

# Introduction to investments

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[www.simplesolutionsifa.com/pdf/introduction-to-investments.pdf](http://www.simplesolutionsifa.com/pdf/introduction-to-investments.pdf)



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## Investment basics:

### ▶ Investments

*The first thing we that we need to understand is that there is that there is no such thing as a completely risk-free investment. You may think that your money is safe in the bank but if inflation is higher than the rate of interest you are receiving then, in real terms, the buying power of your money is being eroded.*

*If you want to achieve a return on your investment that is higher than inflation then you will likely have to take a risk.*

*We can discuss this with you to ensure that the risk taken matches your tolerance for risk but you should always be aware that the value of an investment and any income from it can fall as well as rise depending on investment performance (and currency exchange rates where a fund invests overseas).*

### ▶ Investing in Cash

*Cash investments are sometimes called deposit-based investments and receive regular interest. They include bank and building society accounts, National Savings and other interest paying accounts.*

*Cash investments usually give you easy access to your money, although some accounts may have a notice period before money can be withdrawn or interest is lost if you do.*

*Cash investments have a low risk profile but the returns available reflect this as they are generally lower, over the medium to long term, (for example, five to ten years) than other asset classes.*

## Potentially Tax Efficient Options

### ▶ Individual Savings Accounts (ISA)

*It is sensible to look for an investment that has tax advantages so an ISA is always worth considering, as these are potentially tax efficient given there is no personal liability to tax.*

*In the tax year 6 April 2011 to 5 April 2012 you can invest a total of £10,680 in an ISA. You can invest all of your ISA allowance in a Stocks and Shares ISA or you could decide to invest up to £5,340, of your ISA allowance in a Cash ISA, you could then invest the balance in a Stocks and Shares ISA.*

*You can invest a monthly amount or you can pay a lump sum up to the maximum limits for the tax year.*

### ▶ Please bear in mind

*Tax treatment depends on the individual circumstances and may be subject to change in the future. Tax rules and limits can change.then it can be added quickly.*

## Investment basics:

### Other types of investment

#### ▶ Investment bonds

*An investment bond is a single premium life insurance policy and is a potentially tax-efficient way of holding a range of investment funds in one place.*

#### What are the main benefits of an investment bond?

- *Regular withdrawals can be taken.*
- *You can choose to invest in a range of funds, you can choose a portfolio, or you can choose a mixture of both.*
- *You can usually switch between funds within your bond.*
- *Tax planning benefits.*

*Investment bonds have a number of advantages and can be particularly useful to those who are currently higher rate taxpayers but are likely to be basic rate taxpayers in the future, for example, after retirement.*

*A further benefit is that investment bonds enable you to take regular withdrawals of up to 5% per annum of the amount invested with no further liability to basic rate tax and in many instances it is possible to withdraw more than this.*

*Investment bonds are deemed by HM Revenue and Customs to be “non-income” producing investments and as such, provided that withdrawals are retained below the 5% per annum limit, they can make extremely useful investments for trusts and trustees.*

*Investment bonds can also be an important tool when carrying out inheritance tax planning. For example, they can be gifted into a suitable trust arrangement and, as a “potentially exempt transfer”, provided you survive for seven years from the date of the gift, will fall outside of your estate for inheritance tax purposes.*

#### ▶ Unit Trusts and Open Ended Investment Companies (OEIC's)

*Although these are slightly different in the way that they are structured they operate in the same way.*

*Both pool your money with other peoples' to invest in:*

- *a spread of shares or bonds,*
- *or other investments,*
- *or a combination depending on their investment objectives.*

*You can buy and sell ‘units’ or ‘shares’ respectively at any time, and the price you receive is based on the value of the underlying assets the fund has invested in.*

## Investment basics:

### Other types of investment

#### ▶ Investment Trusts

*Investment Trusts are like unit trusts and OEIC's. When you invest in an investment trust your money is pooled with other people's to invest in a wide spread of assets.*

*But an investment trust is a company that's traded on the stock exchange with a fixed number of shares of its own. This means that, unlike the other pooled investments, the price you pay reflects the market demand for the investment trust shares rather than the value of the underlying assets.*

#### ▶ Endowment policies

*An endowment policy is a savings and life assurance policy for an agreed period. The minimum period is 10 years. A tax-free benefit is normally paid out at maturity or on earlier death.*

#### ▶ Other types of investment

*There are other types of investments such as guaranteed income bonds, Friendly Society savings and bonds, structured products and exchange traded funds. You can also invest directly in stocks and shares of individual companies.*

*To discuss the right type of investment for you please get in touch.*