GUIDE TO MAKING THE MOST OF YOUR SAVINGS

Some basic guidelines to help you maximise the potential return from your money.

When you've taken the time and effort to set money aside, you want to be sure those savings are working for you as hard as they can. This guide lays out some of the main points you might want to consider when planning what to do with those savings, and some general rules you might want to consider to remain on track to meet your long-term financial goals.

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BUILD A FIRM BASE

Before you do anything else, it's a good idea to build up an amount equalling between three and six months' salary and put it in a deposit account. This should be easily accessible so that you can get hold of what you need, should an emergency arise.

There are two benefits to having an amount set aside in this way. First, you can feel reassured that, should the worst happen – perhaps if you need to undertake significant repairs to your house or car or you lose your job – there's a fund readily available to help you financially whilst you deal with the other issues. Second, this frees you to make the right decisions about any additional savings. If you invest in the stock market, for example, the value of that investment can go down as well as up. It's therefore no place for money that you might need in an emergency. Once you've built up your 'rainy day' fund, you can then begin to consider longer-term investments without the worry that you might have to take money out of the market at the wrong time. (But more of that later...)

Nevertheless, holding money on deposit doesn't mean you have to compromise on return. Careful study of the "best buy" lists and interest rate surveys can help you maximise the interest you earn on this money. You can also spread your money between a number of accounts; some on immediate access; some on 30 days' notice; some perhaps even on 90 days' notice. Spreading your money between institutions also helps you to make the most of the guaranteed cover provided by the Financial Services Compensation Scheme (FSCS).

DIVERSIFY

If you're averse to the idea of exposing your entire portfolio to the whims of the stock market, you can further cushion your investment by spreading money across different asset classes. There are not only equities to consider; there are also other asset

classes such as property, UK government bonds (gilts), and corporate bonds. In this way, when one area is doing less well, another area may be performing better and can compensate for some of that loss. Even if they all have a bad day, they won't all perform equally badly.

BUY LOW, SELL HIGH

This is a basic tenet of investing that's a lot more difficult than it looks. Calling the top or bottom of markets has proved impossible to do with any consistency, even for experts – if it were easy, there would be many more Warren Buffetts around. Therefore, we wouldn't recommend that you try and turn your hand to market timing.

Trying to "buy low and sell high" has been the undoing of many investors over the years, even though some of the cautionary signals are relatively easy to spot. For example, if a lot of people are talking about a sector that has recently increased significantly, and particularly if they're saying you will miss out unless you get in now, then it's likely that any potential gains are already accounted for in the price. Getting in "now" might make you a little money as the sector peaks, but the downside could be harsh and sudden. As past market 'bubbles' have demonstrated, you should ignore hype, particularly if all your neighbours, friends and relatives are talking about it as well.

Conversely, if a sector has fallen a long way, it might be time to invest. Hype works just as much on the downside as it does on the upside. Markets are very prone to herd behaviour – the art is to spot it and make sure you do the opposite. Baron Rothschild is believed to have advised investors to buy when there is "blood in the streets" – that is, when everyone is focusing on the downside – and, historically, times of maximum pessimism have been amongst the best times to buy.

Market downturns do not happen without reason, but they usually result in good companies and bad falling together. Nevertheless, if you want to do well, you need to be able to differentiate the good companies from the bad ones – and also be aware that things can get worse before they get better. If you are unsure or inexperienced, opt for a diversified collective investment such as a unit trust or an open-ended investment company (OEIC). In this way, if one chosen company does turn out to be a bad investment, not all your money has to go with it.

SAVE REGULARLY

Not everyone has the time or the ability to research and monitor markets. However in pursuit of the good and bad times. However, there's a way to benefit from the swings and roundabouts of the stock market without even thinking about it. If you stagger your investment, you benefit from "pound-cost averaging". This allows you to invest over a period of time at a range of different prices as the market moves up and down. A monthly savings plan - particularly within a tax-efficient wrapper like an ISA—is particularly efficient way to do this because it disciplines your budgeting. When prices are high you'll buy fewer shares, but when prices are low, you'll get more units for your money. Your average buying price is therefore likely to be lower during periods of volatility and will benefit overall when markets rise again. You don't have to worry about the right time to invest – or the wrong time, for that matter – and you can continue the good savings habits you created whilst building your deposit account 'rainy day' fund.

LOOK TO THE LONG TERM

Many investors focus on investing in equities because, over the long term, they have traditionally outperformed all other asset classes. However, by "long term", we mean at least five years - and preferably longer. The drawback to equities is that, in the short term, stock market investment is a volatile business and you need to be prepared for the value of your investment to fall from time to time. The trick is to remember why you invested and to look beyond any short-term issues towards your longer-term goals.

If you'd like help and support with any investment decision, from starting your deposit account through to consolidating your long-held pension plan, please don't hesitate to get in touch. Our advice can help you make the most of your money and free your time, allowing you to get on with planning for your future. Please note: the value of any investment can go down as well as up and you may not get back the amount you originally invested.

contact

We hope you found the information in this guide useful and informative. If any of the points are of interest, or you would like to discuss your own situation in more detail, please do get in touch.

Produced by adviser-hub.co.uk on behalf of your professional adviser.

This guide is intended to provide information only and reflects our understanding of legislation at the time of writing. Before you make any decision, we suggest you take professional financial advice.

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