SIPPs | ISAs | Funds | Shares

AJBell Youinvest

First-time investor guide

Contents

Page 03 Introduction to investing

Page 05 Why invest?

Page 07 Investment types

Page 09 Picking funds and shares

Page 11 Investment ideas

Page 12 How often should I invest?

Page 13 SIPP, ISA, Dealing account

Page 14 Checklist

Page 15 More information

The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Tax treatment depends on your individual circumstances and rules may change. Past performance is not a guide to future performance and some investments need to be held for the long term.

Introduction to investing

For the first-timer, the world of investing can be an intimidating place. On the one hand, you're drawn by the stock market's potential to offer larger returns than are on offer in a savings account. But on the other, you're wary of investing's reputation for being difficult and time consuming, full of risk, head-scratching jargon and acronyms and statistics.

Our aim with this guide is to show that investing doesn't have to be as difficult as its reputation would have you believe. We walk you through some basic information to get you started on your investment journey, from reasons to invest, through to the different types of investments and various tax wrappers. It's a short guide, because although investing should be a long-term activity, learning the basics can be a lot quicker.

Having read the guide, go take a look at the 'Free guides' section of our website where you'll find other in-depth guides to specific accounts and investment types.

Why would I invest rather than keep my money in cash?

Which is the best approach for you should largely depend on two things: your circumstances and your attitude to risk.

SAVING IN CASH	INVESTING
✓ Cash is generally a better place for your savings if you need quick access to your money – especially in the short term.	✓ Investing can provide larger returns, especially over the long term.
✓ For a lot of people, cash is a 'safe haven': there's no risk of investment loss.	✓ Compared to cash, investments are more likely to beat the rate at which prices are rising (inflation) and you can buy specific inflation-beating investments.
✗ If the rate at which prices are rising (known as inflation) is higher than the interest rate of your savings account, you'll be losing out in real terms. This is because, over time, the spending power of your money will diminish.	✗ Investing is riskier: your investments can fall as well as rise, meaning you could lose money.

Arguably the most important thing to consider is your time frame. If you need your money in under five years, typically it would be best to save in cash. But over five years, investing is more likely to be for you.

DID YOU KNOW?

If inflation is 2.5% and your bank account pays you 0.5%, you're effectively losing 2% of your money each year. While this might not seem like a lot, over longer periods of time it can add up. Based on the above figures, cash savings of £5,000 would lose £100 a year in spending power thanks to low interest rates and inflation.

Why do you want to invest?

So you've decided investing could be for you. The next step is thinking about which investments to choose. **But before you start, you'll need to ask yourself:**

01 | What you're saving the money for?

02 | How long you're putting it away for?

03 | How much do you plan to save?

04 | How much risk you're willing to take?

What you're saving for, and when, has a big bearing on the sort of investments you choose. If, say, you're saving to buy a house in five years' time, your portfolio should look very different to someone putting their money away for their retirement 30 years from now. Thinking about what you're investing for will also help tell you whether you want to grow your pot of money, or want it to generate an income.

It's also important to think about how much risk you're willing to take (known as your 'attitude to risk' or 'risk tolerance'). This too will have a significant influence on the investments you choose. Many people think they're willing to take more risk than they actually are.

One good way of helping you determine your risk tolerance is to think about how you'd cope if your money fell in value. If you'd have sleepless nights if your investment went down, you might be better off sticking to more stable investments.

But if you wouldn't be phased, and don't think you'd panic and sell your investments if the markets fell, then you could take more risk. Another factor worth considering is your time frame – you might be willing to take more risk if you're putting the money away for longer.

What are the different types of investment?

Knowing which type of investment to choose is tricky, and the associated jargon definitely doesn't make it easier. **We've broken it down for you.**

SHARES OR STOCKS

When you buy shares (also known as stocks or equities), you're buying part of a company. If the value of the company goes up or down, the value of your shares will too.

