

Effective Investment Planning

A Summary Guide



This document is intended to provide you with a short and simplified insight into the why's and wherefore's of investing effectively. We hope you find it useful; and that it will enable us to work more effectively together as investor and adviser.



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INVESTMENT ASSETS

Why, Where, and How to Invest?

In most instances the main reason for making an investment, whereby cash is converted into something else, is quite simply to make more profit than the cash equivalent. This profit may be for the benefit of either the investor, or beneficiaries of the investor, or both; and may materialise as either capital, income, or a combination of both. A further common investment objective is to minimise any taxation liabilities and to maximise any inheritance benefits.

The problem arising for the average person however, referred to by the industry as an Individual Retail Investor, is what to invest in, and how to do it?

Should you keep all your money in the bank, or should you use it to buy an alternative investment asset? If so, do you buy gold bullion, property, a valuable painting perhaps, or another financial instrument such as Government Gilts or Company Shares? Furthermore, how do you buy any of these investment assets; can you access them in affordable amounts, and how easy is it to redeem them?

This is a truly enormous problem as you will see after having read the remainder of this section. The good news however, is that the investment industry at large, has formulated various principles which greatly help to solve these same problems.

ASSET CLASSES

The first of these principles is that there are 3 Primary Classes of Investment Assets as follows:

1. **Cash Deposits**
2. **Material Assets**
3. **Intellectual Investments**

Cash

Cash is reasonably simple to comprehend and control. In its most common format, it is literally money; and is usually held in a Cash Deposit Account of some kind. In the UK, this typically includes Banks, Building Societies, and the Post Office - now called national Savings & Investments (NS&I).

At the slightly more complex end of its spectrum, Cash also includes Cash Derivates such as Premium Bonds; Government Gilts; other Currencies such as the Euro, Dollar, and Yen; and various Money Markets where cash is deliberately traded as a financial instrument, such as the Inter-Bank Market and the Foreign Exchange Market.

Quite obviously the primary purpose of cash is simply its buying power. It is the world's most common medium of exchange in this respect; and is therefore supremely spendable. But it also has two further attributes which enables it to be used as an Investment Asset. In the first instance Cash commands an Interest Rate. This is money earning money by being put to work. Typically, a Bank Account will earn a certain Rate of Interest for the Account Owner in return for the Bank being able to make some use of it.

The second investment attribute of Cash is its Currency. Despite being the world's favourite financial commodity, it is not a universal denomination. This generally means that one currency only be exchanged for another, rather being spent directly. The upside of this from an investment point of view, is that money can again be made to make more money simply by exchanging it for different currencies.

A further investment attribute of Cash, and which is also true of most Investment Assets, is time. Generally, the longer the Investment Term, the more rewarding it will be. Typically, an Instant Access or Current Account will earn the lowest Rate of Interest; and a Deposit Account or Fixed Term Deposit will earn a much higher Interest Rate. Why? Because it can reasonably be used for a longer term purpose by the Bank or Building Society.

Material Investments (Stocks)

Material Investments are similar to cash in that they are a physical commodity whose primary purpose is to be used as that commodity, but which may also be used as an Investment Asset. Silver and Gold for example, have various uses for what they actually are; but they may also be used as an Investment Asset based upon their financial value.

Within the Investment arena, Material Investments may be sub-divided into two distinct Asset Classes. These two sub groups are **Property** - being Land and Buildings; and **Non-Property** - being everything else.

The distinguishing attributes of Property, and particularly Land, are that it is a finite resource, non-consumable and an absolute requisite. In other words, there isn't any more of it than already exists, it lasts forever, and we all need a certain amount of it. The fact that some Land has Buildings upon it simply enhances its value both for its own purpose and as an Investment Asset.

To a greater or lesser degree, all other form of Material Investments, are consumable on a discretionary basis. The relevance of these qualities to an Investor, is that aside from its inherent default benefit, the value of such an asset is subject to its popularity of the day. This is more formally known as Supply and Demand. The value of these types of assets can rise if demand increases, supply decreases, or as a result of natural inflation over time.

Whilst there are a relatively small number of UK Investors who invest in collectibles such as Fine Art, Stamps Coins, and Vintage Cars; there are many more specialist Investors within the UK who hold stocks of Valuable Commodities such as Gold and Diamonds. There are also a number of popular investment themes based upon material assets such as Energy, Minerals, and Crops. Typically, these are accessed indirectly via an Intellectual Investment such as a Collective Investment Fund as explained below.

Intellectual Investments (Shares)

Intellectual Investments are fundamentally different in that the Investor owns an interest in an asset rather than the actual asset itself. In other words this is a virtual holding; not a physical one. Company Shares are a classic example of an Intellectual Investment.

The overall advantage of owning Shares rather than Stocks is general convenience. The convenience factors typically include affordability, acquisition, retention, and disposal. A simple example of this would be the differences between selling say a valuable work of art as compared to exercising one's rights to sell a shareholding on the stock exchange.

