Affinity Finance
Independent Financial Advisors

Effective Investment Planning

A Summary Guide

This document is intended to provide you with a short and simplified insight into the why’s and wherefore’s of effective Investment Planning strategy. We hope you find it useful; and that it will enable you to have a clearer understanding of this subject.

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Effective Investment Planning

Why, Where, and How to Invest?

In most instances the main reason for making an investment, whereby cash is converted into something else, is quite simply to make more profit than the cash equivalent. This profit may be for the benefit of either the Investor, Beneficiaries of the Investor, or both; and may materialise as either Capital, Income, or a combination of both.

The problem arising however, is what to invest in, and how and when to do it?

Should you keep all your money in the Bank, or should you use it to buy an alternative Investment Asset?

If so, do you buy Gold Bullion, Property, a Ferrari, or a financial instrument such as Government Gilts, Corporate Bonds, Company Shares, or Managed Funds? Furthermore, how do you buy any of these Investment Assets; can you access them in affordable amounts, and how easy is it to redeem them in the future?

This is a truly enormous problem… The good news however, is that the investment industry at large, has formulated various Practices & Principles, successfully tried and tested over a long history, which greatly help to solve these same problems.

Asset Classes

The first of these principles is that there are 3 Primary Classes of Investment Assets as follows:

- **Cash**
- **Stocks**
- **Shares**

Cash

Cash is reasonably simple to comprehend and control, and we are all familiar with it. In its most common format, it is literally money to be used as a recognized and accepted exchange mechanism. It is usually held in a Cash Account of some kind, which in the UK typically includes Banks, Building Societies, and the Post Office - now called National Savings & Investments (NS&I).

At the slightly more complex end of its spectrum, Cash also includes Cash Derivates such as Premium Bonds; Currencies such as the Euro, Dollar, and Yen; and various Money Markets where cash is traded as a financial instrument, such as the Inter-Bank Market (LIBOR) and the Foreign Exchange Market (FOREX).

Quite obviously, the primary purpose of Cash is simply its buying power. It is the world's most common medium of exchange in this respect; and is therefore supremely spendable. But it also has two further attributes which enables it to be used as an Investment Asset. In the first instance Cash can command an Interest Rate. This is money earning money by being put to work. Typically, a Bank Account will earn a certain Rate of Interest for the Account Owner in return for the Bank being able to make some use of it.

The second investment attribute of Cash is its Currency. Despite being the world's favourite financial commodity, it is not a universal denomination. This generally means that one currency must be exchanged for another in order to be able to spend it elsewhere. The upside of this from an investment point of view, is that money can again be made to make more money simply by exchanging it for different currencies at favourable Exchange Rates.

Stocks

Stocks are a physical commodity whose primary purpose is to be used as that commodity, but which may also be used an Investment Asset. Silver and Gold for example, have various uses for what they actually are; but they may also be used as an Investment Asset based upon their financial value.

Within the Investment arena, Stocks may be sub-divided into two distinct Asset Classes. These two sub groups are Property - being Land and Buildings; and Commodities -being everything else.

The distinguishing attributes of Property, and particularly Land, are that it is a finite resource, non-consumable and an absolute requisite. In other words, there isn't any more of it than already exists, it lasts forever, and we all need a certain amount of it. We don’t live in space yet, so we need to put our feet on some ground somewhere! The fact that some Land has Buildings upon it simply enhances its value both for its own purpose and as an Investment Asset.

To a greater or lesser degree, all other forms of Stocks are consumable on a discretionary basis. The relevance of these qualities to an Investor, is that aside from its inherent default benefit, the value of such an asset is subject to its popularity of the day. This is more formally known as Supply & Demand. The value of these types of assets can rise if demand increases, supply decreases, or as a result of financial inflation over time. Stock values can also fall for exactly the opposite reasons.

Typical examples of Commodity Stocks are Fine Art, Stamps & Coins, and Vintage Cars. Some further and perhaps more common instances include Gold, Silver, Diamonds, Oil, Gas, Crops, and many other Raw Materials. For the everyday Private Consumer Investor, such Stocks would usually be accessed on a virtual basis via a Stock Exchange. In other words, buying an Investment Right to the Stock, rather than buying the physical commodity itself. The Investor thus owns an interest in an asset rather than the actual asset itself

SHARES

Shares, as the name implies, are usually a part or portion of something bigger than the individual share; and within the investment arena, this usually consists of a Financial Stake in a Corporate Business which is Listed on a Public Stock Exchange. In other words, and for example, the Investor buys and owns a number of Shares in 'Company ABC Plc' which is Listed (Traded) on the London Stock Exchange (LSE).

