

Getting started ... a model approach

We're often asked about the best way to start off, whether as a new investor or when you want to venture into new areas.

It's a topic we've talked about last January ('Getting the right mix') when we showed you some typical asset allocation approaches, but here we take you a bit further, by mapping out the role different types of investments can play. Then, from page 7, we'll examine those roles in a bit more detail.

Before starting to invest you will already have considered whether paying-off or reducing debts is a better use of available cash. And you'll have set aside a suitable 'cash reserve' to cover for unexpected expenditure – it's generally accepted that a minimum of 3 months income is a sensible reserve. Then it's a case of deciding what level of risk you can take, in order to achieve your aims. That's often easier said than done, for it's rarely black or white, but a question of trade-offs.

To help you, we've developed three 'risk' profiles – Cautious, Medium and Adventurous, which seek to describe the approach to risk that investors with each of these investment 'personalities' might take. You'll find them on our website and, by identifying which is closest to your

own approach, you can get a useful steer on investments that may suit you.

Of course, it's well accepted that the higher the return you want, the higher the level of risk you'll have to take: it's unrealistic to expect your capital to grow by, say, 20% per annum from a low-risk investment. Equally though, that doesn't mean putting all your money into higher-risk investments – it's more a case of using different types of investments to create the right balance, and achieve the overall level of risk that you are comfortable with.

So we've focused on three core types of investments – EFTs, Funds and Shares – and developed a way of assessing the part each could play in the overall make-up of your portfolio. Why these three? Each has the benefit of offering a range of risk levels, a variety of different options within that asset type, and the flexibility to be used in different ways by different investors. We talk more about each of them on pages 7, 8 and 9.

Important as it is, risk isn't the only issue – though it ought to be your starting point.

Which types of investments you use, and in what proportion relative to your overall assets, depends on other factors too. Some of the factors you'd want to consider are: how much money you have to invest (either lump sums or as a regular amount); what investments you have already; your knowledge and experience of investing, and the time you have available to manage your investments.

So we've taken the profiles approach one step further and grouped these factors (which we've termed 'inputs') together, and drawn three more pen-portraits to describe three levels of 'input'.

Taking risk as the vertical axis and 'inputs' as the horizontal axis, we've then created an investment model (overleaf) that you can use to guide your asset allocation.

By determining your own approach based on both risk and 'input' you can position yourself within the model and get a useful steer on the mix of investment types that could suit your aims and objectives – as we explain overleaf.



	Inputs		
Risk	Low-ETFs	Medium-Funds	High-Shares
Cautious	FTSE 100 & 250 Index	Cautious managed	FTSE100
Medium	FTSE All Share Index	UK/European growth	FTSE All Share
Adventurous	FTSE Sectors & Overseas markets	Other overseas & emerging markets	Small Cap & Overseas

How different types of assets fit into the model

Using the asset allocation model

As we said earlier, different types of stock market investments play different roles. For the more cautious investor with little time, knowledge or experience, ETFs may play a greater role, than, say, for experienced, adventurous investors with time available to keep on top of their holdings.

Applying this thinking to our model, we can 'map' different investment types to varying degrees of risk as shown above

The balance between these various investments will depend upon your individual profile. For example, a cautious investor who has only a limited amount of time and experience, may look to create a portfolio along the lines of 50-60% held in a FTSE100 'tracker' ETF, 30% in a UK cautious managed fund, and the remainder in one or two individual FTSE100 shares.

As your experience, knowledge, time and capital grows to the extent you can venture further through the model, you can work along the 'input' axis, starting with ETFs and working up to investment in individual companies.

Equally, if you already invest in primarily FTSE100 shares and now feel you're ready to take on a higher degree of risk, your next step could be into the All Share ETF, and so on. So whatever your existing position on the grid, working through the grid horizontally and then vertically, you can see at a glance where to go next.

You can also use the model to look at just one individual asset type. So, for example, if you are an adventurous investor and wanted to have all your money managed for you using Funds, you would form the base of your portfolio

with Cautious managed funds, add some extra growth potential through UK or European growth funds and, if your risk appetite stretched that far, top it off with some global funds.

Equally, as many an investor starts off by picking-up on a tip or a 'new issue', or perhaps because you hold other investments through regular saving schemes or in your pension, you might want to use the model to concentrate on just shares. So, you'd look at the FTSE100 companies, move down to those in the FTSE250, and end up with small cap, AIM or overseas companies at the high risk end of the spectrum.

Of course, as we've seen, the mix of assets across each investment type will vary according to your circumstances and attitude to risk. The cut-off point between one square in the grid and the next is not hard and fast; think of it more as a continuum to guide you in where to start looking next. Using our online 'investor profiles' to position yourself both vertically (risk) and horizontally ('inputs'), and then reading-off the associated model asset allocation mix, will help set you on the right path.

Then use the SharePicker and FundPicker tools to seek out the investments that meet the bill. We will also be adding an ETF Picker to help you see which ETFs (typically iShares from Barclays Global Investors, visit www.ishares.co.uk) invest in which markets.

Finally, for a completely personal review, taking into account your existing investments, aims, objectives and 'inputs', call our Advice Team on 01296 41 43 45: they'll help you develop a tailored investment strategy looking across all asset classes, with which to manage your investments.

At a glance

Different types of equity-based investments – ETFs, Funds and Shares can all play a part in your overall investment mix.

Look at your requirements across two axes: risk and 'inputs' – the amount of time knowledge and experience you can bring to bear.

Check out the risk and 'input' profiles online to see which fits you best.

Use our asset allocation 'model' to see which type of investments, and the mix of each, might suit your circumstances.

Speak with our Advice Team to build your own, personal 'model' and for specific recommendations.