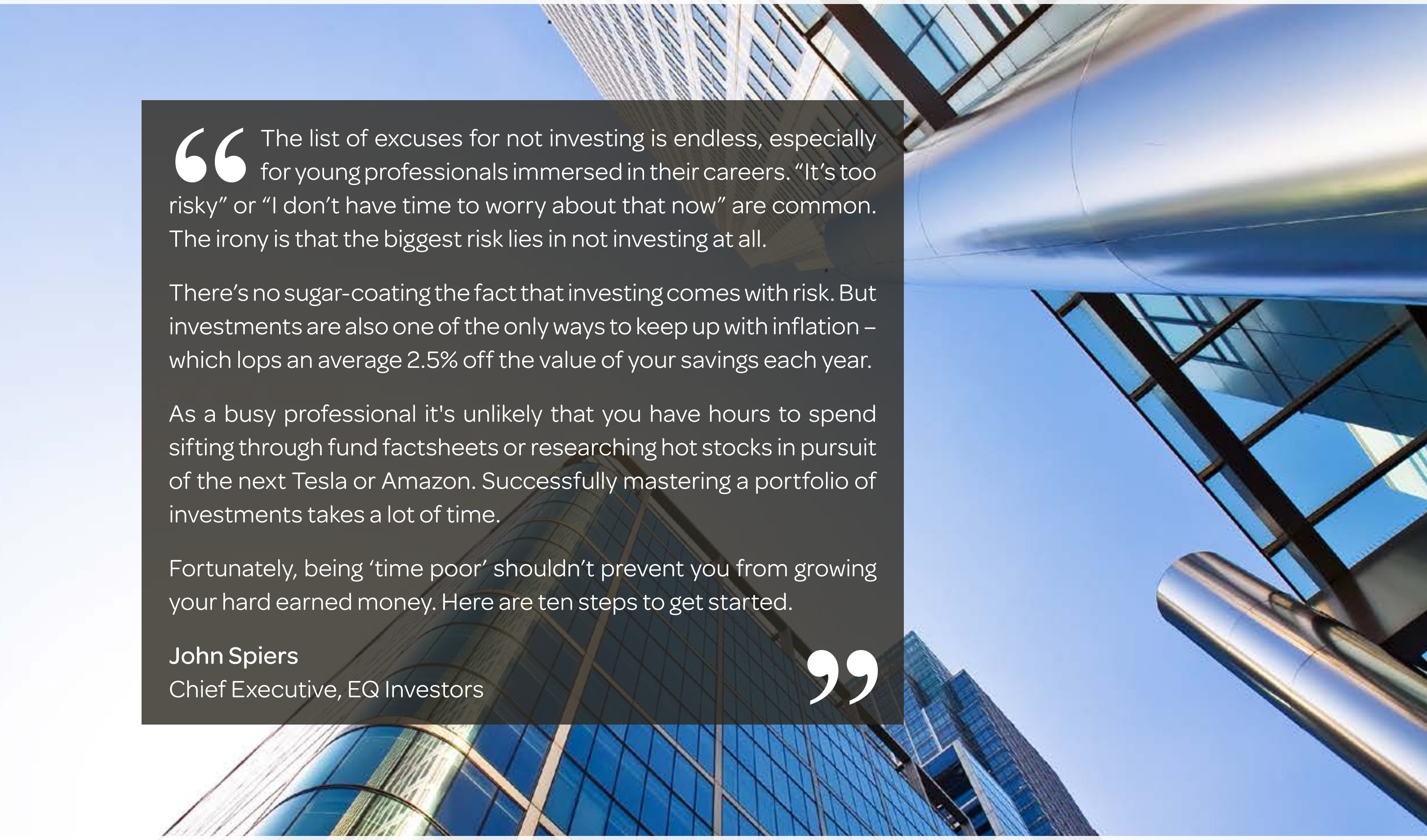
eQ Insight

Investing for young professionals
10 steps to get started



“The list of excuses for not investing is endless, especially for young professionals immersed in their careers. “It’s too risky” or “I don’t have time to worry about that now” are common. The irony is that the biggest risk lies in not investing at all.

There’s no sugar-coating the fact that investing comes with risk. But investments are also one of the only ways to keep up with inflation – which lops an average 2.5% off the value of your savings each year.

As a busy professional it's unlikely that you have hours to spend sifting through fund factsheets or researching hot stocks in pursuit of the next Tesla or Amazon. Successfully mastering a portfolio of investments takes a lot of time.

Fortunately, being ‘time poor’ shouldn’t prevent you from growing your hard earned money. Here are ten steps to get started.