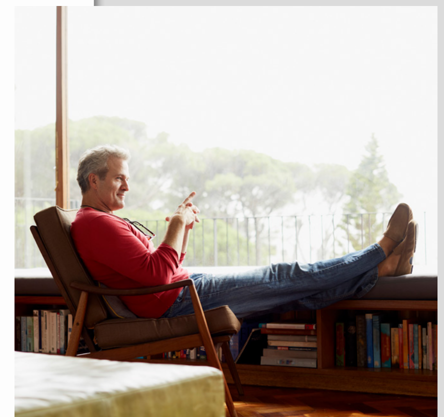
The price of a share also depends on other factors. These include how the wider economy is doing, and whether other investors feel positively or negatively about the company, its sector or its country's economy.

A company may pay out some of its profits or spare cash to shareholders. This is known as a dividend, and helps to add to your returns.

BONDS

Bonds can be issued by a company or a government, and effectively mean that you lend money in exchange for being paid interest. Each bond has an end date, when your loan must be repaid. Typically, the riskier the company or government borrowing the money, the higher the interest you'll be paid for lending. This is to compensate you for the fact that the company is likelier to fall on hard times and may not be able to pay you the interest, or may even go bust altogether.

Bonds are usually considered less risky than shares, and are likely to give you a lower return over the long-term. On the other hand, it's likely to be a less choppy ride (with fewer rises and falls).



FUNDS

A fund is essentially a collection of different shares and bonds (and potentially other assets), chosen and managed by a professional fund manager. As such, it can be a good choice if you're new to investing and want the benefit of an expert's touch.

By buying a fund, you're effectively pooling your money with other investors into a larger pot. The fund manager will oversee the pot, deciding which investments it should hold, in what quantity, and when to rebalance.

Funds are usually less risky than shares, since the risk is spread across many companies and assets. But this can vary significantly, depending on where exactly the fund is invested.

For example, a fund investing in smaller, emerging market economies, such as Brazil, will be riskier than a fund that only invests in large companies listed on the FTSE 100 index of leading UK businesses.

Another type of fund is known as a fund of funds or multi-manager fund. These don't invest directly in shares or bonds, but in a range of other funds.

Funds can be open-ended (known by the catchy acronym OEIC) or closed-ended, such as investment trusts (which we'll explore next). With open-ended companies, you buy a unit in the fund, and the fund grows in size as more investors buy units.

INVESTMENT TRUSTS

An investment trust is a type of closed-ended fund. These work in the same way as the other funds discussed above, except they're limited in size and listed on the stock market – meaning you buy a share in them, as you would with a company.

The price you pay for the share depends not only on the performance of the underlying investments in the fund, but also on how other investors' view the investment trust. As a result, investment trust shares might trade at a higher price (premium) or lower price (discount) than the total value of its underlying assets, known as its Net Asset Value (NAV).

EXCHANGE-TRADED FUNDS (ETFs)

ETFs are traded on the stock market in a similar way to investment trusts, above. Most track the performance of an index – such as the FTSE 100 – by buying shares in all the companies making up the index. This is why ETFs are also known as 'tracker' funds.

If an index rose by 10%, ETFs tracking it would increase by a similar amount. And if it fell by 10%, so would the ETFs. Some ETFs track the price of commodities, such as oil or metals – and are known as Exchange Traded Commodities or Currencies (or ETCs).

How to pick a fund

Investing in funds typically requires less work than investing in shares. For that reason, they're generally the more popular investment type for first-timers. There are still an intimidating number of funds to choose from, though. Where do you start?

A good first step is to ask yourself: what are my investment objectives? Active funds have lots of different approaches. Some fund managers will be ultra-cautious and invest in safer assets, while others will pursue a riskier investment style in the hope of higher returns – meaning a likely choppier ride along the way.

How diverse a fund is also differs greatly. Some fund managers will run very concentrated portfolios of just 30 or 40 companies, while others spread the risk across lots of companies, and invest in 100 or 200. Some fund managers invest based on what is happening in the wider economy and the companies they think will benefit from political changes or economic events, while others invest purely on how well a company is run and its ability to outperform its competitors.

Generally, it could be a good idea to spread your money between different funds, investing in different areas and in different styles. This is called diversifying your portfolio, and it helps to ensure that all your eggs aren't in one basket.

