Merchant
Financial
Services (UK) Ltd

Making Financial Sense

2nd Floor, Monument House,
215 Marsh Rd, Middlesex HA5 5NE

Tel: +44 (0) 208 868 7788
Email: info@merchantfs.com
Website: www.merchantfs.com

FACTSHEET

Influencing factors to managing your future wealth

When was the last time you revisited your investment goals?

It's vital to know why you're investing. The first step is to have a good think about your financial situation and your reasons for investing. Whatever your personal investment goal may be, it is important to set your time horizon at the outset, as this will impact on the type of investments you should consider to help achieve your goals. It also makes sense to revisit your investment goals at regular intervals to account for any changes to your personal circumstances.

TYPES OF INVESTMENT GOALS

- Retirement planning or property purchase over the very long term (15 years or more)
- Life events, such as school fees, over the medium term (10-15 years)
- Rainy day or lifestyle funds to finance goals, such as a prestigious car, over the medium to shorter term (5-10 years).

The minimum time horizon for all types of investing should be at least five years.

Thinking about your reasons for investing now will help you work out your investment goals and influence how you manage your investments in future.

WHAT ARE YOUR INVESTMENT GOALS?

You'll need to give some thought to your investment goals. Investment strategies should typically include a combination of various fund types in order to obtain a balanced approach to risk and return. Maintaining a balanced approach is usually the key to the chances of you achieving your investment goals, while bearing in mind that at some point you may want access to your money. This makes it important to allow for flexibility in your planning.

HOW LONG ARE YOU THINKING OF INVESTING FOR?

If you're investing with a goal in mind, you've probably got a date in mind too. If you've got a few goals, some may be further away in time than others, so you'll probably have different strategies for your different investments. Investments rise and fall in value, so it's sensible to use cash savings for your short-term goals and invest for your longer-term goals.

SHORT TERM

Most investments need at least a five-year commitment. But there are other options if you don't want to invest for this long, such as cash savings.

MEDIUM TERM

If you can commit your money for at least five years, a selection of investments might suit you. Your investments make up your 'portfolio' and could contain a mix of funds investing in shares, bonds and other assets, or a mixture of these, which should be carefully selected and monitored for performance.

LONG TERM

Patience is an essential ingredient of long-term investment success. Let's say you start investing for your retirement when you're fairly young. You might have 20 or 30 years before you need to start drawing money from your investments. With time on your side, you might consider riskier funds that can offer the chance of greater returns in exchange for an increased risk of losing your money.

As you get closer to retirement, you might sell off some of these riskier investments and move to safer options with the aim of protecting your investments and their returns. How much time you've got to work with will have a big impact on the decisions you make. As a general rule, the longer you hold investments, the better the chance they'll outperform cash, but there can never be a guarantee of this.

RISK PROFILE

Risk is the possibility of losing some or all of your original investment. Often higher-risk investments offer the chance of greater returns, but there's also more chance of losing money. Risk means different things to different people. How you feel about it depends on your individual circumstances and even your personality. Your investment goals and timescales will also influence how much risk you're willing to take. What you come out with is your 'risk profile'.

As a general rule, the more risk you're prepared to take, the greater returns or losses you could stand to make. Risk varies between the different types of investments. For example, funds

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that hold bonds tend to be less risky than those that hold shares, but there are always exceptions.

You can't get rid of risk completely, but you can manage it by investing for the long term in a range of different things, which is called 'diversification'. You can also look at paying money into your investments regularly, rather than all in one go. This can help smooth out the highs and lows and cut the risk of making losses.

DIVERSIFICATION – WHAT DOES IT MEAN?

Just as a balanced diet is good for your health, holding a balanced, diversified portfolio can be good for your investments. Diversifying your portfolio with a mix of investments can help protect it from the ups and downs of the market. Different types of investments perform well under different economic conditions. By diversifying your portfolio, you can aim to make these differences in performance work for you.

The idea is to put your money into lots of different things so that it's not all tied up in one area. If you hold the shares of just one company and it collapses, you could lose all your money. If you invest in a particular sector that performs poorly – like the banking sector in 2008 – you could find yourself with heavy losses.

Of course, even well-diversified portfolios are at risk from market movements. All investments can fall as well as rise. But a portfolio that's diversified will generally move less and produce more balanced returns – both gains and losses.

Diversify your portfolio in a few different ways through funds that invest across:

- Different types of investments
- Different countries and markets
- Different types of industries and companies

A diversified portfolio is likely to include a wide mix of investment types, markets and industries. How much you invest in each is called your 'asset allocation'. Diversifying your portfolio requires investing in more than just one company. It means introducing investments from different countries, different sectors of the same market and different asset classes so they behave differently in response to market conditions over the medium to long term.

TIME TO DEFINE YOUR INVESTMENT GOALS?

Before you can actually define your investment goals, you need to ask yourself what you want to achieve. If you would like to get a sound point of view about what may be right for your unique situation, please contact us. We'll review and discuss your financial situation, help you set goals and suggest specific next steps, discuss potential solutions, and provide ways to help you stay on track.

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