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tunate position to be able
to invest some of your in-
come/capital for your future then
there is a 10 point checklist you
may want to refer to when mak-
ing 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 warn-
ing 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 el-
ements 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 (current-
ly) a low rate of return. The clas-
sic 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 sub-
stantially, or potentially fall lower
than your capital amount. This
will be largely dependent on the
asset class (such as shares, gov-
ernment bonds etc) chosen as
well as the overall market condi-
tions of the asset classes.

Let’s look at the 10 points:

1 – Objective
Before proceeding with an in-
vestment you need to understand
what you want to achieve with
your money. There are a few
questions you need to ask your-
self; 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 espe-
cially 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 invest-
ment as some financial products
have clauses in them that will not
allow access without penalty.

3 – Financial Loss
With any investment there is the
potential for loss. Because of this
you do need to focus on poten-
tially losing money. This is not an
area many investors like to think
about, but it is a key element of
the decision making process.
Money Matters

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 easily nervous 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 taxpaying investors. 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 as many questions needed to understand the product before agreeing to put your money into it.

9 – Review
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 satisfies your circumstances on an ongoing basis.

10 – Cost
As with many things in life, in the investment world there is no free lunch. Just about all investments incur charges and so it is important that you know what these are and exactly how much you will be paying, both initially and ongoing.

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 outsourcing it to a trusted professional.

About the author
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