Investment basics for beginners

Understand risk, return, diversification and how investing works over time.

Investing means putting money into something with the aim of getting a return, whether that is growth in value or income. It is different from saving, in the same way that a voyage is different from a stroll: both can be worthwhile, but one involves weather.

The reason people invest is straightforward. Cash held for a long time tends to lose purchasing power as prices rise. Investments offer the prospect of a return above that, though with no guarantee and with the prospect of falls along the way. Understanding that trade-off is the foundation of everything else.

Risk means different things to different people. To some it is the chance of losing money; to others it is failing to keep pace with inflation; to others still it is the anxiety of watching values move. All three matter, and a portfolio that produces sleepless nights or does too little over a thirty-year horizon is a poor portfolio, even if its numbers look respectable.

Risk is usually discussed in terms of capacity and tolerance. Capacity for loss is a practical question: what could your finances absorb if investments fell, and how much do you rely on this money? Tolerance is a matter of temperament. A plan needs to satisfy both, because a strategy abandoned in a panic is worse than one that was never adopted.

Time is the strongest ally a long-term investor has, and also the constraint on short-term money. Money that will be needed in two or three years belongs somewhere it cannot fall in value. Money invested for decades has room to recover from setbacks. Matching investments to the point when the money will be used is more important than trying to predict markets.

Diversification means spreading money rather than concentrating it. It is not a promise of safety, but it reduces the effect of one thing going badly wrong, and it allows different investments to do different jobs at the same time. Spreading across assets does not remove risk; it does mean that all of your money is not dependent on one outcome.

Costs matter. Charges on a portfolio come out of returns every year, and over a long period even a modest annual charge compounds into a significant sum. The point is not to chase the cheapest option regardless of what it does, but to know what you are paying and to be satisfied it is buying something worthwhile.

The most damaging behaviour is usually behavioural. Buying after a rise and selling after a fall costs far more than most people realise, and it feels entirely natural at the time. A plan that anticipates that temptation is worth more than a clever one that ignores it.

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Tax treatment matters too, and depends on where investments are held. Rules and allowances change, and they differ between wrappers and between types of asset.

This guide is general information rather than personal advice. Investments can fall as well as rise, and what is appropriate for you depends on your goals, timescale, other resources and attitude to risk.

Important information

Our services relate to certain investments whose prices are dependent on fluctuations in the financial markets beyond our control.

Investments and the income from them may go down as well as up and you may get back less than the amount invested. Past performance cannot be used as a reliable prediction of future performance.

This guide is general information and does not constitute personal advice. To discuss how any of this applies to your own circumstances, contact Conduit Financial Planners on 01708 98 29 58 or info@conduitfp.co.uk.

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