Unlike Stocks, this is not a physical entity, but rather a legal Contract in the form of a Financial Service. Shares are classified as being a Financial Instrument, whereby you, the Private Retail Investor, owns an interest in that Corporation or Entity rather than the actual corporation itself.

Almost every developed country around the world has at least one, and often several Financial Trading Markets (Stock Exchanges) such as the London Stock Exchange (LSE), German Stock Exchange (DAX), New York Stock Exchange (NYSE/NASDAQ), Hong Kong Exchange (Hang Seng), and so on.

In turn, each of these Stock Exchanges 'List', which is to authorise, the Trading of such Corporate Shares in hundreds, and in some instances thousands, of both National and International Corporations – including what most of us know as Companies, Banks, Financial Institutions, Governments, and Public Office Departments.

ASSETS SUMMARY

The overall advantage of owning Stocks & Shares rather than Material Assets is general convenience. The convenience factors typically include affordability, acquisition, retention, and disposal. A simple example of this would be the differences between buying a Barrel of Oil or selling an entire Company as compared to exercising one's rights to sell a shareholding of the same Asset on a Stock Exchange or other Trading Platform.

Another significant advantage is that most Stocks & Shares Investments, and all of them that we deal with as Investment Advisors, are governed and protected by the Financial Services Authority.

Therefore, from this point onwards, we will be discussing and dealing with UK Authorised Investments including:

- Cash Deposit Accounts (Banks/Building Societies)
- Listed Securities (Ordinary Company Shares/Corporate Bonds/Government Gilts)
- Collective Investment Funds (Investment Trusts/Unit Trusts/OEIC's)

The remainder of this investment guide will now consider the principles to be applied in establishing and maintaining an appropriate investment arrangement for a given investment objective.

THE INVESTMENT PROCESS

Asset Allocation

Risk of loss is an integral part of investing for gain. The objective therefore is to minimise the risk and maximise the gain as much as possible within certain objective parameters. This is best achieved by introducing a calculated diversification across different Asset Classes such as Cash, Government Gilts, Corporate Bonds, Commodities, and Corporation Shares.

This mix of different Asset Classes is the foundation stone of building an appropriate Personal Investment Portfolio.

The intended outcome is to achieve the right balance between gaining the returns you desire whilst taking a degree of risk with which you feel comfortable.

Investment Selection

With regards to finding and selecting suitable particular Investments, the mantra here is generally to have a wide spread across all or most of the different available Investment Sectors.

As grandma said, don’t put all your eggs in just one basket. If for example you were to place all your money in just one Company’s Shares, you would need to be either very knowing of the outcome, or exceptionally lucky to achieve your final Investment Objective. Win or loose, we would never, in our professional capacity, advise you to do this.

So, what would we advise you to do, and how do we arrive at that advice?

Well, to begin with, whilst the cost of investing is a reasonably simple computation, it’s one of the few knowns; the matter of investment selection for reward is comparatively complex and uncertain. Complex because there are literally thousands of different Investments to choose from; and uncertain because almost none of them give any form of guarantee. Therefore, both you and we, need some serious help here.

In order to help with this complex task, we apply a rigorous Investment Analysis process. This process considers and computes a plethora of facts, figures, and policies, both individually and severally, to arrive at a comparative Suitable Investment answer. Whilst such a system is neither definitive nor guaranteed, it is highly credible – being based upon real world actualities, is the best advice we can offer you, and is more usually right than wrong.

Risk & Reward

Investment Reward is arguably the ultimate purpose of the whole investment process. It is simply the bottom line figure; the future realisable value of the Investments you hold.

However, this objective carries with it an inbuilt failing – the failure to know what will happen in the future. Thus, there is always the possibility of a negative outcome.

This is the reason we discuss with you, and ask you to complete our Client Investment Risk/Reward Profiler; so that we understand together your Investment Attitude. By this, we mean how much reward are you reasonably looking to achieve and when; and how much risk are you prepared to accept in pursuit of that objective?

Because the world of investments is dynamic, the value of your investment will vary from day to day and year to year. Sometimes it will make you smile, and other times it won’t. There is also no guarantee which of these it will do, and when. We cannot tell you for certain what the final outcome will be.

However, if the investment process is correctly first applied, and then appropriately adhered to, you are more likely than not to realise your Investment Objectives. Furthermore, making correct use of various Investment Products & Services, as explained below, can help you further, by way of relevant Taxation mitigation, Professional Management expertise, and ease of Reporting & Administration.

