Birchwood Independent Financial Advisers Ltd
Planet House, Northumbrian Way
Newcastle upon Tyne NE12 6EH

Tel: 0191 228 0888 **Fax:** 0191 228 0999
Email: enquiries@birchwood-ifa.co.uk
Website: www.birchwood-ifa.co.uk

birchwood

GROWING YOUR WEALTH OVER TIME

Choosing investment vehicles that match your feelings and preferences is the key

It may no longer be enough to simply preserve what you have today, you also have to build what you will need for tomorrow. When deciding whether to invest, it is important that any investment vehicle matches your feelings and preferences in relation to investment risk and return.

Market volatility in recent years may have left some investors feeling uncertain and many have stepped away from investing in the stock markets. But not all stocks and shares are the same. For those seeking long-term total returns, there still are some high-quality companies – at attractive prices – offering the potential to grow wealth over time.

LONG-RANGE FINANCIAL GOALS

Diversification is a term that can be summed up with this phrase: 'Don't put all your eggs in one basket'. Diversification is a technique that reduces risk by allocating investments among various financial instruments, industries and other categories. It aims to maximise return by investing in different areas that would each react differently to the same event. Diversification is the most important component of reaching long-range financial goals while minimising risk.

Hence your asset allocation needs to be commensurate with your attitude to risk. Another key question to ask yourself is: 'How comfortable would I be facing a short-term loss in order to have the opportunity to make long-term gains?' If your answer is that you are not prepared to take any risk whatsoever, then investing in the stock market is not for you.

ASSET ALLOCATION

If you are going to invest, you need to be prepared to take some calculated risk in the hope of greater reward. Risk is an implicit aspect to investing: shares can fall, economic conditions can change and companies can experience varying trading fortunes.

The process of deciding what proportion of your investment portfolio should be invested in the different types of investment is called 'asset allocation'.

ASSET CLASSES

The various asset classes come with different levels of risk (volatility of returns) and thus deliver different expected returns over the medium to long term. But, no one asset class always performs best over an investment period. Asset classes consist of a group of securities with varying degrees of risk.

There are three main asset classes:

- Equities
- Bonds (also referred to as fixed income)
- Cash

Each asset class has different investment characteristics, for example, the level of risk and potential for delivering returns and performance in different market conditions

EQUITIES

Equities (also known as 'ordinary shares', or 'shares') are issued by a public limited company and are traded on the stock market. When you invest in an equity, you buy a share in a company and become a shareholder. Equities have the potential to make you money in two ways: you can receive capital growth through increases in the share price, or you can receive income in the form of dividends. Neither of these is guaranteed, and there is always the risk that the share price will fall below the level at which you invested.

BONDS

Bonds, also referred to as fixed income securities, are issued by companies and governments as a way of raising money and are effectively an 'I.O.U.' Bonds provide a regular stream of income (which is normally a fixed amount) over a specified period of time and promise to return investors their capital on a set date in the future. Once bonds have been issued, they're bought and sold between investors without the involvement of the issuer. Bonds are generally considered to offer stable returns and to be lower risk than equities – and hence deliver lower returns than equities.

Birchwood Independent Financial Advisers Ltd
Planet House, Northumbrian Way
Newcastle upon Tyne NE12 6EH

Tel: 0191 228 0888 **Fax:** 0191 228 0999
Email: enquiries@birchwood-ifa.co.uk
Website: www.birchwood-ifa.co.uk

birchwood

CASH

Cash tends to be held within a bank account where interest can be gained. Alternatively, cash funds use their market power to get better rates of return on deposits than you would get in an ordinary bank account. They often invest in very short-term bonds known as 'money market instruments', which are essentially banks lending money to each other. In addition, cash funds can provide exposure to global currencies, which may not be easy to purchase on the open market and could be costly transactions.

DIFFERENT CHARACTERISTICS FOR RISK

These asset classes have different characteristics for risk. When you are young you may want to invest in assets with a higher potential for growth but greater risk, because you have the time to benefit from their long-term growth. As you get closer to retirement you may want to choose more conservative investments that are steadier in both risk and return.

There is a wide variety of different asset classes available to invest in and commensurate risks attached to each one. While these implicit risks cannot be avoided, they can be mitigated as part of the overall investment portfolio by diversifying.

DIFFERENT 'STYLES' OF INVESTING

Some assets are said to be 'negatively correlated', for instance, bonds and property often behave in a contrarian way to equities by offering lower, but less volatile, returns. This provides a 'safety net' by diversifying many of the risks associated with reliance upon one particular asset. It is also important to diversify across different 'styles' of investing, such as growth or value investing, as well as across different sizes of companies, different sectors and different geographic regions.

Growth stocks are held as investors believe their value is likely to grow significantly over the long term, whereas value shares are held because they are regarded as being cheaper than the intrinsic worth of the companies in which they represent a stake. By mixing styles that can out- or under-perform under different economic conditions, the overall risk rating of the investment portfolio is reduced. Picking the right combination of these depends on your risk profile, so it's essential to seek professional advice to ensure that your investment portfolio is commensurate with your attitude to investment risk.

A 'PAPER LOSS'

The important thing to remember with investments is that even if your investment goes down, you will only actually make a loss if you cash it in at that time. When you see your investment value fall, this is known as a 'paper loss' as it is not a real loss until you sell.

If you are going to invest, you need to be prepared to take some risk and to see at least some fall in the value of your investment.

While all investments carry an element of risk, the amount of risk you take directly affects any potential returns and losses. Generally speaking, if there is less risk to your investment, your money will grow more slowly, and with more risk, your investment may fluctuate more.

CURRENCY RISK

You should also be aware of currency risk. Currencies (for example, sterling, euros, dollars and yen) move in relation to one another. If you are putting your money into investments in another country, then their value will move up and down in line with currency changes as well as the normal share price movements.

Another consideration is the risk of inflation. Inflation means that you will need more money in the future to buy the same things as now. When investing, therefore, beating inflation is an important aim. Investing in cash may not beat inflation over the long term.

PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

Our goal is to help you grow your wealth even in difficult market conditions. The objective of our advisory approach is to ensure that you find the right financial solutions for your situation and to provide you with full access to our investment expertise. To discuss your requirements, please contact us.

Information is based on our current understanding of taxation legislation and regulations. Any levels and bases of and reliefs from taxation are subject to change. Tax treatment is based on individual circumstances. The value of investments and the income from them can go down as well as up and investors may not get back the amount invested. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a recommendation for any investment. Although endeavours have been made to provide accurate and timely information, Goldmine Media cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough review of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions.