

Creating the life you want

Managing your money the right way

Anything is possible when you manage your money the right way. Whatever your goals in life are, careful planning and successful investing of your wealth can help you get there. Investments can offer both risk and return, and, generally, the bigger the risk, the greater the potential return.

It's down to each investor to be comfortable with the perfect balance for them, and this will vary depending on how much you have to invest, what stage of life you've reached and what you're trying to achieve.

WHY IS HOLDING TOO MUCH IN CASH SAVINGS NOT A GOOD IDEA?

Often, people find life too busy to invest properly. Some see it as complicated, time-consuming and, let's face it, a bit boring. Many of us already hold cash savings. Keeping cash in a bank or building society can be a good idea: it's secure and, even if the bank goes bust, you're unlikely to lose your money because of protection in place for UK savers.

However, at the moment inflation is high and interest rates are at record lows, so the value of cash savings is actually falling as each year goes by – meaning that your money cannot buy you as much this year as it could last year.

That's why you may want to consider other ways to make your money grow, especially if you don't need immediate access to it. Investing in funds might offer a good way to grow your money over the long term, though there are some risks you should be aware of.

HOW MUCH RISK DO YOU WANT TO TAKE?

Investing means taking calculated risks – you could get back less money than you invested. So it's important to understand how much risk you want to take. Typically, the younger you are, the more risk you might want to take, simply because you have longer to recover from any periods when your investments may have fallen in value. A retiree relying on pension income might be less willing to take risk.

WHAT KIND OF QUESTIONS SHOULD I CONSIDER?

- What are my financial objectives, and by when?
- Will I also need an income to supplement my pension?
- Do I need to save for my children's or grandchildren's future – education, university, first property?
- Do I want to buy a yacht in 15 years?
- What sort of investment returns am I looking for?
- Is it more important to take an income from my money or grow it?
- How long do I want to invest for?
- When will I need my money back?
- Do I want to invest a lump sum or drip feed money into funds over a longer period, say on a monthly basis?

This is by no means a definitive list of questions, but they give you an idea of the type of questions you should consider, and they will also help you to determine the right level of risk and make it easier to choose suitable investments.

HOW LONG SHOULD YOU INVEST FOR?

You should see any investment in funds as being for the medium to longer term – five years or more. That's because the longer you invest, the less vulnerable you are to short-term dips in the performance of your investment.

WHAT FUNDS SHOULD YOU CHOOSE?

The appropriate funds you choose might aim to pay you a regular income or grow your money. Some do both.

Growth: this means the fund aims to increase the value of your original investment by selecting

assets that the fund manager believes will increase in value. It might take more risk and aim to grow quickly, or take a more cautious approach for steady growth. The latter approach might involve, say, investing in the stocks of large, well-established companies.

Income: instead of only selecting assets that the manager thinks will increase in value, income funds aim to make regular payments to their investors by selecting assets that pay out cash. This can then be used immediately to supplement pension earnings, for example. Some funds allow you to reinvest any income you receive. This means that as each year goes by, you could benefit from investment rewards on the original amount – because assets selected for income payments may still grow in value – and also on the reinvested amount. This can have a dramatic effect on your investment value over time.

WHY SHOULD YOU INVEST IN FUNDS?

Expertise: you don't need to have particular knowledge or investment skill, as someone else takes care of your investment for you. This also saves you time.

Managing risk: some funds spread your investment across a wide range of different assets, regions and sectors. This helps to reduce the risk of financial loss if any single area performs poorly. There are all kinds of individual risks that a fund manager seeks to guard against such as foreign currency movements, the impact of political instability or individual companies going bust.

Low cost: pooling your money with other people's means you get a more varied portfolio of investments than most people could afford alone. This is because the cost of buying and selling the different assets in a varied portfolio