Think diverse

an approach to making more of your savings and investments

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Introduction

This is a simple guide designed to outline in the broadest terms the key options, products, issues and opportunities in a very wide-ranging and often complex area.

For any saver or investor, the goal is quite straightforward: to maximise return while minimising risk. Managing to square that circle is the real challenge.

This guide doesn't have all the answers, and it doesn't make specific recommendations – except one: always get professional, expert advice before you make any major commitment. If you don't, the repercussions can be serious. But with the right advice, you can look forward to the peace of mind that comes from knowing your finances are in good shape for whatever's ahead.

In other words, a sound basis for any savings or investment strategy can be simply expressed as:

right product + right advice = right outcome

Starting out

Saving or investing: what's the difference?

In general, it can be helpful to think of saving as a short-term measure, typically used for a specific goal, such as a holiday or large purchase. With most savings products, your money is at low risk, and is likely to be accessible at relatively short notice, while still earning some interest.

When you are taking a longer-term view, saving gets closer to investing. The goal will tend to be further away, like paying for your children's education or planning for your own retirement. Often, investment will therefore require you setting aside your funds for a longer term, and access to them may be more difficult. The returns may well be greater, but there may also be more risk involved.

Many people actually have a range of savings goals – short, medium and long-term. In that case, you may wish to consider placing some money in a savings or deposit account to meet short-term needs and some in an investment product, where it could potentially earn more over a longer term.

Understanding uncertainty

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Understanding uncertainty:

Tolerance for risk vs. capacity for risk

Broadly speaking, with any investment, the greater the return, the greater the risk. So before you start, you need to consider this fully. There are two terms you are likely to encounter: tolerance for risk and capacity for risk. The first refers to how prepared you are to experience large swings in the value of your investment, while the latter is more about the consequences.

By way of analogy, think of a 90-year old man who decides he wants to sky-dive. He has the risk tolerance for it (it's his idea, after all), but he doesn't have the appropriate risk capacity, as the consequences of even a minor accident would likely be very serious for him.

So, you may want to make that move – but in truth should you?

An expert advisor will help you identify a level with which you are comfortable and which is right for you.

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Understanding uncertainty:

Types of risk

Inflation

An investment will lose value or buying power in line with inflation. An annual inflation rate of 2.5% will mean that after one year, €100 will be worth €97.50. Initial capital hasn't decreased, but its value has.

Capital

The original investment amount - the capital - could be all or partially lost over the investment term.

Return

We've all heard the warning "The value of your investment may go down as well as up". With no guaranteed return, an investment may not perform as well as expected.

Currency

Some investment products involve different currencies, e.g., Euro into a US dollar fund. As the value of the fund currency fluctuates, so too does the value of the original investment.

Spread the risk – think diverse

No investment is 'safe as houses' – including, especially, houses.

In recent years, many people have learned the hard way that it's not enough to place all your financial faith in property. By over-relying on one sector, you may miss out on other and possibly better opportunities (and jeopardise the capital you've invested elsewhere). That's why it's so important to spread the risk and consider a diverse range of savings and investment options.

Again, a broker or independent financial adviser will assess your circumstances and take a holistic approach that's built around you.

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Products

Deposit Accounts

State Savings Schemes

Government Bonds

Stocks and Shares

Tracker Bonds

Unit-linked Funds

Property Investment Funds

Ethical Investment Funds

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Savings products

Deposit Accounts

Many bank and building society savings accounts can be opened with as little as €10, and allow you to save regular amounts or lump sums (sometimes both). They also usually offer easy access to your money if you need it. Interest rates, or the amount of money your money will earn in these accounts, vary quite a lot, so it's worth shopping around.

These accounts tend to fall into two types: fixed rate and variable rate. With a fixed rate account, your money always earns the same set rate. If interest rates go up, you don't earn any more; and if they fall, you don't lose out. A variable rate account will earn you more when rates rise, but less when rates fall.