John Spiers
Chief Executive, EQ Investors”

1 Set clear goals

One of the first steps to investing wisely is to clearly define your investment goals. Every investor is different. Step back and reflect on your short, medium and long term goals such as buying a property, starting a family, educating your children and saving for retirement.

Your age, income, appetite for risk and attitudes towards impact should all be taken into consideration in planning your investments. Your investment timeframe will also be a key factor.

If you are saving for a retirement that is 20 or 25 years away then you have ample time to ride out the ups and downs of the market. If you are saving up for a house deposit, or if your child is approaching university age, then you may not have the time to recover from a downturn.

> “A financial adviser can help you review your current financial situation, identify your goals and develop an investment plan.”

This guide provides general information about investing and is not a personal recommendation. The value of investments and the income derived from them can go down as well as up, so you could get back less than you originally invested.

2 Have a safety net

Before making investments, it's important to deal with any high interest debt and build up a decent cash savings buffer. The interest rate on your credit card is likely to be significantly higher than anything you would earn from cash savings or investments.

Building up a cash reserve for unexpected expenses protects you and your family. Keep growing your emergency fund until you have accumulated three to six months of expenses held in cash deposits that you can easily access.

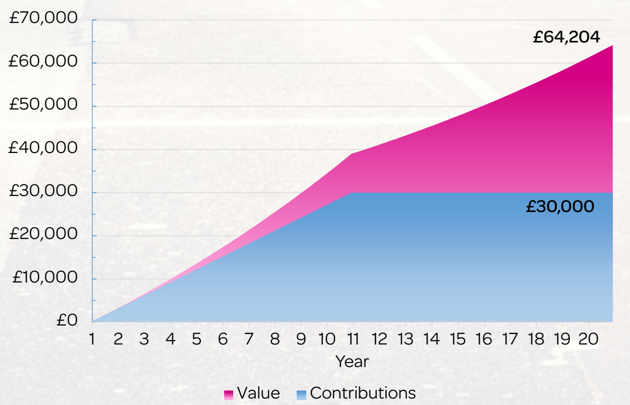
> "Take the time to work out if you are well prepared for an emergency."

3 Develop a healthy investing habit

Perhaps the greatest benefit of developing a regular investing is that the money you invest now has longer to grow. The power of compounding means that £1 saved today should be worth much more in the long term.

The chart opposite shows the power of investing £250 per month for 10 years, and then letting it accumulate for another 10 years, assuming a steady growth rate of 5%.

The effect of compounding



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4 Use your ISA allowance

An Individual Savings Account (ISA) is a simple way to protect your savings and investments from tax. Everyone over 18 can save up to £20,000 each year in an ISA; this can be cash, stocks & shares, or a combination of both.

Using an ISA to hold stock market investments means there is no capital gains tax to pay when you sell your holdings and there is no tax to pay on any income you receive.

If you already own shares or other investments standing at a profit then you can use your annual capital gains allowance to sell these, and then buy the same investments back through your ISA to protect any future gains from tax.

“If you don’t use your ISA allowance each year, you'll lose it.”

5 Take advantage of free money

Making a pension contribution is the most tax efficient way you can save for the future. For every £1 you pay into a pension, the government pays in at least an extra 25p. If you are a higher rate taxpayer then an additional 25p can be claimed back via Self-Assesssment. Once your money is invested, it can grow free of capital gains and income tax.

Maximising your pension contributions now could make a huge difference to your income in retirement. You can contribute 100% of your salary each year up to the Annual Allowance of £40,000, and you can 'carry forward' unused allowances from the past three years.

Note: the pension Annual Allowance is now subject to complex tapering rules for high earners. Seeking professional advice in this area is essential.

“Pensions tax relief is generous, use it whenever possible.”

6 Don't be too cautious

Investing money is very different to holding cash in a bank account. When we make our first investments, we need to get used to the idea that we may lose money. If apprehension takes precedence then we can end up with a very cautious portfolio, even though our investment timeframe may be decades. This is likely to result in significantly lower returns.

When it comes to the underlying content of your portfolio, history suggests that equities generate higher returns than bonds – although the latter have performed extremely well since the 1980's. Nevertheless if your timeframe is long it usually makes sense to have a higher exposure to equities.

Market fluctuations are an essential part of investing. If you are investing for a long period via regular savings (say over 10 years) then you should actually welcome market setbacks. They means that new contributions will be invested at more favourable prices.

