

# Hopes, dreams and investments

The start of a new year is always a good time to take stock of your finances and to consider your hopes, dreams and aspirations for the future. These are linked more than you might think as you will often need money to turn your dreams into a reality. Perhaps you are considering early retirement or maybe just looking to pay off your mortgage. Whatever your goals are, it is important to make your money work hard. Ideally you should take a structured approach to building up your target amount.

While the main aim of investing is to grow your wealth, you will also want to feel comfortable with the amount of risk you are taking to achieve the potential rewards you are looking for. While some people prefer placing their money in lower risk investments, others are happy to ride the ups and downs of the stock market, which is potentially more risky but can be more rewarding over longer time periods.

## Where can you invest?

For many doctors, investing in a pension is the main way of saving for the future. However, the government changed the rules on pension tax relief in April 2011, reducing the annual allowance from £255 000 to £50 000 a year. This means you may not be able to pay as much into pensions as before and could reduce the income you receive in retirement. Putting more of your money into other types of investment could cover any potential shortfall and help you realize your dreams.

There are four main investment categories, each offering varying levels of potential reward and associated risk.

### Cash

This includes money deposited with banks and other financial companies. Interest is paid on the deposit amount and can not be taken away once it is been added.

### Fixed interest

This includes bonds, which are effectively loans you make to the government or a

company that pay regular interest. The amount is repaid to the investor at the end of the loan period.

### Property

This can be either residential or commercial property. Investment returns are made from rent paid by tenants and also any rise in the value of the property itself when it is sold.

### Shares

These are ownership stakes in companies traded in markets around the world. Investment returns are made from company profits, paid as 'dividends', and when shares are sold at a higher price than the purchase price.

## How different investments have performed over time

Shares generally produce the best returns over longer periods of time. The Barclays Capital Equity Gilt Study 2011 has shown that over a 10-year period there is a 92% probability of shares outperforming cash and an 81% probability of them outperforming bonds.

Even taking into account adverse global events in recent years – there were two sharp falls in the wake of the 9/11 attacks and during the credit crunch and recession – over the past two decades, the total value of shares listed on the FTSE has increased by 318%.

Since October 1991, government bonds have steadily risen by 204%, while property values have increased by an average of 141%, although they suffered a dip and stagnation during the recession. Cash investments have risen by 92%. All of these have outstripped inflation, which has increased by 75% over the past two decades.

While past performance is no indication of what will happen to investments in the future, these results show that, over the long term at least, investments in all these categories are likely to grow.

Cash and fixed interest investments are relatively secure, but during periods of high inflation and low interest rates, as we have been experiencing in recent years, your investment could effectively erode in value.

This is why you should always look for 'real' returns that beat inflation over longer time periods and distribute your investments over a number of different assets to help minimize your exposure to risk.

## The advantages of funds

Not everybody has the knowledge, confidence or time to actively manage their own investments. This is where investing in funds can help. A fund is a collective investment where lots of people pool their money together to access a wide range of investments. The fund approach means you can spread your money more widely than if you invested directly on your own, reducing the impact of loss from a single investment. For example, if you invested directly in a single company that performs badly the value of your investment could fall significantly. But if you invested in a fund that owned shares in the same poor-performing company alongside another hundred companies, the impact on the value of the investment would be less.

Another advantage of funds is that an expert fund manager will normally research and choose the best investments to buy and sell. Before investing in this way, it is worth learning about the philosophy of the fund teams and who they invest in. At Wesleyan, for example, we have a long-established team that believes in a medium- to long-term outlook, buying and holding investments for many years in anticipation of solid returns over the longer term, and so avoiding short-term trends and fads.

## Conclusions

Investing can be a complex and potentially time-consuming activity. You may benefit from the expert knowledge of a financial consultant who understands the medical profession and who is able to recommend suitable investment options for your particular situation. Having an investment plan that is realistic, feels comfortable and is reviewed regularly could give you the potential rewards to achieve your future goals – whatever they may be. **BJHM**

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

Wesleyan Medical Sickness provides specialist financial advice for doctors  
Telephone: 0808 100 1884  
Website [www.wesleyanmedicalsickness.co.uk](http://www.wesleyanmedicalsickness.co.uk)