Simply Investing

one+one

Importance of planning

As we go through life we experience many significant milestones, from starting a job to buying a first home.

Our finances play an important role in the key stages of our lives and can help us to achieve some of our goals.

So, it makes sense to have a plan. For some people, money is a topic they do not understand well and so the easy option is to do nothing and hope for the best.

The better approach is to take control of your future and make financial planning a central part of your life.

one+one is specifically designed to offer and simple and straightforward way to help you plan for your future. It gives you peace of mind that you are building the personal and financial future you deserve and want.

Please note that the value of investments and the income derived from them can fall as well as rise, and you may not get back what you invest.

Saving or investment?

A key feature of any plan will be a strategy to manage cash over and beyond what is needed for short-term saving.

Two common ways of doing this are saving and investing, but these are still not fully understood by everyone. Being clear on how saving and investing are different and also being aware of the basics of investing, makes it much easier to make informed decisions.

Saving is a good habit to get into. It generally involves putting money into a bank or building society account that is largely risk-free and pays a known, although typically low, rate of interest. These types of account can be great for shorter-term plans and for money that you might need to get hold of in a hurry. However, once you consider inflation (the rise in the cost of goods and services), it is possible that the purchasing power of your money (what you can buy with your savings) will reduce.

That is where investing comes in. Investing for the long term can help you to both save and increase the value of your money.

When considering whether to save or invest your money, it is important to think about the following.

	Time	Risk	How easy it is to access your money
Saving	Short term-less than five years	Typically, low as cash-based (for example, money in a savings account)	Typically, straightforward as cash-based (for example, money in a savings accounts)
Investing	Medium to long term – at least five years	Often linked to the stock market so values can rise and fall	You can access your money but it is better to leave it invested for at least five years

Basic principles of investment

Although investment is a complicated subject, there are some straightforward principles which are explained below.

Personal goals and aims

Your approach to investment will vary depending on what you are looking to achieve. You may want to focus on building up your wealth, so there is a need for growth in your investment plan Or, you may want your investment to produce a regular income to support your personal spending.

Risk

In its most basic terms, this can be expressed as the probability that your investment could be worth less than you initially invested, at the time you choose to cash it in. Cash-based savings cannot fall in value, but how much you can buy with the money can be reduced if prices rise due to inflation. Products and funds that invest in stocks and shares cannot usually guarantee investment performance and so the value can rise and fall.

You can choose varying levels of risk depending on your preferences and timescales. One + One can help you make this judgement.

The greater the risk, the greater the potential for reward, and vice versa.

The Main Asset classes

Diversification (spreading the risk)

There are a number of different types of investment assets with varying characteristics. These perform differently depending on the economic climate and timescales, both in the UK and worldwide.

Cash

Cash savings are commonly held in deposit accounts with banks and building societies. They are often used in a portfolio containing a wide range of investments to pay for advice and other costs, without the need to sell investment funds.

Bonds

Government and company loans are an option for investors. Returns typically come in the form of interest payments while the risk depends on the likelihood of the borrower repaying the debt.

Property

Homeowners are familiar with using their money to buy their homes, but in the investment context it is much more likely to be in commercial property. Investment growth can come from the rise in property values and rent, but of course neither is guaranteed. A further risk is that in certain circumstances it may not be possible to sell property fund holdings at the time you need the money.

Equities

These are better known as stocks or shares and represent an investment in a company for ownership rights. If the price of a share rises, so does the value of your investment, but if share prices fall the value of the investment will also fall. The financial performance of the company will affect prices, and so will other factors such as market and economic conditions. As a result, equities carry more risk than cash, bonds and property.

Alternatives This category of investments can include specialist funds that aim for higher returns through investments which involve a high risk of loss, known as hedge funds, but also covers investment in specific raw materials or commodities such as gold and oil.

Private investors commonly access the assets above through collective schemes, or to use their more straightforward name 'funds'. Managers of these funds use investors' money to buy specific assets and then let individuals buy a share or 'unit' of the fund so they can take part in the performance of all the underlying assets. Funds can focus on one type of asset or several.

