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Building financial wealth

Six tried and trusted principles to help you reach your investment goals

TRULY INDEPENDENT

Every investor needs to ask themselves the same basic questions before getting started. You need to have a clear understanding of your investment goals. What are you trying to achieve? Are you looking for growth, income or both? How much risk are you willing to take on? You might be investing to have enough money for retirement, which could be decades away. But equally you could have shorter-term goals, too, like starting a family or buying a larger home.

Choosing the right investing strategy

With a clear goal in mind, you can create a realistic plan for achieving your objectives within a certain time frame. Choosing the right investing strategy matters when shaping your financial plan and a goals based approach offers a new take on growing wealth. Goals based investing focuses on reaching life's goals versus trying to get high returns on your investment portfolio.

Investors and retirees looking for reassurance during challenging stock market times can take heart in these time-tested investing principles. These six principles can help you build an effective long-term strategy designed to achieve your financial goals and build financial wealth.

6 principles of investing

1. Have a strategy and stick to it

It is one thing to have a target, but a sound investment strategy can make the difference between simply hoping for the best and actually achieving your investment goals. Investing often is just as important as starting early. This way, investing remains a priority for you throughout the year – not just around certain deadlines. Having a disciplined approach can help you build more wealth over time.

When you invest regularly, you can also ease into any type of market (rising, falling, flat). You don't have to worry about trying to find the perfect time to invest. You can then review your plan regularly with your professional financial adviser and make adjustments when necessary, but staying focused on your plan will help you to not be distracted by short term market uncertainty.

2. Think twice before putting all of your money in cash

Putting all of your money in cash can seem appealing as a safe and secure option – but inflation is likely to eat away at your savings as we have started to see recently, with UK inflation rising to its highest level in over 30 years.

Add to this rising energy costs that could worsen any inflationary shock and sap economic growth. For most people with longer-term investment plans, cash needs to be supplemented with investment in other asset classes that can beat the perils of inflation and offer better capital growth potential.

3. Diversify and always consider your investments as a whole

When markets are fluctuating, it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. But when one asset class is performing poorly, others may be flourishing in the same market conditions. A diversified portfolio, including a range of different assets, can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

This is important because different financial markets do not move in the same way at the same time. At various points in the market cycle, different types of investments or asset classes – such as cash, fixed income and equities – will lead or lag. They may respond differently to changes in environmental factors: inflation, the outlook for corporate earnings and changes in interest rates, for example. When you diversify, you are better positioned to benefit from opportunities across different investments as they emerge.

4. Start investing early if you can

Starting early is one of the best ways to build wealth. Investing for a longer period of time is widely considered more effective than waiting until you have a large amount of savings or cash flow to invest. As a general rule, the earlier in life you start investing, the better your chances of long-term growth.

This is due to the power of compounding. Compound growth (the ability to grow an investment by reinvesting the earnings) is a powerful force but it takes time to deliver. The right time to invest is when you and your financial adviser have formulated a clear financial plan that requires growth.

5. 'Activity bias': the urge to 'just do something'

Some investors suffer from what behaviourists call 'activity bias': the urge to 'just do something' in a crisis, whether the action will be helpful or not. When investments are falling in value, it can be tempting to abandon your plans and sell them – but this can be damaging because you won't be able to benefit from any recovery in prices.

Markets go through cycles, and it's important to accept that there will be good and bad years. Short-term dips in the market tend to be smoothed out over the long term, increasing the potential for healthy returns.

6. No substitute for a strategy that's tailored specifically for you

Every single investor's needs are different and, while the points above are good general tips, there's no substitute for a strategy that's tailored specifically for you. What's more, in volatile times, professional financial advice can help you take the emotion out of investing and provide an objective view. It may just be the best investment you ever make.

> "If you're new to investing, knowing where to start can be a daunting task. The reality is that people should start saving and investing as early as possible. The growth of savings and the power of compounding gives an enormous head start to those who can put money aside and invest in the early stages of their lives and careers – and building an investment portfolio is one proven way to grow money and wealth."

Speak to an IFA

So you want to start investing, building future wealth and creating your portfolio. Whether you are saving for a home, retirement or your child's education, you want a plan that will help your money grow. To discuss how we can help and the options available to you, please contact one of our advisers for more information.

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