> **“Holding money in cash is a guaranteed way to lose money – inflation will erode the value of your savings.”**

7 Don't try to time the market

Your long-term investment strategy should have little to do with the morning news. Markets go up and down every day. Predictions should be taken with a pinch of salt: there is no evidence that anyone can consistently predict market movements over the short term.

A common reaction to negative investment news is the urge to sell your investments before they drop any further. But by the time we read about it prices will already have dropped because markets react instantly to known facts. If you do decide to sell or defer a purchase then would you be prepared to buy back in when the news is even worse? Most investors aren’t that brave, and as a consequence they miss out when the market bounces.

This behaviour has been measured in the US for over 20 years in the Dalbar Quantitative Analysis of Investor Behaviour. It shows that this behaviour has cost investors a large part of the returns they would have earned by just staying the market.

> **“Don’t panic if markets enter a period of turbulence. Make sure you’re happy with the overall characteristics of your portfolio and that it’s well diversified across different assets classes and regions.”**

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8 Consider alternative investments

If you've already used your pension and ISA allowances, you might want to consider Venture Capital Trusts and Enterprise Investment Schemes. These tax efficient investment vehicles are not a suitable option for everyone, but may be appropriate if you are already doing all the things mentioned so far, and have additional funds to invest.

These schemes typically involve investing in small, unlisted qualifying companies in exchange for certain tax reliefs. While these are generally considered to be higher-risk investments, if you are looking to be tax efficient and do not require access to the money in the near term they can offer attractive opportunities.

It is important that you understand the higher risks involved with these alternative investments. All of these alternatives are 'illiquid' investments, which means that your money will most likely be locked in for some time or until maturity. We would always recommend seeking professional financial advice at this point.

> **“If you are already fully utilising your ISA and pension allowances, think about managing your other investments tax efficiently.”**

9 Crowdfunding options

Crowd bonds are another increasingly popular choice for investors. With conventional bond yields at record lows, more people are looking at alternative sources of income. Crowd bonds pay a fixed rate of interest and are repaid on a predetermined date (usually after 1-3 years). They are typically issued by smaller, unquoted companies but are secured against specific assets.

It is important to understand the risks associated with crowdfunded investments. There is no guarantee that capital and returns will be repaid, and your money is not covered under the Financial Service Compensation Scheme.

> **“Crowd bonds are higher risk investments that are secured against tangible assets.”**

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10 Get some help

Managing money takes time, experience and specialist tools. Some of the tasks needed to create and monitor a diversified portfolio include:

- Identifying the best funds in each sector
- Building a portfolio with the right risk profile
- Keeping track of changes at the funds
- Rebalancing regularly

You don't have to do it yourself. If you're thinking of investing but don't have the time, consider using a wealth manager.

EQ Investors can create and manage your portfolio of investments for you as part of a financial plan that's tailored to your circumstances and goals. We always provide a free initial consultation to help you decide whether our service is right for you.

To speak to an adviser at EQ Investors please call us on 020 7488 7171 or email: enquiries@eqinvestors.co.uk

> "Investing isn't free, but using a discretionary wealth manager may be less expensive than you think."

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Case study: Sam & Chloe

Sam and Chloe are married, in their 30s, and have a three year old son. They both work in financial services: Sam for an accountancy practice and Chloe for a bank. Each earns over £100,000 per year. As busy professionals with demanding jobs they have engaged EQ Investors to look after their investments and plan their finances.

Due to the nature of their roles, Sam and Chloe's employers both place different restrictions on the kinds of investment they can make. Delegating this responsibility to a discretionary wealth manager puts these decisions at arms length and satisfies their respective employers' compliance teams.

At this stage in their lives Sam and Chloe are focused on accumulating assets. They have a disposable income each month which they would like to invest, with the aim of achieving capital growth above current interest rates.