Before investing in funds, you should always make sure you read the fund fact sheet and Key investor information document (KIID).

ACTIVE FUNDS

A fund manager is employed to actively decide which investments to make. It's their job to pick the investments they think will perform better than others and avoid the ones that will fall in value. For doing this, they charge an annual fee. What a fund manager invests in depends on the type of fund they run. Some are restricted to buying shares in a certain area of the world, for example, while others have a broader remit and can buy almost anything. The aims of funds differ too – some want to generate income, while others focus on growing your original investment.

PASSIVE FUNDS

The fund manager simply aims to track the performance of a market, such as the FTSE 100, rather than aiming to invest in winning companies and avoid losing companies. The investment process is typically run by computers, which automatically invest in the companies. Passive funds are generally cheaper than active funds. One disadvantage of passive funds, however, is that they can never outperform the market they're tracking; they can only rise and fall in line with it.

How to pick shares

If you want to go ahead and pick your own shares for your portfolio, you won't be short of choice. In fact, because there are so many to choose from – across dozens of different sectors and countries – it's essential you narrow down your options before you begin.

Before buying a share you'll want to look at the company itself. Usually, your first port of call will be the business's financials: its earnings and profits over the past 10 or more years, how much cash it has, and whether it's reinvesting that back into the business. You'll also want to look at its level of debt, check if there have been any recent changes, and try and assess how the company's fortunes might be affected by a change in the broader economy.

Just as when picking funds, it's usually a good idea to diversify your selection of shares, to invest in companies across different sectors so your portfolio can perform well across various market environments. You don't want to put your eggs in one basket and be overly reliant on one company's fortunes.

One big difference between fund investing and going directly into shares is time. You'll need to set time aside to monitor the companies you buy. While you don't need to track the share price every day, you'll want to keep up to date with company results, big personnel changes, announcements from the company and forecasts for future growth. This helps you check whether the company is sticking to your expectations, and assess whether there are reasons to sell, or even to buy more.

Looking for investment ideas?

If you're overwhelmed by the thousands of funds on the market, AJ Bell's Favourite funds list can help. Our investment experts have whittled down the vast number available to just our carefully selected favourites. These are spread across different areas of investing and different goals – such as income or growth – so you can pick the ones that suit your needs.

If you want to hit the ground running, we also offer a choice of AJ Bell Ready-made portfolios, each made up of a selection of our Favourite funds.

Or if you want the day-to-day investment decisions made for you, have a look at our range of AJ Bell funds, which are built from multiple passive funds. There are both income and growth funds to choose from, and you can pick the fund that suits your risk tolerance.

Visit youinvest.co.uk/investment-ideas for more information.

How often should I invest?

So you've chosen what to invest in. The next key question is do you want to invest a lump sum of money up front, or invest a smaller sum of money regularly? Either way, you don't need to have a lot of money to get started.

Regular investing has two main benefits. First, it gets you into the savings habit, of putting aside a bit of money each month and investing it. And second, it lets you take advantage of a clever money-maker known as 'pound cost averaging', which can help to boost your returns.

The theory is that by committing the same amount each month, regardless of whether markets are up or down, you end up with higher returns and less yo-yoing of your investments. When stock markets fall, your regular monthly payment buys more shares or units in a fund, and when markets rise your regular amount buys fewer units or shares. This reduces the risk of you putting all your money in at the wrong point in the market. So-called attempts to 'time the market' often end up in failure, even from professional investors.

And whether you invest regularly or with a lump sum, it's important to keep an eye on how your investments are doing. Remember, though, that some investments need to be held for the long term – you don't want to buy and sell your investments too regularly.

With AJ Bell Youinvest, you can check your investments with the AJ Bell Youinvest mobile app, or by logging in to our website.

DID YOU KNOW?

With AJ Bell Youinvest you can open an account with as little as £25 a month, or a £500 lump sum.

SIPP, ISA, Dealing account – which should I choose?

Essentially, it depends on what you're investing for. Each account has its own tax advantages, making it suitable for a particular savings goal. There are also limits on the amount you can put into each account during a financial year. (The exception to this is a Dealing account, which has no tax advantages – but also no limits on how much you put in.)

Here is how the three main investment accounts work.

STOCKS AND SHARES ISA

Saving for a rainy day? Individual savings accounts (or ISAs) offer generous tax benefits, as well as the ability to access your money when you need it*. In a Stocks and shares ISA, you pay no tax when you sell your investments, and no tax on any income your investments earn. For the current tax year, you can invest up to £20,000 each year into your ISA – though this is a general ISA limit, so keep in mind it includes money you pay into other types of ISA (including cash ISAs). This limit starts anew each tax year, but it doesn't roll over. So if you use only part of your full £20,000 allowance, you'll lose the rest.

As well as a Stocks and shares ISA, you can choose from other types of ISAs that are designed for specific savings goals. These include the Lifetime ISA (for people aged between 18 and 40 who are buying a first home or saving for a retirement), and the Junior ISA (letting you save tax-efficiently for your child's future). You can find more about these on the Lifetime ISA (including the specific Lifetime ISA rules which apply) and Investing for children pages on our website.

*Though if you take money out your ISA, you won't be able to put it back in if you've used up that year's allowance.

SELF-INVESTED PERSONAL PENSION

Saving for retirement? A SIPP, or self-invested personal pension, lets you invest your pension pot yourself. Not only do you get to decide where it gets invested, but at the age of 55, you have access to the whole pot and more freedom about how you take a retirement income. Most people can put £40,000 a year into a pension, apart from very high earners who are restricted to a £10,000 annual limit. Find out more about contributing to your pension on our website.

A SIPP, like all pensions, is tax-efficient since you get government tax relief on the money you put in, up to certain limits. The rate you get depends on how much income tax you pay. A basic-rate taxpayer gets 20% tax relief, a higher rate taxpayer 40% relief, and a highest rate taxpayer 45% relief.

DEALING ACCOUNT

Want to save without limits? A dealing account has no tax benefits, unlike an ISA or SIPP, but you can put in as much as you want, and take it out whenever suits you. Investors who've used up their subscription limits for their SIPP or ISA could save in a Dealing account.

Checklist: before you invest, ask yourself the following...

DO YOU UNDERSTAND INVESTING?

As you're new to investing, you need to make sure you understand enough to get started. If you still feel unsure, then check out the 'Free guides' section on our website. But if you still feel uncertain, then it may be better to seek professional advice from an independent financial adviser (IFA), and they can take control of your investments for you.

WHAT'S YOUR GOAL?

Do you know what you're saving and investing for? This is important, because it determines how long you're willing to invest for and ultimately how much you need to save. The length of time you're investing for can help determine how much risk you should take with your investments: typically the longer you invest, the more risk you can afford to take.

DO YOU HAVE MONEY TO SPARE?

You need to make sure you have money to spare before investing. You should make sure that you've paid off any expensive debt, such as credit cards or loans. It's also a good rule of thumb to have between three and six months of expenses set aside in a cash account to cover your rent, mortgage and bills if you were to lose your job or fall into financial problems. If you have debt or have nothing in cash savings, you should consider if you're ready for investing yet. If you do have cash to spare, you need to work out how much you can afford to invest each month or year.

CAN YOU STAND TO LOSE MONEY?

On average, over longer time periods investments should hand you a positive return. However, you have to be prepared that this won't always be the case, and you could lose some or all of your money. If you're not prepared for this, then you should consider if investing is right for you.

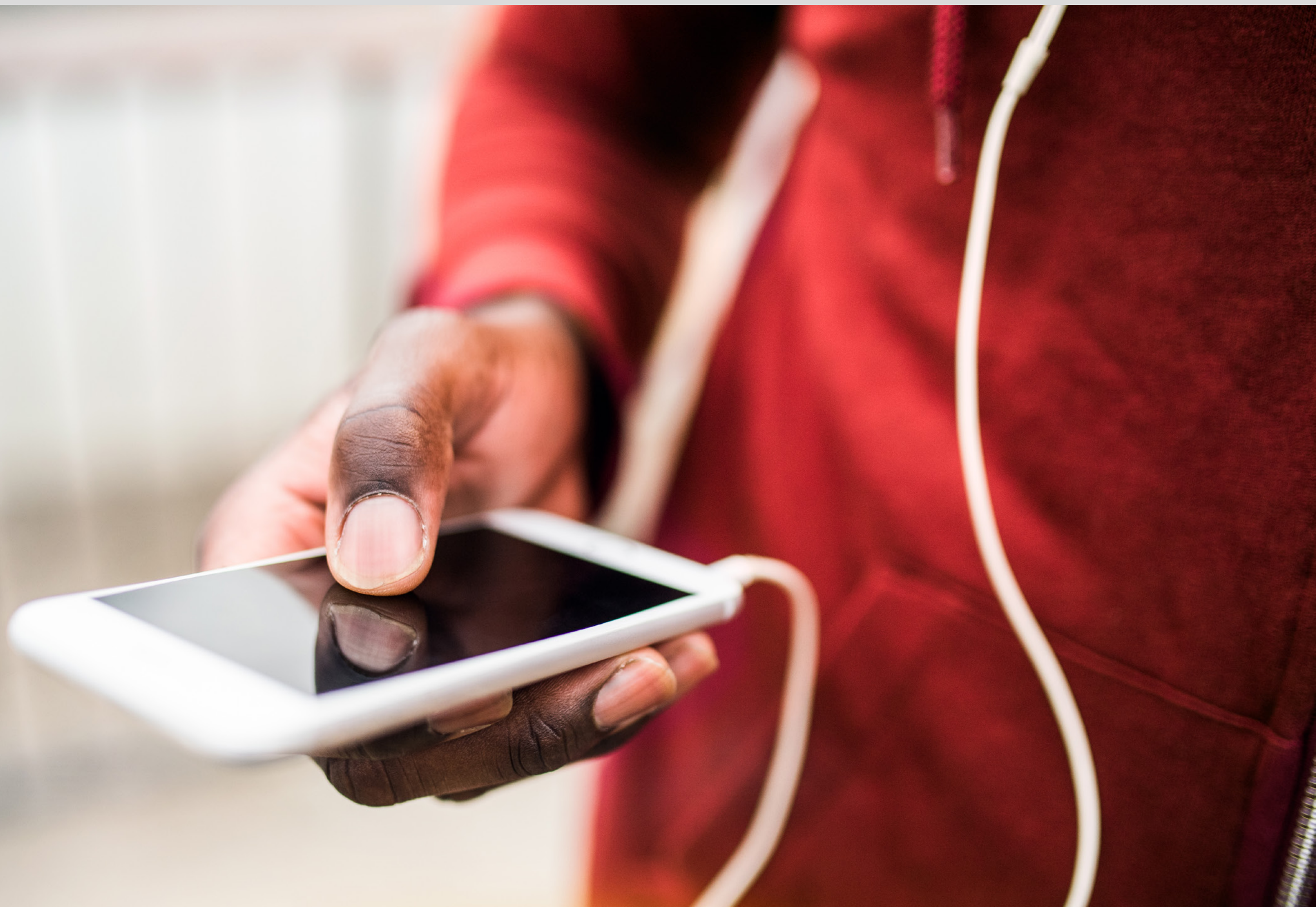
Where can I find more information?

Now you've got to grips with the basics, you can take the next step and familiarise yourself with the nuts and bolts of the various accounts and investment types. You'll find a wealth of accessible information on these topics by visiting the 'Free Guides' section of our website: **youinvest.co.uk/free-investment-guides**

Or if you're after regular market news and analysis from our experts, take a look at the 'Investment articles' and 'Investment videos' pages of our website. If you maintain a balance of £4,000 or more in your AJ Bell Youinvest account, you'll also get automatic access to Shares magazine, which has up-to-the-minute expert ideas about where to invest, and which funds to pick

OPEN AN ACCOUNT

Find out more about our accounts and apply – **simply visit youinvest.co.uk**



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