01327 223243
www.longhurst.co.uk
hello@longhurst.co.uk

Longhurst Ltd, Silverstone Park,
Silverstone, Towcester,
Northamptionshre, NN12 8GX

INTRODUCING LONGHURST

Longhurst is a pioneering lifestyle financial planning practice delivering independent financial advice, wealth management, and investment advice, to business owners and senior executives located throughout Northamptonshire, the surrounding counties, and London.

Due to our head office being located on the world famous Silverstone F1 race circuit we have a natural (but not exclusive) niche advising those working in the technology, engineering, and high-growth spaces.

Our focus is to inspire creative ideas, to install and build financial confidence, and to empower you to live life to its fullest – a life lived without fear of ever running out of money.

Let’s be honest; employing a new professional adviser can be fairly daunting, and that includes hiring a new financial planner.

For this reason we are big fans of hosting what we call an initial discovery meeting, always held at our expense. This meeting will typically involve no paperwork whatsoever, and will instead see us spend a good hour+ just talking, and we mean just talking.

If you want to talk, call us on **01327 223243, email hello@longhurst.co.uk** or complete the online enquiry form at **longhurst.co.uk/contact.**

WELCOME TO THIS GUIDE

The world of investing can be a complicated place. For a novice investor, taking your first steps to build an investment portfolio can be unsettling.

We have put together this guide to arm new (and experienced) investors with the knowledge they need to invest with confidence.

This guide contains what we believe to be the 10 most important items of investment wisdom for all investors. Understand these ten investing fundamentals and you are more likely to make wise investment decisions and less likely to step on any investment landmines.

We've deliberately left out the sort of jargon usually associated with investment guides.

By sticking to plain English, we hope this guide will appeal to investors who are usually turned off by stuffy old men in suits who use unnecessary jargon to present investment concepts.

Investing money gives everyone the chance to build wealth for the future. Getting it right isn't rocket science; understanding these ten investing fundamentals will ensure you are better educated than 99% of first time investors.

If you have any questions about anything in this briefing note, please do get in touch. Call us on **01327 223243, email hello@longhurst.co.uk** or complete the online enquiry form at **longhurst.co.uk/contact.**

#1

INVEST WITH A GOAL IN MIND

When investing money, always start with a specific goal in mind. You should always link your Financial Planning objectives to your investment decisions, to avoid the common trap of investing without purpose.

Without a specific goal, it is difficult to assess the performance of your investment portfolio in any meaningful way. You can't possibly know what good, bad or indifferent looks like unless you are comparing performance to a specific planning goal.

An investment portfolio returning only 6% in a year might be considered mediocre if the investment markets are delivering double-digit returns. But what if you only needed an investment return of 3% to satisfy your financial planning goals?

Knowing what you need to achieve with your investment portfolio also helps you to manage risk more effectively. You might discover that you don't need to expose your investment portfolio to risky equities in order to achieve your goals. Alternatively, you might find out that you need to take slightly higher levels of risk than you would otherwise feel comfortable taking.

Having a specific financial planning goal to link to your investment portfolios helps you avoid fad investing. You are less likely to follow the herd of other investors into flavour of the month funds or exciting new fund launches if your goals do not require this sort of whizz bang investing.

Instead, investing with a goal in mind can allow you to be a rather boring investor – which can be a good thing!
Don't invest blindly; start by understanding what you want or need to achieve with your money and then create an investment portfolio which is closely linked to these goals.

#2

UNDERSTAND RISK

Investing money is all about risk. By taking more risk with your money, you have the potential to get bigger returns. You also have the potential to lose more money and see it fluctuate in value to a greater extent, a concept known as volatility.

With less risk comes less potential for reward, but also less risk of capital loss or volatility. This relationship between risk, reward and volatility is unbreakable.

Investments which claim otherwise are often a shortcut to disaster. Before investing money, you need to spend some time considering your own attitude towards investment risk. How much risk you are prepared to take is an important part of your investment decisions.

Because we all have different attitudes towards investment risk, as well as different levels of knowledge and experience, it is important to invest in a way consistent with your individual attitudes towards investment risk, rather than allow yourself to be pigeon-holed into a broad but essentially meaningless risk category such as 'cautious' or 'balanced'.

As well as the amount of investment risk you are prepared to take, also consider how much risk you need to take (see the previous page of this guide) and how much risk you are able to take, sometimes referred to as your 'capacity for loss'.

If you can't afford to lose the money you are investing, consider very carefully the nature of the investments you are selecting. All investments can go down as well as up in value. Your capacity for loss should inform whether you can afford to expose your money to those investment types more likely to fall in value, such as company shares (equities).

#3

FOCUS ON ASSET ALLOCATION

All too often when investing money, the focus is on selecting individual investment funds rather than managing the underlying asset allocation.

Asset allocation is the decision you make to invest money in one of the broad investment types – primarily cash, fixed interest securities (bonds), company shares (equities) or property. These are known as the investment asset classes. The mix you decide to invest in these, or how you 'allocate' across the various investment asset classes, represents your asset allocation decision.

Various academic studies have found that the asset allocation decisions made by investors tend to have a bigger impact on investment returns than fund or stock selection decisions.

This makes a lot of sense when you consider that funds within investment asset classes tend to behave in a similar fashion. For example, if the UK stockmarket is rising, then you would expect most of the funds which invest in the UK stockmarket to rise as well.

Some funds in an asset class will perform better than others, so fund selection is still an important part of investment success. What really counts though is your decision to invest in the various asset classes.

You can either make your own asset allocation decisions, selecting individual funds which each invest in a single asset class, or alternatively outsource this decision making process to a fund manager by investing in a multi-asset class fund.

#4

DON'T TRY TO TIME THE MARKETS

When it comes to investing, the time you spend 'in the market' is far more important than the specific times you enter and exit the market.

Trying to time your entry to and exit from investment markets is rarely a good idea because of the risk of getting it wrong. Rather than investing when markets are low and selling out when markets are high, you stand a good chance of buying at the high points and selling at the low points.

Missing out on just a few of the best days of market performance can have a dramatic impact on the overall performance of your investment returns.

Some research from Fidelity found that, during the ten years to October 2010, £1,000 invested in the FTSE All Share index would have grown to £1,330. This return would have fallen to £720 if you missed the ten best days of market performance or to just £475 if you missed the best 20 days.

It's an unfortunate fact that investors tend to buy when stocks are doing well and sell when they are doing badly. Attempting to time the markets is best left to full-time professional investors who are able to spend every day scrutinising the price movements of a handful of stocks.

For retail investors with a diversified portfolio of funds, timing the market is rarely advisable or indeed necessary; in fact it can often damage your wealth as you miss the best returns, buy and sell at the wrong times, and incur additional trading expenses.

#5

REVIEW REGULARLY

Keeping your investment portfolio under regular review is essential. Things change over time and your investments might need to change to reflect this.

One of the most important reasons for this regular review is the natural changes which will occur with the underlying asset allocation of your investments, and therefore the amount of risk you are taking with your money.

Because one asset class will outperform another over time, the composition of your investments will change regularly. This could leave you overexposed to a particular investment type and therefore taking more risk than you originally planned.

Your investment goals and objectives will also change over time. Keeping your investments under review means you can realign your portfolio to keep it in line with what you are trying to achieve with this money, taking more or less risk depending on how your goals have changed.

Other events can prompt a review of your investments. Fund managers occasionally resign or are replaced, and this should trigger a review of whether the fund remains suitable.

Changes to the objectives of a fund or periods of poor performance should also cause you to consider whether to 'hold or fold' a particular fund.

It makes sense to review your investments at least once a year, or on an ad-hoc basis should the fund manager change. What you should seek to avoid is reviewing your funds on too regular a basis, as this can result in knee jerk reactions to short-term events rather than sticking to a long-term plan.

#6

CONSIDER TAXATION

Taxation is an important consideration with investments, as you are likely to pay income tax and capital gains tax when your investments do well.

Whilst you should consider tax and aim to keep taxes to a minimum where possible, it is important not to allow the tax tail to wag the investment dog. For this reason you should not allow tax considerations to determine your investment strategy.

Using an Individual Savings Account (ISA) is a valuable way to reduce the amount of tax you pay on your investment returns.

Outside of an ISA, investors can make use of their annual capital gains tax (CGT) allowance which results in no capital gains tax to pay on realised gains up to the threshold each tax year.

Any unused allowance from the previous tax year can also be carried forward to the next tax year, making investments which produce capital gains rather than income very tax efficient for many investors who already receive taxable income.

#7

LOOK BEYOND PAST PERFORMANCE

When choosing investment funds, it can be very tempting to pick them based on how well they have done in the past. Despite the well-known warning about past performance being no guide to future returns, investors often see the ability for a fund to beat the average in the past as 'evidence' it will do well in the future.

Funds that have performed well in the past are certainly not guaranteed to perform well in the future. In fact, history tells us that the top performing fund in one year is likely to underperform in subsequent years.

Assuming investors cannot therefore rely on past performance when picking investment funds, what other factors should they consider?

