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'Time is money'

5 principles of investing everyone should know

Are your investments working as hard as they could be? With so many options out there, it can be confusing. We can help you navigate your options and provide a personalised recommendation based on your investment goals.

The following five principles will help you get on top of some key issues that affect everyone who invests their money.

1. SET INVESTMENT GOALS

Successful investing begins by setting measurable and attainable investment goals and developing a plan for reaching those goals. Keeping your plan on track also means evaluating the progress on a regular, ongoing basis.

Whatever your personal investment goals may be, it is important to consider your time horizon at the outset, as this will impact the type of investments you should consider to help achieve your goals.

Committing to investment goals will put you on the path to building further wealth. Investors who make the effort to plan for the future are more likely to take the steps necessary to achieve their financial goals.

2. INVEST AS SOON AS POSSIBLE

It's easy to say that it is better to invest early, but why? The benefits of investing early are numerous and should not be overlooked. However, the benefits that come with starting your investment portfolio as soon as possible will also depend on your attitude towards investment risk and how patient you can be. It is no secret that the well-known proverb 'time is money' could not ring more true in today's society.

You might be inclined to ask yourself the following questions: 'Why bother investing early?' 'What difference does it make?' And 'Why should I invest now instead of next year or beyond?' The answer is that time allows you to take more calculated risks.

If you invest early and incur a loss, you have more time to make up for the loss on investment. Whereas an investor who starts investing at a later stage in life will get less time to recover any losses. Thus, with early investments, your investment has the opportunity of more time to grow in value.

Not only is time your best friend when you're investing, but you'll also reap the benefits of something called 'compounding'. To paraphrase Ben Franklin: Your money makes money. And then you make more money on the money your money makes. The longer your money can benefit from the power of compounding, the bigger your gains will be as time goes on.

3. INVEST REGULAR AMOUNTS

By investing regularly, you benefit from highs and lows in the market – called 'pound cost averaging' – and this helps cut down the risk of investing when the market is high. Dips in the market, particularly in the early years, could even work to your advantage provided you have committed to investing for a lengthy period.

If your chosen investments have become cheaper to accumulate it means your investment buys more shares or units to keep for the long term. By investing regular monthly amounts, rather than a larger lump sum in one go, you end up buying more shares or units when prices become cheaper and fewer when they become more expensive.

Although it might sound quite technical, it essentially means adding money on a regular basis into your investment. This is an effective way to invest because if you keep buying when the market falls you could, over time, turn volatility to your advantage.

4. DIVERSIFY YOUR PORTFOLIO

Diversification is spreading investment risk, the goal being to increase your odds of investment success. Your investment portfolio risk tolerance should be split across different types of investment, so your money is less likely to be affected by any single event or economic development.

A simple example might be splitting £10,000 between shares in FTSE100 companies and shares in small companies, government bonds and corporate bonds. Diversification is important in investing because markets can be volatile and unpredictable. While individual asset classes can suffer declines, it's very rare that any two or three assets with very different sources of risk and return, like government bonds, gold and equities, would experience declines of this magnitude at the same time.

Where possible, always make investment decisions and portfolio allocations based on your personal circumstances and goals. Accordingly, asset allocations in a portfolio should not only be guided by your risk tolerance and its ability to guard against market volatility, but also by the stage of life you are at.

5: RESIST THE URGE TO PANIC SELL

What this means is that your ability to cope with short-term volatility in your investments is just as important as the choices you make at the outset of your investment journey. But if, say, there is a stock market correction, resist the urge to sell up immediately; instead sit tight and ride out any downward movement before looking for opportunities to exploit if they arise later.

The fear of incurring major losses could make it extremely tempting to sell your investments. Yet while this may temporarily alleviate your nerves, doing so could put a significant dent in your long-term gains. Investment trends show that leaving your money invested increases the chances of it growing and building your wealth pot.

If you invest for the long term, any short-term volatility shouldn't affect your ability to reach your investment goals over time. Keep calm and carry on building up your investments. History has shown that over long enough time periods, no matter what challenges the global economy has faced, markets recover from significant downturns. ■

VALUABLE ADVICE, TAILORED TO YOU

We believe in helping you plan for the life you want rather than letting the future take you by surprise. We want to give you access to our financial and investment expertise, to help give you the chance to choose what your financial future looks like. To find out more, please contact us.

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