Investment Products & Providers

Products

There are a whole range of different Investment Products (Tax Wrappers) available in the marketplace today which, although somewhat confusing, can provide real benefits if understood and used correctly.

These include:

- **Collective Investment Accounts**
- **ISA's**
- **Investment Bonds**
- **Personal Pension Accounts**.

Which investment product is right for you depends upon your current circumstances and your future objectives. We will help you decide according to your best interests.

Providers

Just like shopping for food or clothing, someone needs to present you with the facility to buy your Investment Portfolio. You need a Financial Services shop. For the everyday Private Consumer Investor such a shop usually comprises:

- **High Street Bank**
- **Stock Broker**
- **Registrar**
- **Financial Services Company**

We have deliberately excluded ourselves as Financial Advisors from this list because most of us are your map rather than the vehicle. We are the Co-Pilot, not the Driver, nor the Vehicle.

All of the above Investment Providers are governed and protected by the Financial Services Authority (FCA), and most of them are available to you either as a walk-in shop or office, or more frequently nowadays as an Online Service.

Some of them will offer only a limited service – such as Saving Accounts, or Buying and Selling Company Shares. Others may offer a full spectrum of services including Trading Stocks & Shares, Collective Investment Funds, wrapping your Investment Assets in a Product Wrapper such as an ISA or Pension, and last but not least, ongoing Reporting & Administration of your Investment Portfolio. Such all encompassing Financial Service Providers are known as Investment Platforms.

An Investment Platform is thus a platform from which to launch and manage your Financial Objectives. It is an integrated service whereby all or most of your various Investment Assets & Products can be consolidated into just one place. This is usually an online portal which facilitates Ownership Rights, Deposits & Withdrawals, Trading, Investment Management, and Reporting & Administration.

Online Investment Platforms are relatively new, having only been in existence since about the beginning of this millennium, but like many technologies, their service provision and popularity have grown, and continue to grow exponentially. Most of them are exceedingly good value for money, and take the task of Financial Investing to a whole new level.

For these reasons, wherever possible, we will recommend an integrated investment solution, an Online Investment Platform, in order to take advantage of the many benefits such an arrangement provides.

The Advice Process

You might be surprised to know that even after using an Investment Platform and taking Professional Investment Advice, it may cost you no more to use a Financial Advisor than to Do-It-Yourself!

Typically, as a Private Consumer Investor you will pay an Initial Charge of about 3% to buy an Investment Fund for example, plus an Annual Charge of 1.5% - all without any Initial Advice or Ongoing Service.

Furthermore, there is always the prospect that you will not have enough experience, expertise, or time to do it yourself successfully.

Our fees for providing Investment Advice and an ongoing Management Service are simply 1% per Annum of the value of your Investment Accounts held through us. We believe this is very good value for money, and will do all we can to ensure that you'd be better off with us than without us.

We'll put everything into practice with you via our step-by-step Advice Process. We'll help you to correctly identify your key current circumstances, future objectives, and how best to get there.

We look forward to helping you make the right choices for the right reasons; and keeping it all on-track.

Your Consumer & Cancellation Rights

Your rights as a Private Consumer Investor are determined in full accordance with the UK Financial Services Authority (FCA).

All requisite Investor Data will be held on file, and used in strict accordance with the terms of the Data Protection Act, and will only be used for its intended purpose of providing you with Professional Financial Advice.

If actual Investment Performance does not match any Key Facts Illustrations (KFI) or other quoted expectations, there will not, for that reason, be any entitlement to compensation. Compensation is only available for the protection of consumers in the event of Inappropriate Advice or Service, or in the event of Investment Insolvency subject to certain provisions and limitations. These protections and compensation Rights are set out in our separate document entitled Treating Customers Fairly (TCF) which will be provided to you as required.

You can cancel your Investment Application within 30 days of receiving your Cancellation Notice. If you do cancel within this time, you will not have to pay any charges, and will receive a full Financial Refund at the prevailing Market Rates. This latter condition means that if investment prices fall, you may not get back the full amount originally invested.

We further remind you that the value of your investments can rise and fall from time to time, and will do so on a continuous basis. Investing in Financial Assets should be intended for medium to long term use, being a minimum of 3 to 5 years; and should not be used like a short term Cash Deposit Account.

All this said and done, we will endeavour to make your Investment Accounts as simple, useful, and efficient as possible.