# Why NOW is a good time to start INVESTING

Many of us have been hit hard financially by the pandemic, but if you're among the lucky ones who have been able to save, here's why investing that money is your best bet for making it grow

For some of us, 2020 has been a financial struggle, with lots having to cope with a reduced income. However, many of us are actually better off after lockdown. Not spending on commuting, childcare or socialising has meant the average household saved £868 a month over March, April and May. Bank of England figures show total savings balances increased by a record £25.6bn in May – that's £921 per household. 'If you ever wondered what it would take to turn us into a nation of enthusiastic savers, you have your answer,' says Sarah Coles, personal finance analyst at Hargreaves Lansdown. 'It's not the kind of lifestyle change anyone would propose for the long term, but for many people, the savings have been the silver lining on the Covid-19 cloud.'

Now, as the country faces a recession, it's time to make this money work hard to help us in the future. When Hargreaves Lansdown surveyed people to ask what they would be doing with the extra cash they now have, almost half said they would save it for a rainy day. While this is great news, many of us aren't saving in the right places. Most of that £25.6bn was deposited in easy-access savings accounts with an average interest rate of just 0.29%. It is a good idea to keep your emergency cash in an easy-access savings account, but money that you plan to squirrel away for five to 10 years should be invested to give it the best chance to grow.

Inflation (as measured by the Consumer Price Index) is currently at 1.1%, meaning the price of the everyday things we buy is rising by 1.1% a year. If your savings are only growing by 0.29%, then your money is shrinking in value and you'll get less and less for your money each year.

## Help your money grow

Like the rest of us, the stock market has had a rough 2020: the FTSE 250 – which measures the value of the UK's biggest firms – is down 11% over the past 12 months. But historically, the stock market outperforms any return you can get on a traditional savings account. Over the past 10 years, the FTSE 250 is up 80%. That means £10,000 invested in the FTSE 250 back in 2010 would be worth around £17,900 now. In contrast, the same amount in the average savings account would have grown to only £12,028, according to Moneyfacts. 'We're still seeing too many people leaving their money sitting in cash, when investing could be right for them,' says Kat Mann, savings and investment specialist at Nutmeg. 'Sticking to cash seems safe, but it's a mistake to view it as risk-free. With the impact of inflation and woefully low savings rates, those who opt solely for cash risk putting themselves at a disadvantage, as the real value of their money will be eroded over time. Moreover, history shows that over the long term, stock market returns are higher than cash. If you have enough cash savings to cover emergencies and a few months' expenditure and you're considering setting money aside for a longer period of time, then investing might be right for you.'

> 'Women show the most responsible investor behaviour'

## Women are doing it right

Traditionally, women avoid investing in the stock market. The latest ISA figures show that far more women hold an ISA than men – 900,000 more, to be precise. But women vastly prefer cash ISAs to stocks and shares ISAs. The government figures show that there are just 242,000 investment ISAs held by women compared with 3.6m cash ISAs. In contrast, 302,000 men have investment ISAs and just 2.8m have cash ISAs.

Yet, when women do invest, we are much better at it than men. Research by Hargreaves Lansdown found that female investors returned an average 0.81% more than men over a three-year period. Over a 30-year period, the average woman's portfolio would be worth 25% more than the average man's.

The main reason? We tend to invest our cash then leave it alone, whereas men are far more active traders, frequently adjusting their investment portfolios. They'll pay more in trading fees and they could be buying and selling at the wrong moment, so they crystallise losses in investments that may have recovered if left alone.

'Knowing how to weather an economic storm can be hard,' says Kat. 'When there is a short-term dip in the market, it can be tempting to tinker with your investments. While the majority of investors do nothing, we do see differences between how men and women approach investing. The truth is that women show the most responsible investor behaviour, with a natural tendency to stay the course and remain focused on their long-term goals.'

## Investing for beginners

People may refer to a handbag, an expensive coat or a beautiful piece of jewellery as an investment purchase, but those won't provide you with an income. 'A real investment has the potential to grow significantly in value over time, but will also pay you an income while you wait for it to grow,' says Moira O'Neill, head of personal finance at Interactive Investor. 'Investing involves buying small parts of businesses called shares. Your shares rise in value if the company grows and, while you wait for that to happen, the company may pay you an income in the form of dividends.'

However, remember that the bigger potential rewards you can make on the stock market – compared with a cash savings account – involve more risk. You could lose some or all of your money if the company you invest in falls out of favour or goes bust. 'You can spread your risk by buying shares in lots of companies. Or you can put your money into an investment fund or investment trust, where your money is pooled with that of other investors to buy a wide range of shares in different companies,' explains Moira.

## How to get started

Once you've decided to start investing, it's time to choose what to invest in. There are thousands of funds and shares available, so whittling it down can be difficult. One option is to use an Independent Financial Adviser (IFA) to help you select a portfolio of investments that suit your financial goals and the levels of risk you are prepared to take. You can find an IFA at unbiased.co.uk or via the Personal Finance Society (thepfs.org). Expect to pay around £300 for an IFA to help you set up a £10,000 investment portfolio, according to Unbiased. You can compare costs at comparetheplatform.com.

> 'Try to resist tinkering with investments too often, but don't ignore them. Check on them every few months'

## Do-it-yourself options

Alternatively, you can choose your investments yourself. This takes some effort, but it can be even more rewarding to see the shares or funds you choose perform well. You can buy investments through a broker, an investment platform – which is like a supermarket for shares and funds – or an investment app.