State Savings Schemes

The National Treasury Management Agency (NTMA) offers a range of savings products including deposit accounts, fixed-rate and fixed-term products such as savings certificates and savings bonds. You can arrange these through An Post.

Investment products

Government Bonds

When you buy one of these bonds, you are effectively lending money to the government. In return, the government promises a specified rate of interest on your investment and to repay the value of the bond on maturity. Irish government bonds are issued by the National Treasury Management Agency (NTMA).

Stocks and Shares

When you buy shares, you become a shareholder in that company. The value of your shares will rise and fall depending on the stock market and on the performance of the company. You can invest in shares directly through an exchange-traded fund (ETF) or in a pooled fund such as a unit-linked fund. Your bank or an investment broker can advise you fully on these options. As a shareholder, you may receive an annual dividend paid out of the company's profits.

Investment products

Tracker Bonds

This is a fixed-term investment, where your invested capital may be split between a deposit-based account and a stock-market component. You will usually have to invest a minimum of €5,000 for between three and six years, with no access to your money during this time. Tracker bonds are considered low-risk options.

Unit-linked Funds

With this kind of investment, your money is pooled with that from other investors to buy units of a fund. Investment managers typically run these funds, and will direct how your money is invested. This could be a mix of deposits, bonds, equities or property. Unit-linked funds cover a range of risk profiles, from low to high. You can generally access your money at any time.

Investment products

Property Investment Funds

Investing in a property fund – as opposed to buying property for investment (which requires a large sum up front in order to make the purchase) – enables you to invest indirectly in the market. These funds typically comprise a mixture of commercial, retail and industrial property.

There are two main types of property investment fund: those allowing you to withdraw your investment at any time and those where your money is locked away for a fixed term, e.g. five or six years.

Ethical Investment Funds

This fast-growing area of investment involves funds that have been screened to eliminate 'negative criteria', such as investment in tobacco, alcohol, arms, gambling, animal testing, etc. Or, the chosen investment funds may actively support 'positive criteria', for example, companies engaged in environmental, humanitarian, educational or other socially beneficial programmes. In particular, there is growing interest in renewable energy funds because governments will be under pressure to meet 2020 targets for energy derived from renewable sources such as solar, biomass and wind.

Which is the right direction for me?

There is no ideal, one-size-fits-all solution. But there is a solution that fits you. A professional investment broker or financial advisor will help tailor it to your needs, circumstances and goals, based around your risk appetite, and your need for income and liquidity.

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Which is the right direction for me?

Consider these scenarios

1 A young couple, Mark and Siobhan Clery (both 31), have just managed to buy their first home. They want to plan ahead, but don't know where to start. What are their financial options?

OPTIONS: Regular savings are the key here – for example a variable rate deposit account and perhaps a unit trust. But with a long working life ahead of them, they can afford to take some risk because they have time to make back any lost value. So they could consider investing.

2 Richard Dawson, 52, the owner of a small engineering business, decides he wants to retire early – in say, five years. Will his current pension and investment portfolio allow it?

OPTIONS: Given that he'll be retiring sooner rather than later, Richard has a low capacity for risk. With advice from his financial advisor, he should make sure his pension and investment portfolio is diversified in mostly low-risk options, such as tracker bonds and unit-linked bonds.

3 Una Clarke (45), inherits a significant lump sum. How should she invest it to ensure a regular monthly income?

OPTIONS: With a high opening balance, a fixed-rate bond can generate a monthly income, and deliver a lump sum at the end of the term.

Making your money do more: your next move

The decision you make today can help shape your financial security tomorrow, helping you maximise returns and deliver capital growth. That requires proven expertise as well as a deep understanding of the market.

So get professional advice before you commit to any option.

At Clear Financial we're here to help you reach your financial goals. We offer free, expert support on a wide range of products – including savings plans, investment funds, renewable energy funds, investment bonds, ethical investment and commercial property.

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For a no-obligation discussion about your savings and investment needs, don't hesitate to get in touch. Call Clear Financial today on +353 1 4587576 or email enquiries@clearfinancial.ie

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