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Investing – beginner's guide

If your savings goal is more than five years away, putting some of your cash into investments could allow you to **earn more from your money and keep up with rising prices.**

Read on to get to grips with investing basics and find out if it's right for you.

What are investments?

Investments are something you buy or put your money into to get a profitable return. Most people choose from four main types of investment, known as 'asset classes':

cash – the savings you put in a bank or building society account
fixed interest securities (also called bonds) – you loan your money to a company or government
shares – you buy a stake in a company
property – you invest in a physical building, whether commercial or residential

There are other types of investments available too, including:

- commodities like oil, coffee, corn or rubber, gold or antiques
- foreign currency
- contracts for difference, where you bet on shares gaining or losing value
- collectibles like art and antiques

The various assets owned by an investor is called a portfolio. As a general rule, spreading your money between the different types of asset classes helps lower the risk of your overall portfolio underperforming – more on this later.

Returns

With an instant access cash account you can withdraw money whenever you like and it's generally a secure investment. The same money put into fixed interest securities, shares or property is likely to go up and down in value but should grow more over the longer term, although each is likely to grow by different amounts.

This is the profit you earn from your investments. Depending on where you put your money it could be paid in a number of different ways:

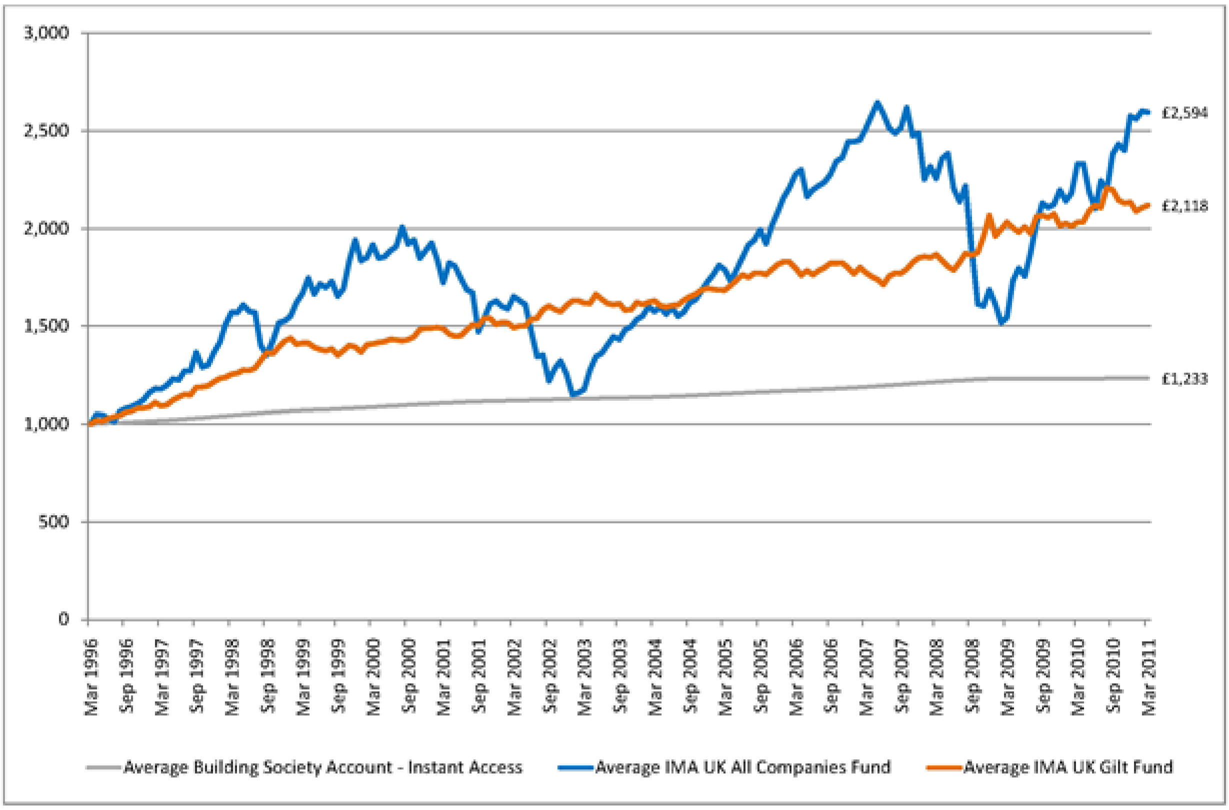
- interest (from cash deposits and fixed interest securities)
- dividends (from shares)
- rent (from properties)
- the difference between the price you pay and the price you sell for – capital gains or losses

In general, you'll get lower returns from your investments if you want:

- easy access to your money

- a secure guarantee that you'll get it all back

Performance of £1,000 invested UK All Companies, Gilts and a Building Society Account over 15 years



Source: Lipper IM, Bank of England. £1,000 lump sum with income reinvested, net of basic rate tax and charges, for the period 31 March 1996 to 31 March 2011

This chart shows that shares have produced the highest return over time, but they have also shown the greatest volatility

How fees reduce investment returns

Managing investments takes time and money and service providers will charge a fee. This cost can eat into the returns you'll receive and it's something you should ask about before you invest. We discuss all costs of investment with you in detail so that you can fully appreciate all of the costs.

Risks

None of us likes to gamble with our savings but the truth is there's **no such thing as a 'no-risk' investment.** You're always taking on some risk when you invest, but the amount varies between different types of investment.

Money you place in secure deposits such as savings accounts **risks losing value in real terms (buying power)** over time because the interest rate paid won't always keep up with rising prices (inflation).

On the other hand, index-linked investments that follow the rate of inflation don't always follow market interest rates - and if inflation falls **you could earn less in interest than you expected.**

Stock market investments may beat inflation and interest rates over time, but you run the risk that prices may be low at the time you need to sell – this could result in a **poor return** or, if prices are lower than when you bought, **losing money.**

When you start investing, it's usually a good idea to **spread your risk by putting your money into a number of different products and asset classes**. That way, if one investment doesn't work out as you hope, you've still got your others to fall back on. This is called 'diversifying'. Find out more in our guide below.

When should you start investing?

If you've got plenty of money in your cash savings account – enough to cover you for at least six months – and you want to see your money grow over the long term, then you should consider investing some of it.

The right savings or investments for you will depend on how happy you are taking risks and on your current finances and future goals. Follow the links below to get the answers.