If you want to pick your own investments, then an online platform such as Interactive Investor or Cavendish Online can help. Once you've signed up, you can buy thousands of funds or shares via your online account. For further help whittling down your choices, turn to the company you are buying your investments through. Some of these will provide lists of 60 to 70 preferred funds, while others offer ready-made investment portfolios, so you don't have to do any stock-picking.

If you'd rather have a little more help, you could try a 'robo-investor' such as Nutmeg, Wealthify or MoneyBox. These all offer ready-made investment portfolios that you choose based on how much risk you are prepared to take with your cash.

You could also use the investment app Plum. Download the app, open an account and link it to your main bank account. Plum will then analyse your spending and regularly take amounts it thinks you can afford to save from your bank account. It adds up little by little and you can then invest that money in funds, shares or bonds.

Think about where you are going to put your investments. If you buy them in a standard investment account, you may be taxed on the income you receive and any growth your investments achieve. You can avoid this by putting up to £20,000 a year into a stocks and shares ISA. This acts as a tax barrier, so your assets can grow free from capital gains, income and dividend tax. Find a list of authorised ISA managers at gov.uk.

## 'Investing seems more accessible than it did in the past'

**Ade Akin-Aina, 35, is a recruitment professional from Canada who now lives in London. She has been investing for several years via a broker and by using the Plum app.**

'I'm pretty savvy financially, so investing seemed like the next logical step after having multiple savings accounts and looking for better avenues or ways to make my money "work" for me,' says Ade. 'Investing also seemed way more accessible than it had in the past, with lots of information available on the internet and a number of different apps and platforms that can help.'

Ade has a broker who helps her choose which shares to buy. 'I'm lucky to have his guidance and we created a portfolio together,' she says. 'I try to balance the financial reward with my moral compass as I'm effectively endorsing the way a company is managed by choosing to become a shareholder. I also use Plum to invest in a variety of funds. There's plenty of data and articles available about the funds Plum allows you to invest in, as well as their risk scores, which makes it much easier to decide what you want to do.'

Investing isn't without risk, and Ade didn't escape this year's market turbulence. 'In March, my portfolio lost about 20% of its value,' she says. 'But I didn't panic and actually invested more. Most of my stocks have now rebounded.'

# 'It's time to make your savings work harder'

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Once you've selected your investments, it's time to sit back and watch how they perform. Try to resist tinkering with them too often, but don't ignore them. Check on them every few months and remember that your risk profile may change as time goes on. It could be that your finances change and you can afford to take more risk with your investments, or it might be that you are getting towards the time when you'll want to access your money. If it is the latter, then it is a good idea to gradually move your investments into lower-risk assets so that you minimise the chance that you'll lose all your gains if there is a market plunge just when you want to sell.

## Types of investments

### WHAT IS A SHARE?

A share represents a fraction of a company that an investor can buy. If you own one, then you literally own a share of the business. You can make a profit if the value of your share rises. You may also receive an income from your share in the form of a dividend (which is a bit like interest on a savings account).

### WHAT IS A BOND?

Put simply, a bond is an IOU from a government or company. If you buy a bond, you are lending money to that firm. In return, you will get a promise that your money will be repaid at a set time with interest. However, you could lose your money if the company goes bust. Bonds for the UK government are known as gilts.

### WHAT IS AN INVESTMENT FUND?

A fund is a collective investment. Your money is pooled with that of other investors to buy a job lot of shares. Each fund is made up of units. Actively managed funds are overseen by a fund manager, who chooses what to invest in. Alternatively, you could invest in a tracker fund, which tracks a set index such as the FTSE 100 (the UK's 100 biggest companies). If the value of the funds' underlying units rise, so will the value of your investment in the fund. But if they fall, your investment's value does, too. You may also receive a regular income from your fund if its assets pay dividends.

### WHAT IS AN INVESTMENT TRUST?

An investment trust is a company. It sells shares in itself to investors and then uses the money raised to buy and sell shares and other assets. Unlike a fund, an investment trust can borrow money to buy shares, known as gearing. This can mean a trust can make bigger gains in rising markets, but it can also magnify losses.

## 'I believe this is actually a really good time to invest'

**Aliza Reger, 54, is the CEO of lingerie firm Janet Reger and lives in London. She has been investing for many years through an IFA.**

**'I must've started investing 25 or so years ago and have had an adviser for more years than I can remember,' explains Aliza. 'My mother Janet always had investments and money tucked away for rainy days. I was brought up to be able to stand on my own two feet and earn my own money. For my mother, women's lib was about earning your own living.'**

**When it comes to choosing investments, Aliza has a mix of funds and bonds with a small share portfolio, too. 'I have kept to a middle ground, with nothing too risky, and had solid results,' she says. 'The past few months have been a rollercoaster and while some investments are falling, others have gone through the roof. I believe this is actually a really good time to invest; some investors have made a great deal of money. Reading markets is tricky, but there will be success stories coming out of these horrible months.'**

**Aliza's key advice for anyone considering investing for the first time is to choose an IFA carefully. 'Don't give your money to someone who set up yesterday and is promising unrealistic returns,' she says. 'Go with a respected, reliable adviser.'** □

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