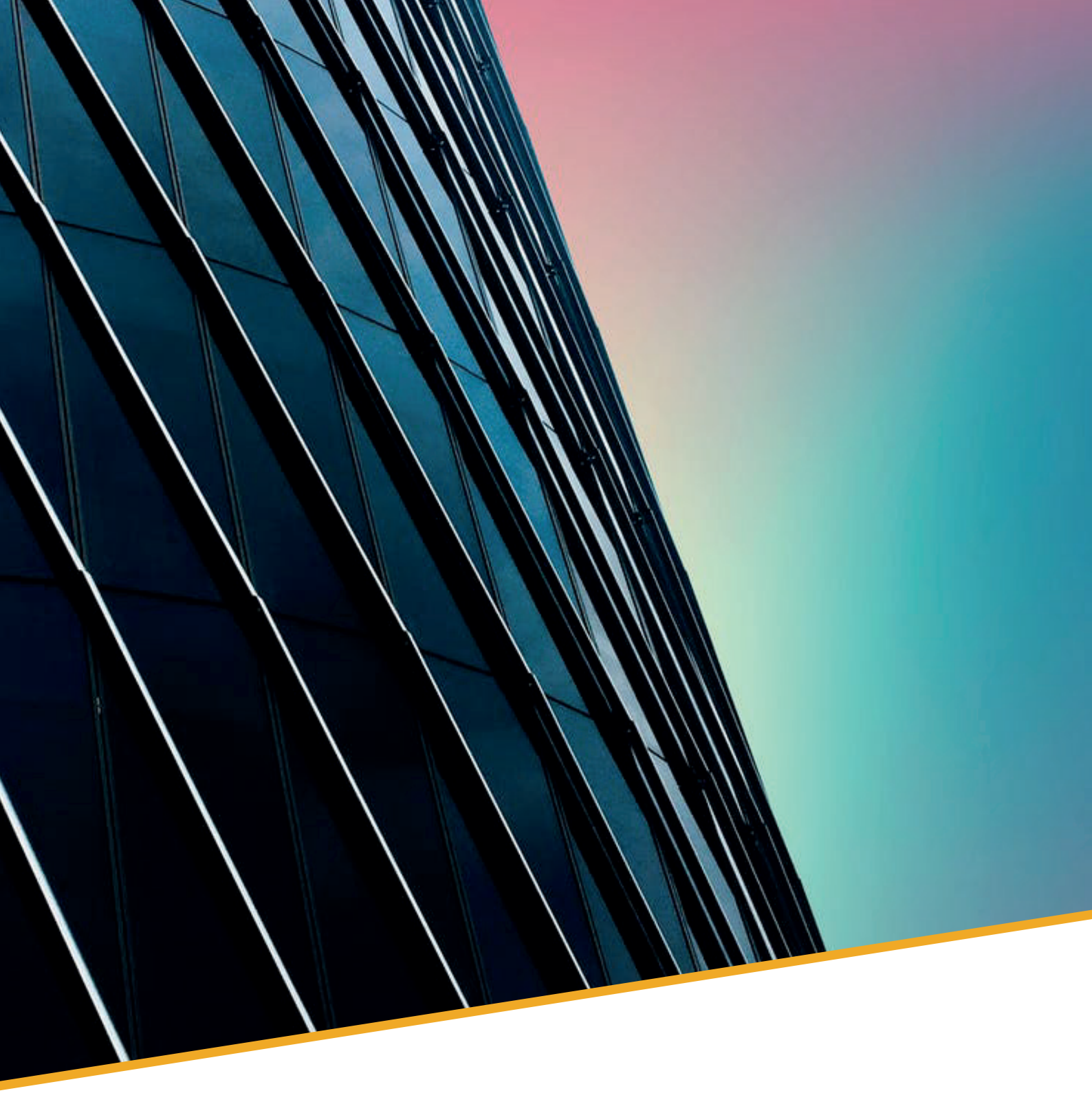

STARTING OUT INVESTING PART 3 – DIVERSIFYING

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About Continuum

We believe in the personal approach. We prefer to create a solution tailored to your real goals and objectives.

We believe in creating a three-way Partnership between Continuum, the Adviser, and the client, in an environment where each party can only succeed and grow if the other parties also succeed and grow.

