

Investing for the future

Deciding what to do with your hard-earned money is difficult at the best of times, even more so when the economy is struggling.

When you invest for the longer term, such as for your retirement, planning what to do with it is even more important as you will want to ensure the money you have put away will grow over the years and deliver the best returns for you when you eventually need it.

Risk and reward

Before you start investing, you should be clear about how much risk you are prepared to take with your money. With higher risk there is the potential for greater reward, but it may also mean that you get back less than you put in.

There are various options available to you to grow your money – with varying levels of risk – and this article will cut through the jargon to explain what they are.

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.

However, the danger is that during periods of low interest and high inflation, as 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 with the same money.

For example, if you have £10 000 in an account today paying interest at the Bank of England base rate of 0.5%, in 5 years its value would be the equivalent of £8930 today and in 10 years' time just

£7975, based on the current inflation rate of 2.8%.

Fixed interest investments

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

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Shares

Shares have generally produced the best returns over time but bring more volatility along the way.

Barclays Capital Equity Gilt Study 2013 provides data on the annual returns from equities, government bonds and cash in the UK going back to 1899. It shows that if shares are held for 10 years, there is a 90% probability of them outperforming cash and an 79% probability of them outperforming gilts. However, past performance is not a guide to future performance.

Property

Investing in bricks and mortar remains a popular choice. Despite the slump in recent years, house prices have risen by an average of 33% nationally since 2002 and as there are no guaranteed returns, buying property should be viewed as a long-term investment.

There are many ways to invest in property, from the purchase of a buy-to-let

house here in the UK to an overseas rental property, through to buying land or investing in a fund where a group of investors pool their money together to invest in property.

Diversifying your investment

Spreading your investments over a number of different classes means that you will not be dependent on any one type and will be 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 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 as a final bonus at that time. The with-profits provider's financial strength is critical in their ability to do this.

Conclusions

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

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

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