Our approach to fund selection starts with looking at consistency of performance, risk adjusted returns and cost. The ability for a fund manager to deliver consistent returns is a much better indicator of their long term potential than a strong period of short-term performance, in our opinion.

Risk-adjusted returns consider how much risk the fund manager took to achieve a certain level of performance, which is often quite revealing as some of the 'top' fund managers are exposing investor cash to very high levels of risk in order to get the returns they achieve.

Cost is important because the less you pay for fund management, the more of the investment returns you get to keep. All other things being equal, a fund with lower ongoing charges is going to deliver a better return for investors.

The most important factor in fund selection is making sure the fund matches your investment objectives and does a good job of populating your chosen asset allocation mix.

#8

KEEP AN EYE ON CHARGES

When you invest in funds, you typically pay the fund manager a percentage of your investment to manage the fund. This annual management fund can range from very small (as low as 0.1%) to very large (2.2% or even higher!), depending on the fund and management style.

Because fund charges will drag down the performance of the fund, you should keep an eye on charges to make sure you are getting good value for money.

Funds which adopt a passive investment strategy tend to have the lowest charges, as less management involvement is required to replicate a market index or asset class returns. Funds with active management charge investors more.

You should also expect to see higher fund management charges for certain asset types, such as commercial property and emerging market equities. Funds investing in these types of investment tend to have higher charges than fixed income funds. Funds which invest in other funds (fund of funds) tend to have higher management charges than funds which invest directly into stocks and other assets. This is because investors are paying for two layers of fund management with a fund of funds approach.

When investing in a fund, take time to understand where your annual management charge is going. Many retail investment funds include an element of charging for the fund manager, investment platform and adviser. If you are investing directly without the help of an adviser, don't pay advisory charges.

Modern investment platforms use clean share classes which means you only pay the fund management charge. Any platform charges are then charged separately, which avoids the old smoke and mirrors technique of fund rebates and loyalty bonuses. Another type of fund charge to watch out for is performance related fees. These are popular in the world of hedge fund management and have been introduced by some absolute return fund managers. They result in the fund manager being paid up to 20% of the investment return once they perform above an agreed benchmark level.

#9

UNDERSTAND YOUR INVESTMENTS

When investments go wrong, it is often because the investor did not understand the investment.

We have seen plenty of examples of funds which can be best described as too good to be true, investing in exotic assets which the fund manager, let alone the investor, could not possibly understand.

If you are going to commit your money to an investment fund, you should know where the fund is investing and what type of underlying assets the fund will purchase.

Take time to read the Key Investor Information Document (KIID) provided by every fund as well as any marketing material produced by the fund manager.

If an investment seems too good to be true, it usually is. Funds claiming to offer a high return with minimal risks are pure fiction. Investors are often stung by high risk funds attempting to mask these risks with fantastical marketing. Sticking to 'boring' funds often makes sense, as these are unlikely to invest in risky esoteric assets.

Sticking to tried and tested investment strategies with exposure to investment types you can readily understand will still produce the returns you are looking for, without the risks associated with untested and high risk funds.

#10

DON'T BELIEVE THE HYPE

The best investors don't get caught up in the marketing hype surrounding investment funds.

A big advertising campaign from a fund manager is never a good reason to invest. Just because a provider has blown their annual marketing budget on glossy magazine adverts or big posters at your train station does not mean they offer a good investment.

Another area of investing hype to avoid is new fund launches. These tend to come along with lots of money spent on advertising and promotion.

We often advise our clients to sit out any new fund launches for at least three years. This gives the fund manager the chance to establish a track record and demonstrate their strategy works. It also allows the investor to see if the fund has gathered sufficient funds under management to be viable long-term.

Investing hype can also surround a particular asset class, with commentators getting excited about the prospects for an investment in the short-term. This usually signals the right time to ignore the views and instead stick to your established investment plans.

FIND OUT MORE

A life of freedom, to live how you want. A life of security, where you no longer worry about money. A life of choice, where the world is your oyster. A life spent with your family, where time is on your side.

What a life that would be.

The Longhurst team are firm believers that with the right strategic plan everyone has the power to realise the lifestyle they want for themselves and their family.

If you want to talk, contact us:

T: 01327 223243

E: hello@longhurst.co.uk

W: longhurst.co.uk/contact

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Please note that the value of investments may go down as well as up and investors may get back less than they invest. Where these pages refer to investment performance it should be remembered that past performance is not a reliable indicator of future performance.

The guidance and/or advice contained in this guide is subject to the UK regulatory regime and is therefore restricted to consumers based in the UK. The FCA does not regulate tax or estate planning.