



Providing Financial Education



# Making the most of your Money

Offering you suggested guidelines to help you  
maximise the potential return from your money.

# MAKING THE MOST OF YOUR INVESTMENTS

When you have taken all the time and effort to set money aside, you want to be sure those savings are working as hard as they can for you.

## **Build a firm base**

The general rule of thumb is that before you do anything else, you should build up savings equal to between three and six months' salary and place it in a deposit account. This should be easily accessible so that you can get hold of what you need should an emergency arise.

There are two benefits to having an amount set aside in this way. First, you can feel assured that, should the worst happen – you need to undertake significant repairs to your house or car or you lose your job – there is a fund readily available to help you financially whilst you deal with the other issues.

Second, this frees you up to make the right decisions about any additional savings. If you invest in the stock market, for example, the value of that investment can go down as well as up. It is therefore no place for money which you might need to use in an emergency. Building funds on deposit means you can then begin to consider longer term investments without the worry that you might have to take money out of the market at the wrong time. (But more of that later...)

Holding money on deposit does not mean you have to compromise on return, however. Careful study of the best buy lists and interest rate surveys can help you maximise the interest rate you earn on this money.

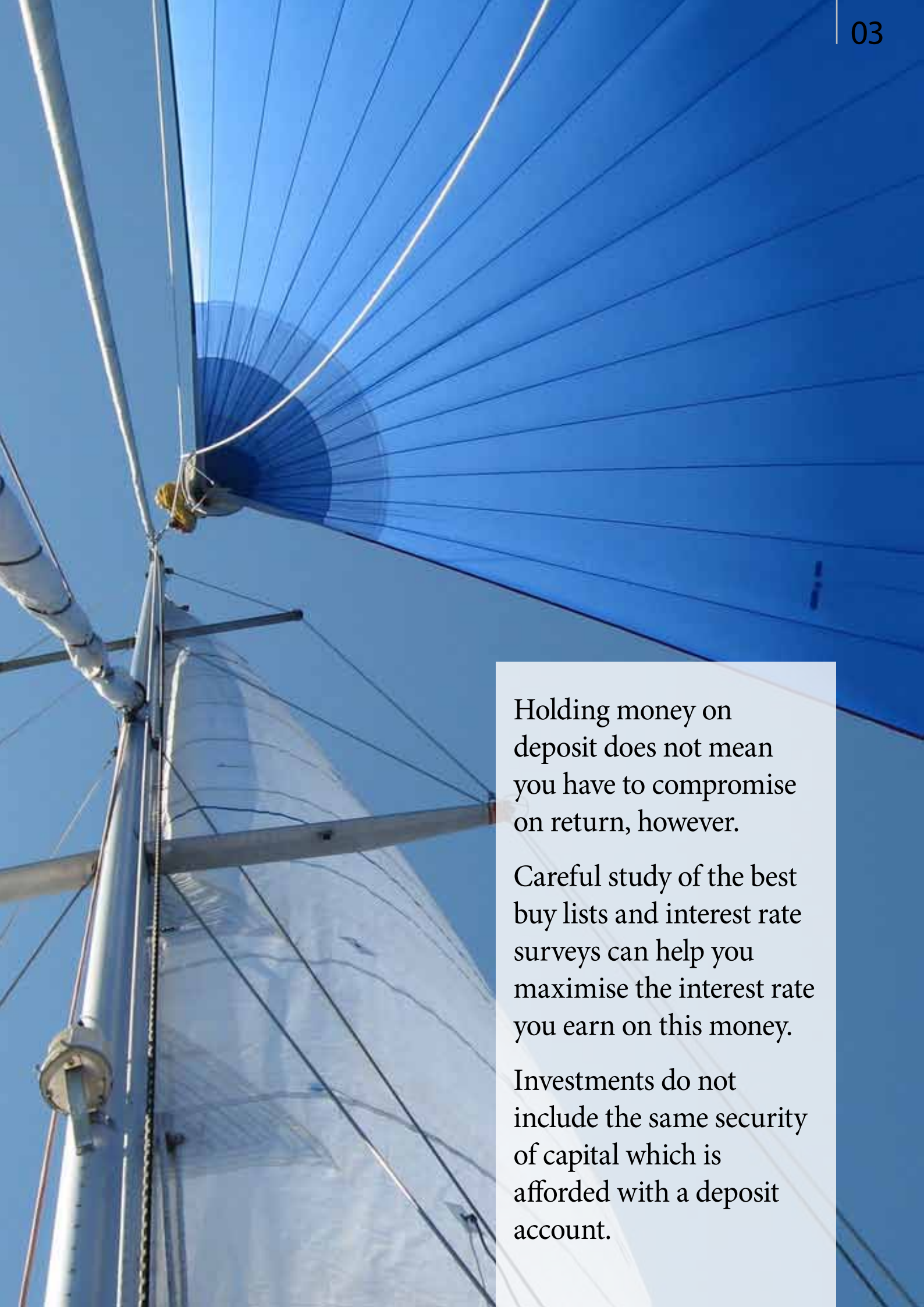
You can also spread your money between a number of accounts – some on immediate access; some on 30 days notice, some perhaps even on 90 days notice. Spreading your money between institutions also increases the guarantee coverage you receive from the Financial Services Compensation Scheme.