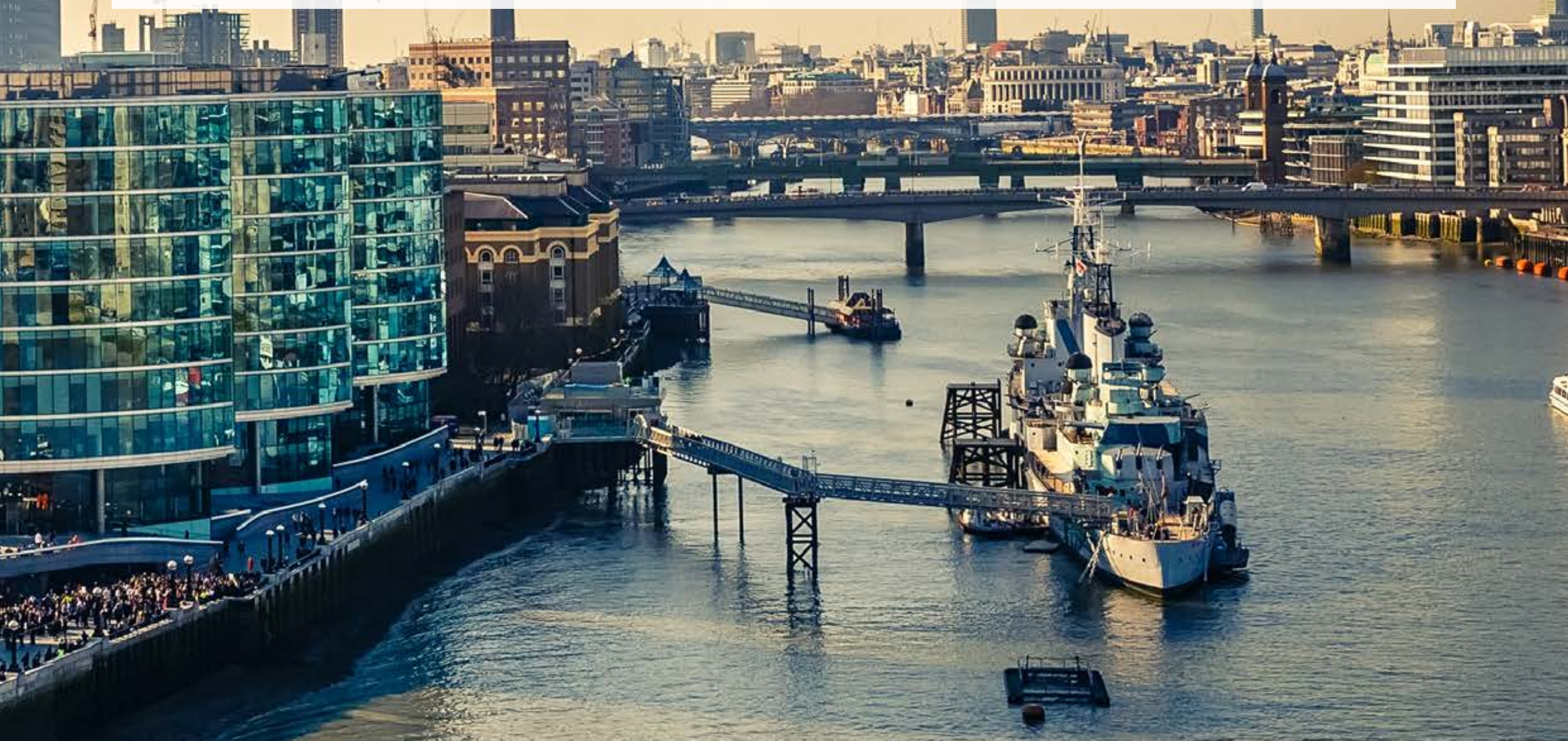
They both contribute to a joint investment account which they use to top up their ISAs and personal pensions. They have also also opened a Junior ISA for their son and contribute the maximum amount each year. They always leave enough cash in their investment account to provide an emergency 'cushion'.

Their EQ adviser regularly reviews their overall financial position to make sure they are using all available tax allowances and minimising any tax on their investment gains. She also ensures that their investments are taking the right amount of risk to stand the best chance of achieving their financial goals in the long run.

In addition, now that they have a young son, Sam and Chloe have increased their life cover to provide a lump sum on death. This would allow the surviving spouse to reduce their working hours or potentially stop working altogether and spend more quality time with their son without worrying about their finances.

In due course, their financial planning will start to focus more on estate and inheritance planning, but for now it gives both Sam and Chloe confidence in their plans for their own, and their son's, future.

> “With online access their portfolios Sam and Chloe can see that they are on track to achieve their goals.”



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EQ investors

EQ Investors is an award-winning boutique wealth manager acting for private clients, small companies and charities across the UK.

Advising clients on how and where to invest is at the heart of what we do. As discretionary managers, we manage investment portfolios of all shapes and sizes.

We offer a tailor-made range of strategies, including capital growth, income, low cost (index-tracking), and impact investing portfolios.

We invest exclusively through funds, and will always make sure that your portfolio reflects the right level of risk for you.

Your investments will always be diversified across the broadest possible range of asset types (including equities, bonds, property, commodities, alternatives and cash).

To find out more visit: eqinvestors.co.uk

"Our aim is to be the best not the biggest."

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