investing offers no guaranteed returns and should be viewed as a long-term investment.

Diversification

Distributing your investments over a number of different classes means you will not be dependent on any one type, thus minimizing your exposure to risk even further.

The returns from shares, bonds, property and cash are only loosely linked and perform differently in different market conditions. If one performs poorly, another may perform stronger during the same period. A managed fund effectively creates such a portfolio mix, as these are managed by professional fund managers and can be split into the various risk categories to allow the investor to pick the one most suitable for them.

With profits funds also mix asset classes and aim to smooth returns using bonuses. Some of the underlying investment returns are held back so the fund, and customer investment, can continue to grow in poor years. If there are any surplus returns when the customer wants to cash in his/her investment, then this is given to the customer as a final bonus at that time. The with profits providers' financial strength is critical in their ability to do this.

Deciding on the right investment strategy to suit your needs can be a complex process so it is important to speak to a financial adviser who can help you strike the right balance between risk and return. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.