Investing Your Capital – Your 10-Point Checklist

Should you be in the fortunate position to be able to invest some of your income/capital for your future then there is a 10 point checklist you may want to refer to when making your investment decisions.

It doesn't matter whether you have a small nest egg to invest or if you have a large amount of money set aside. Whatever the amount, it's crucial that the investment decisions made are right for you and this is where the 10-point checklist comes in.

Before reading through the 10 points there is a word of warning you should heed; it is an issue some face through overzealous investing. It's important that you don't over invest; this means that you should not commit money that you may need access to in the short term and you should not invest money you can't afford to lose.

One point that should be mentioned is that savings and investments are two different elements of the financial planning process.

Savings come with a set (or variable) interest rate so you have security (up to £5,000 per financial institution) with your money but it will yield (currently) a low rate of return. The classic example is a deposit based savings account.

Through an investment you take a lump sum of money, or a regular amount, and place it into an investment vehicle that is not deposit based. An investment has the potential to grow quite substantially, or potentially fall lower than your capital amount. This will be largely dependent on the asset class (such as shares, government bonds etc) chosen as well as the overall market conditions of the asset classes.

Let's look at the 10 points:

1 – Objective
Before proceeding with an investment you need to understand what you want to achieve with your money. There are a few questions you need to ask yourself: are you looking for growth on your capital, or to generate an income from your investment? Why are you seeking capital growth? What amount of income are you looking to generate?

2 – Term
You really should consider how many years you want to invest your money over before you sign on the dotted line. This is especially the case if you need access to any of the capital. Therefore, it's advisable to check if there are any penalties for accessing your money at any stage of the investment as some financial products have clauses in them that will not allow access without penalty.

With any investment there is the potential for loss. Because of this you do need to focus on potentially losing money. This is not an area many investors like to think about, but it is a key element of the decision making process.
How much can you realistically feel comfortable losing without impacting your current and future financial position?

4 – Volatility

Investment markets can be described as volatile, a term that scares many but this shouldn’t necessarily be the case. The dictionary.com meaning of volatility is: (of prices, values, etc.) tending to fluctuate sharply and regularly: volatile market conditions.

If you know you are someone who is easily8 scared of such changes, you may find yourself worrying and losing sleep. A volatile market doesn’t necessarily mean you will lose your capital as you will only lose out if you withdraw your investment at the wrong time.

5 – Risk

With any investment there are associated risks. Some of the risks are that you could lose money on your capital or that it may not grow to the expectations you were looking for. Each investment type has differing levels of risk and, generally, the greater amount of risk, you take provides the greater potential for reward.

Think about the amount of risk you are willing to take. This means you should only put your capital in markets that carry the same amount, or a lower risk than you are comfortable with.

6 – Taxation

Taxation is a key area that needs to be considered with all investments. The wide range of investment vehicles on the market offer different taxation implications for taxpayers. Make sure you review your tax position prior to investing your money and think about whether you may have to pay capital gains tax on the growth of your investment or income tax on any ongoing interest/returns.

For example, you may decide that going for an Individual Savings Account instead of another investment product is your first port of call because of the associated tax benefits.

7 – Accessibility

As mentioned in point 2, some investments allow for instant withdrawal of capital with no penalty associated, whilst others have financial penalties involved for instant withdrawal. On the other hand, there are products that offer limited withdrawal and have a fixed duration for the investment so your money is “tied in” and cannot be withdrawn no matter what the circumstances are.

Because of the volatility of markets, as mentioned in point 4, you may need to think about the duration period and whether a medium to long term fixed duration fits your requirements should the markets suffer. This is also relevant to points 5 and 6.

8 – Understanding

A number of investments are simple and easy to understand, whilst others are more complex and require a detailed level of knowledge. If you don’t fully understand how the investment vehicle works, it may be an idea to seek clear. Also, if you use the services of a financial adviser, ensure you ask many questions needed to understand the product before agreeing to put your money into it.

9 – Cost

Investments require regular reviewing, no matter what the product type is. If you are not willing to review them at least annually then it is probably not advisable to invest your money in the first place as you will not know how your investment is progressing and whether it still makes financial sense.

In Summary

So there you have it. Whilst there are a number of additional points that investors should consider, this list is a useful place to start. The key point to remember is to always do thorough research, either yourself or outsource it to a trusted professional.

About the author

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