When you become a client you embark on a journey with us, a journey where you are the focal point of everything we do.

We know that our clients are all individuals, and all have their own particular circumstances, priorities, goals and needs. So our service begins with getting to know you and understanding your objectives.

We are independent

The recommendations we make and the products we select are based solely on your needs and objectives.

Personal approach

We can create a tailored financial solution that aims to help you reach your personal goals and save money while you do so.

Award-winning financial services

At Continuum we are proud to have been recognised by our clients and industry experts through a wide range of awards.

Proud to be recognised for our business approach to Environmental, Social Responsibility and Governance matters.

Welcome

You need investment - rather than savings - to build your wealth in the current economic climate. As we saw in part 2 of this series, that will mean risks.

In this article we can introduce a way to potentially mitigate some of those risks, by diversification.

What is diversification?

Don't put all your eggs in one basket. It may have once referred to groceries or farm produce, but it is the perfect expression of one of the new iron rules of successful investing – always diversify.

Diversification means spreading your money between different types of investments.

When we refer to investment risk it is suggested that that you would not put all your wealth into shares in a single company. They might be the next Google and make you a fortune - but just as easily be the next Blockbuster and lose every penny.

To diversify investments, is to consider placing investments across several asset classes or companies in the same sector, this potentially can mitigate some of the risk that an investor's portfolio is exposed to. A change to the market or a new technology can make a business that has been a household name into history overnight.

Even spreading your investment across the entire market may still be a risk. Any economy will be cyclic and can fall as well as rise.

The more variety you can build into your investment portfolio, or the greater your diversification, this may lower the potential overall risk.

The basic idea behind diversification is that you have enough investments that perform consistently to balance out, or outweigh, the performance of your investments that don't.

How can you diversify?

The simple answer is that you need a variety of investments, but there is more to successful diversification than buying at random. A diversified portfolio should include a wide mix of investment types. The proportion you invest in each one is referred to as 'asset allocation'.

There are five main asset classes:

- Cash
- Bonds, or fixed-interest securities
- Commodities
- Property
- Shares

Asset allocation is the proportion of each asset class that you put into your portfolio.

Different asset classes have different levels of risk.

Cash. Keeping your wealth in cash is saving, rather than an investment, but cash is still considered an asset class. It offers a benchmark for returns, currently very low, and the very best security.

Bonds. Bonds, which are also known as fixed interest stocks, are a form of lending to governments and companies. They pay a fixed level of interest, with higher risk borrowers paying more in interest than lower risk borrowers.

Commodities. Commodities such as oil and gas or precious metals rise and fall in response to supply and demand. In times of economic growth they can show steady gains.

Property. Residential or commercial property has a good record in providing a financial return, from rents and capital growth. However property investments can be difficult to realise and their value will depend on independent valuations.

Shares. Shares or equities are literally shares in the ownership of a company. They can produce dividends, a share in the profits of the company and they can also produce capital growth if the value of the company rises.

These asset classes tend to behave very differently. There are times when some will do well and others poorly. Diversifying your investment is important, but you may also need to change the proportions of each asset class to reflect both your own attitude to risk as it changes, and the threats and opportunities created by the market.

But even that might not be enough for real diversification. The entire national economy might hit a downturn. You need to invest in markets across the world.

This means a practical problem. Having a sufficient diversity of assets and markets can be almost impossible, especially when you are just starting out.

Fortunately, there is an easier solution.

Diversifying with collective investments

The answer can be to diversify through funds or collective investments. Unit Trusts, Open Ended Investment Company (OEICs) and Exchange Traded Funds (ETFs) all invest in a variety of shares, gilts and bonds or other investment types.

They provide what are in effect ready made diversified portfolios, and you can start some of them with an investment of a few hundred pounds.

Fund investment is easier than building up your own diversified portfolio and managing it to deliver over the peaks and troughs of the long-term. But picking the right fund is essential. Management charges and performance can vary greatly.

You might need a professional to help to find the funds with objectives that match your own, and which offer reasonable costs.

Look out for the last of this 4 part series, which looks at building an investment strategy.

> *To diversify investments can mitigate some of the risks that an investor's portfolio is exposed to.*

How we can help

At Continuum our financial experts can help you with your financial goals, whatever stage of life you have reached.