Another significant advantage is that most intellectual investments, and all investments that we deal with as Investment Advisors, are governed and protected by the Financial Services Authority.

Therefore, from this point onwards, we will be discussing and dealing with UK Authorised Investments including:

1. **Cash Deposit Accounts** (Banks/Building Societies)
2. **Listed Securities** (Ordinary Company Shares/Corporate Bonds/Government Gilts)
3. **Collective Investment Funds** (Investment Trusts/Unit Trusts/OEIC's)

The remainder of this investment guide will now consider the principles to be applied in establishing and maintaining an appropriate investment arrangement for a given investment objective.

THE INVESTMENT PROCESS

Asset Allocation

Risk of loss is an integral part of investing for gain. The objective therefore is to minimise the risk and maximise the gain. This is best achieved by introducing a calculated diversification across all four different asset classes of cash, gilts and bonds, property, and stocks and shares

Together this mix creates an appropriate investment portfolio for the individual investor. This is intended to achieve the right balance between gaining the returns you desire whilst taking a degree of risk with which you feel comfortable.

Investment Selection

With regards to the choice and selection of a particular investment fund, the ultimate profit or loss attributable to it will largely be determined by its management qualities and performance criteria including cost.

Whilst the cost of investing is a reasonably simple computation, the matter of investment selection is comparatively complex and uncertain.

In order to help with this complex task, we apply a rigorous investment analysis process. This process considers and computes a plethora of facts, figures, people, and policies, both individually and severally, to arrive at a comparative Investment Rating score. Whilst such a rating system is neither definitive nor guaranteed, it is highly credible, and more usually right than wrong.

Investment Risk & Reward

Risk of loss is an integral part of investing for gain. Unlike cash, at any given point in time, your investment may be worth more, less, or about the same as it was originally.

Investment Reward (Return) is arguably the ultimate purpose of the whole investment process. It is simply the bottom line figure being the realisable value of the investments you hold.

Because the whole world of investments is dynamic, the value of your investment will vary from day to day and year to year. Sometimes it will make you smile, and other times it won't! There are also no guarantees which of these it will do, and what the final outcome will be.

However, if the investment process is appropriately adhered to, then ultimately you are more likely than not to realise an acceptable level of return. Furthermore, correct use of various Investment Products as explained below, can further enhance your situation by way of relevant taxation, administration, and management advantages.

INVESTMENT SERVICE PROVIDERS

There are a whole range of different **Investment Products (Tax Wrappers)** available in the marketplace today which, although somewhat confusing, can provide real benefits if used correctly. These include **Collective Investment Accounts, ISA's, Investment Bonds, and Pension Plans**. Which investment product is right for you depends upon your current circumstances and your future objectives. We will help you decide according to your best interests.

An Investment Platform is an integrated service whereby all or most of your various Investment Assets & Products can be consolidated into just one place. This is usually an online portal (Secure Website), which facilitates ownership rights, investment management, and servicing administration.

Wherever possible, we will recommend an integrated investment solution in order to take advantage of the many benefits such an arrangement provides.

THE ADVICE PROCESS

You might be surprised to know that even after taking professional investment advice, together with an ongoing maintenance service, it may cost no more to use a Financial Advisor than to Do-It-Yourself!

Typically, as a retail investor you will pay an Initial Charge of about 3% to buy an Investment Fund, plus an Annual Charge of 1.5% - all without any advice or service.

Our fees for providing Investment Advice and an ongoing Management Service are simply 1% per Annum of the value of your investment accounts held through us. We believe this is very good value for money, and will do all we can to ensure that you'd be better off with us than without us.

We'll put all of this into practice with you via our step-by-step Advice Process. We'll help you determine your key current circumstances, Investor Profile, and future objectives.

We'll then use all of this information, together with the above principles, to create and maintain the most appropriate investment solution for you. We look forward to helping you make the right investment for the right reason; and keeping it on-track.

Your Cancellation & Investor Rights

You can cancel your Investment Account within 30 days of receiving your Cancellation Notice if you decide not to proceed with it. If you do cancel within this time, you will not have to pay any charges, and will receive a full refund of your investment at the prevailing market rates. This latter condition means that if investment prices fall, you may not get back the full amount originally invested.

Your rights as a Private Retail Investor are determined in full accordance with the UK Financial Services Authority. All investor details and information will be held and used in strict accordance with the terms of the Data Protection Act, and will only be used for their intended purpose of providing you with our professional investment services.

If the performance of the investment does not match any illustrations, there will not, for that reason, be any entitlement to compensation. Compensation is only available for the protection of consumers in the event of inappropriate advice or service, or in the event of insolvency.

We further remind you that the value of your investments can rise and fall from time to time, and will do so on a continuous basis. This type of investment should be intended for medium to long term use, being a minimum of 3 to 5 years; and should not be used like a short term cash deposit account.

We will endeavour to make your investment as simple, useful, and efficient as possible.

Further Information

If you would like any further information, or would like to discuss anything further, please feel free to contact us accordingly.