Proven investment theory is that in order to deliver long-term investment returns while reducing risk, you need to build a portfolio (a collection of investment funds) which includes holdings in a number of different assets. This is known as 'diversification'. The number of asset types, and how investments are split between them, will vary from investor to investor and will depend on things such as their views on investment risk and personal aims.

Investment Style Costs and Tax

Style

You have two choices when it comes to investing.

- Active management. This is where you put your faith in professional fund managers, who make decisions on the best companies to invest in, based on many factors including thorough research.

- Passive management. This is where you choose investment instruments which simply mirror the performance of a group of shares, regardless of whether they go up or down.

one+one offers a passive approach to investing. This means that we do not employ a professional investment manager to make investment decisions on your behalf. Instead we allocate your money to different asset classes dependant on your risk profile. That way we are able to keep costs low.

Accessing your money

We have already mentioned the different types of assets. When the time comes to withdraw all or some of your money, you will want the process to be completed with the minimum of delay and cost. This is easy with cash-based deposit accounts, although in certain circumstances there could be delays and penalties applied to withdrawals. But when investing, in certain circumstances, this is not always possible (for example if your portfolio was heavily invested in assets which cannot easily be converted to cash). A good example of this might be a property fund during a time when the commercial property market is unstable.

Costs

Fund-management groups' charges vary and the cost of investment-management services will differ depending on the nature of the service provided (there are more details later). Cost is an important consideration as it will have a direct effect on the level of return you receive from your investment.

Tax

Lastly the tax treatment of returns arising from investment, income and growth also varies. Reducing tax will be a key consideration when it comes to designing an investment portfolio to make sure the maximum return is made available to you. It is therefore important to consider the most suitable tax strategies for your circumstances, for example ISA's.

How do advice firms manage investments?

Common practice is to offer one or maybe more investment portfolios, which are designed to help you achieve your long-term aims.

The first skill in doing this is to create a blend of assets that balances the need for return with your willingness to accept risk. Whatever your situation, it should always be possible to create a suitable portfolio unless it is clear that you are not comfortable with any potential loss of your investment or reduction in income.

The next important step is to decide who will manage your investment and/or funds to be included within the portfolio and to make sure the total cost represents fair value. There are two approaches to delivering this service.

Advisory

In this approach, for the initial investment (and all following transactions) we must provide evidence that proposed investments meet your needs, and then get your permission before we can go ahead with any recommendations.

Discretionary

This involves investment managers, sometimes working in partnership with financial advisers, designing suitable investment portfolios. You need to approve the initial investment but, after that, the investment manager is free to buy and sell funds based on their professional judgement, without needing your permission. The benefits of this approach include less paperwork for investors and access to expert investment managers, with the resources to carry out in-depth assessments of suitable funds for your portfolio. Plus, the ongoing monitoring and maintenance makes sure that your investments stay closely linked to the level of risk you have told us you are willing to accept. Together, the adviser and investment manager will take care of everything and keep you regularly informed.

one+one will use a Discretionary approach, which means your money will be invested by Parmenion, who we have chosen, based on their knowledge and experience in investing client's money on our behalf.

Administering your portfolio

Since the late 2000s, financial advisers have been increasing their use of ‘platform’ services to administer investment portfolios on behalf of their clients.

Essentially platforms are providers of two main services − technology and investment administration.

One of the main benefits is that investors can view, and advisers can manage, portfolios in one place. Online access means information is available 24 hours a day. Typically, investment assets are combined into an organisation known as a nominee company and are reconciled each day (to match investment holdings to each individual investor). The nominee company is independent of the platform business, so investments are protected if the platform business fails.

All money and most UK-based investments managed on a platform are protected by the Financial Services Compensation Scheme (FSCS), up to set limits. (Please contact us if you would like full details of this.)

Platforms also provide or give access to a series of investment accounts or wrappers, in which portfolios can be held, such as self-invested personal pensions and individual savings accounts, both of which provide favourable tax treatment.

The platforms also make the ongoing business of managing investment portfolios easier for investors and their advisers. Straightforward administration and regular reports are helpful features, and regulation from the Financial Conduct Authority monitors advisers to make sure they are meeting professional standards

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