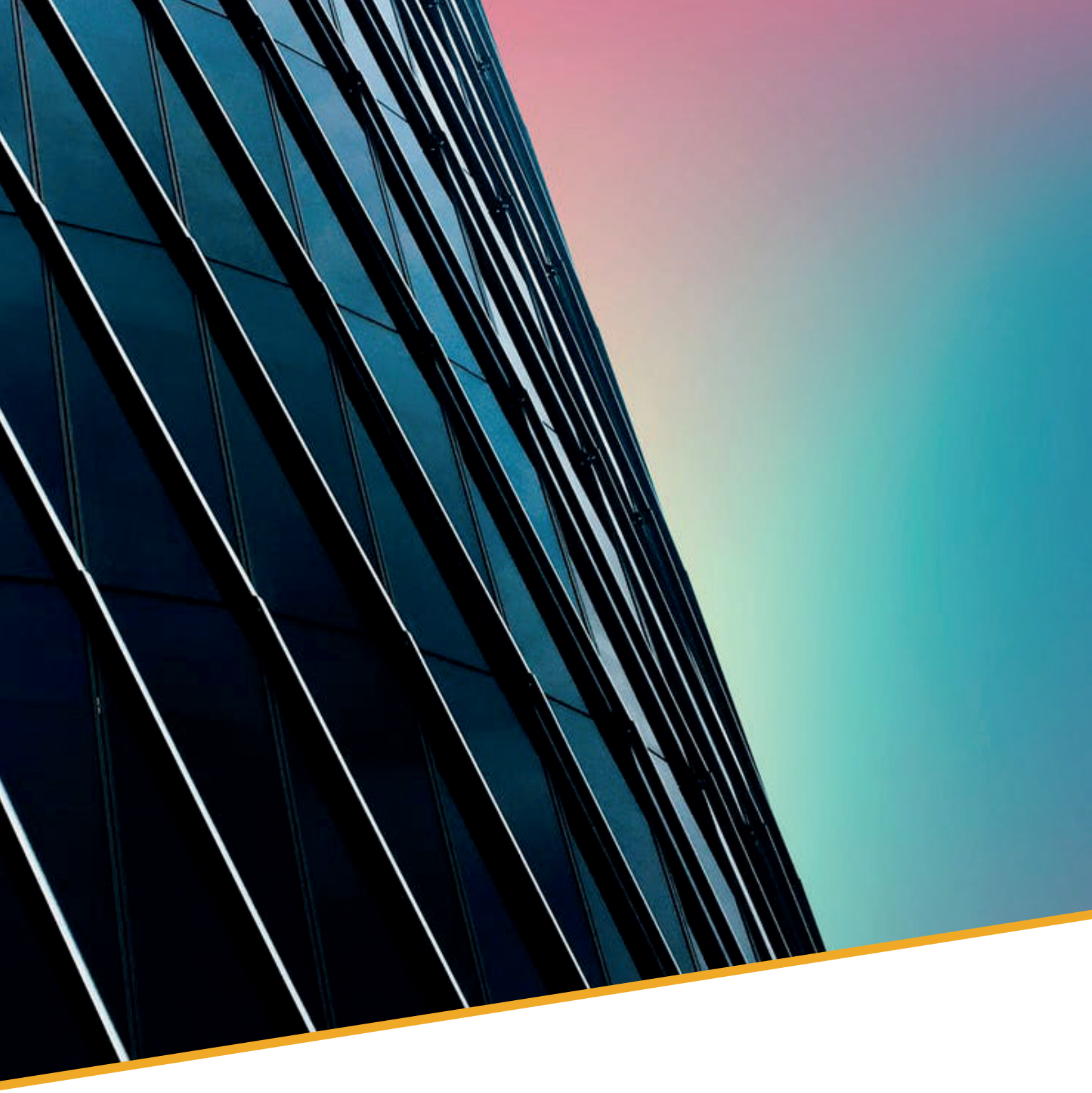
Financial planning needs to match your circumstances and your age – because as the years go by our priorities and financial goals change dramatically.

Bespoke financial planning

We have vast experience of building long-term wealth so you can be confident that your investment strategy is designed just for you and your needs.

Call us on **0345 643 0770** or book a free consultation without any obligations at **mycontinuum.co.uk**

Associate Firm
Personal Finance Society



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