



## Reaching your goals

Investors can be divided into two broad groups: income-seekers and growth-seekers, and whichever you are, it is important to establish goals from the outset. This helps to work out your tolerance for risk and thereby help your selection of the most appropriate investments.

Risk tolerance is one of the most important factors as there has traditionally been a direct relationship between the amount of risk you take and the amount of potential return. For example, a 30-year-old, with no financial obligations other than rent and savings in a deposit account, may look to invest in a pension for later in life. With this long-term investment horizon – 35 years or so – it may be appropriate to take on more risk as they could ride out any short-term ups and downs in favour of potentially higher long-term gains.

However, a 30-year-old receiving an inheritance payment, with which they plan to buy a house in five years, needs to be more cautious. Over this short period, they would be more vulnerable to the ups and downs of the market cycle.

It is important to bear this relationship in mind when making investment decisions. One recognised technique is the core/satellite approach. A range of less volatile investments such as cash, UK bonds and maybe UK equities form a 'core' stable base, onto which riskier options can be added. These riskier options, the 'satellite' portfolio, can then be shifted around as market conditions change.



### WELCOME

This is the latest edition of our quarterly news bulletin, "GRAPEVINE". Designed to keep you informed about matters which may affect your financial plans. We hope it is to your liking. If you have any feedback or suggestions; would like further information on these articles (or any other matter), please do get in touch. We would be very happy to hear from you.

Tel: 01567 820028

Web: [www.AlexandersFinance.com](http://www.AlexandersFinance.com)

email: [Alistair@AlexandersFinance.com](mailto:Alistair@AlexandersFinance.com)

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Welcome to the latest edition of Grapevine, our update on developments in the world of financial services.

Contact us:

Alistair Ferguson  
Alexanders Finance  
43 Fingal Road  
Killin  
Perthshire  
FK21 8XA





## Investing: Rule No1

ONLY BUY WHAT IS RIGHT FOR YOU.

Just because an investment has worked well for a friend does not mean it is right for you. The most important aspect of building an effective portfolio is to understand your own circumstances and act accordingly. Perhaps most importantly, each one of us has our own attitude to risk, ie: how much volatility we can accept in pursuit of our goals. Those goals will also differ, as will the period of time over which they are to be achieved. By all means be open to new ideas - but always make sure you make your own decision.

## Investing for beginners

Many investors are happy to earn a return from their money simply by sticking it in a savings account. Here, their capital is secure and they can get at it with minimum hassle. However, for those who want their money to work harder, the stock market can offer greater potential, although the reward is dependent on accepting the risks which go with it.

By investing in the stock market, you are buying shares (or equity) in a company in the hope the company will perform well and the share price will go up. However, the risk is that it can go down as well and you could end up with less than you invested, particularly in the short term. Advisers therefore recommend that stock market investments be used only for medium to long-term investments - generally at least three to five years.

If you're happy with the risks, however, you have a choice. You could invest directly into a company's shares, but it will help if you can keep on top of market news and have some knowledge of the way in which the stock market operates. This is difficult for many investors who don't have the time, experience or capital to invest directly. If this is the case, you might be better off in a collective investment scheme, a unit trust fund or OEIC (Open Ended Investment Company). Here, your money is pooled with that of other investors and a fund manager selects which companies to invest in for you. You then pay a small annual fee for his or her expertise.

There are many choices of fund strategy to choose from: some aim to provide income, while others look to deliver capital growth. Some funds simply track a stock-market index and have no 'active' stock selection. Then there are specialist funds, actively targeting a particular market sector or a geographical region. The latter tend to carry higher fees as a result.

The advantage of the collective investment route is that with a smaller amount of investment capital, you can achieve a more diversified portfolio - and with a professional stock-picker at the helm, you would expect your money to outperform the returns of a savings account. Equities tend to outperform other asset classes over the longer-term anyway. However, some fund managers are better than others there is no guarantee they will add value over the market performance, regardless of their history. Make sure you do your research - or ask an adviser to help.



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