It is worth noting however, that some deposit accounts may not be covered by the Financial Services Compensation Scheme and if the spread is across firms within the same group the coverage is not extended as the group is treated as one.

## **Diversify**

As with your deposit account cushion, if you are averse to the idea of exposing your entire investment portfolio to the whims of the stock market you can build a further cushion into your investments by spreading money across different asset classes.

There are not just equities but also property, gilts and corporate bonds to choose from. In this way, when equities are suffering, one of your other choices might be doing better and can compensate for some of that loss. Even if they all have a bad day, they will not all do equally badly..



Holding money on deposit does not mean you have to compromise on return, however.

Careful study of the best buy lists and interest rate surveys can help you maximise the interest rate you earn on this money.

Investments do not include the same security of capital which is afforded with a deposit account.

# BUY LOW, SELL HIGH

This is a basic tenet of investing but, sadly, is a lot more difficult than it looks. Calling the top or bottom of markets has proved impossible to do with any consistency, even for experts – if it were easy, there would be many more Warren Buffets around!

**With this in mind, we therefore would not recommend that you try and turn your hand to market timing.**

However, it is possible to avoid doing the exact opposite – ie: buy high and sell low. This has been the undoing of many investors over the years, yet some of the signs to help you avoid it are relatively easy to spot.

For example, if a lot of people are talking about a sector which has recently increased significantly, particularly if they are saying you will miss out unless you get in now, then chances are that any potential gains are already accounted for in the price.

Getting in now might make you a little money as the sector peaks, but the downside could be harsh – and imminent. As the technology bubble demonstrated very well, you should ignore 'hype', particularly if all your neighbours, friends and relatives are talking about it as well.

Cash ISAs are simply cash accounts which earn the tax benefits<sup>1</sup> of the ISA wrapper and are therefore amongst the most straightforward products in the financial market. The capital in a deposit account will not grow, but the value will not go down and will earn interest for the entire time it is invested.

Investment such as a unit trust or OEIC. In this way, if one chosen company does turn out to be a bad investment, not all your money has to go with it.

Therefore, in order to find the best one, you would generally just need to look for the highest interest rate.

However, there are some differences to be aware of. The highest rate now may not be the best rate longer term.

You should therefore either be prepared to keep checking rates on a regular basis and moving your money around or you might find a provider offering slightly lower but consistently competitive rate levels is better.





With this in mind, we therefore would not recommend that you try and turn your hand to market timing.

However, it is possible to avoid doing the exact opposite – ie: buy high and sell low. This has been the undoing of many investors over the years, yet some of the signs to help you avoid it are relatively easy to spot.

**Some providers might choose to tie your money up for a period of time.**

These accounts pay higher rates because the provider can plan their own investments better – but you may have to wait up to 90 days if you make a withdrawal. Regardless, always read the small print to see what, if any, rate guarantees and caveats apply.

In essence, even the seemingly simplest of products needs some research. Make sure you make the right choice before you get tied in.

Conversely, if a sector has fallen a long way, it might be time to invest. Hype works just as much on the downside as it does on the up.

Markets are very prone to herd behaviour - the art is to spot it and make sure you do the opposite. Baron Rothschild once advised investors to buy when there was 'blood on the streets', ie: when everyone is only talking about the downside - and historically, times of maximum pessimism have been amongst the best times to buy.

Do note, however, that market downturns do not happen without reason. The result is always that good companies and bad are all pulled down together – as markets are doing at the moment.

However, to do well, you need to be able to spot which companies are the good ones and which are the bad – and also be aware that things can get worse before they get better. If you are unsure or inexperienced, opt for a collective

# MAKING THE MOST OF YOUR MONEY

A good rule of thumb is, if your money doubles, take out half. Switch to cash or put it in a deposit account – then when markets fall, you could buy back into the same investment, at a lower price, and benefit a second time as markets recover.

## **Invest monthly**

Not all of us have the time to research markets in pursuit of the good and bad times. However, there is a way to benefit from the swings and roundabouts of the stock market without even thinking about it.

If you stagger your investment, you benefit from what is called 'pound/cost averaging' ie: the ability to buy shares at a range of different prices as the market moves up and down over time.

A monthly investments plan is a particularly efficient way to do this because it disciplines your budgeting and after a while, the money will disappear from your account without you even noticing. When prices are high you will buy fewer shares, but when prices are low, you get more units for your money.

Your average buying price is therefore likely to be lower in volatile markets and will

benefit overall when markets rise again. You are able to forget worrying about when is the right time to invest – and when is the wrong time – and you can continue the good savings habits you created whilst building your deposit account cushion.

## **Invest over the long-term**

We consider investing in equities because over the long-term, they have traditionally outperformed all other asset classes. However, by long-term we mean at least five years and preferably longer.

The downside to equities is that short-term, stock market investment is a volatile business and you need to be prepared to see the value of your investment fall from time to time.

The trick is to remember why you invested and look through any short-term issues towards your longer term goals. However, there is one final rule which overrides all of these...

Markets are constantly changing so, just as you prepare your portfolio at the outset, you also have to plan for the final goal.



## DON'T PUSH YOUR LUCK!

Markets are constantly changing so, just as you prepare your portfolio at the outset, you also have to plan for the final goal.

Therefore, as that date gets closer, you might consider consolidating some of the gains you made so that you can actually carry out your plans.

After all, you do not want to see all your hard earned savings cut in half by a market downturn in the final six months.

Better, therefore, to consider moving money out of the stock market, bit by bit. You might start two to three years ahead of your goal or, if you are retiring, five, even ten years ahead.

Just like monthly savings on the way into the market, drip feeding your money out means the value you will receive back will vary as the market moves up and down.

However, the price you get will likely be higher than if your investment is hit by a downturn at the last minute. These amounts could then be

invested in cash, or maybe bonds, and earn interest over the final months or years until you withdraw the full amount.

Similarly, during the life of your investment, watch out for market peaks.

A good rule of thumb is, if your money doubles, take out half. Switch to cash or put it in a deposit account – then when markets fall, you could buy back into the same investment, at a lower price, and benefit a second time as markets recover.

Content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements.

They should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation.

We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. The Financial Services Authority does not regulate Taxation and Trust Advice. The Financial Services Authority does not regulate advice in relation to deposit accounts.

Levels, bases of and reliefs from taxation may be subject to change and their value depends on the individual circumstances of the investor.

This guide is for information only and must not be considered as financial advice. We always recommend that you seek independent financial advice before making any financial decisions.



**Harrogate Financial  
Solutions Limited**

14 Crown House, Hornbeam  
Square North, Harrogate, North  
Yorkshire, HG2 8PB

Tel: 01423 873757

Fax: 01423 874212

E-mail: [info@hfspfg.co.uk](mailto:info@hfspfg.co.uk)

Web: [www.hfspfg.co.uk](http://www.hfspfg.co.uk)

For further information or financial guidance  
Tel: 01423 873757 or visit [www.hfspfg.co.uk](http://www.hfspfg.co.uk)

