AJBell

Money Matters

First time guide to investing

Helping women feel good, investing

Don't forget that the value of investments can change and you can lose money, as well as make it. Pension and ISA rules apply. How you're taxed will depend on your circumstances, and tax rules can change. It is important to remember that the way an investment performed in the past may not be the same as how it behaves in the future. We don't offer advice. If you want help, consult with a qualified financial adviser.

Why should I invest?

Investing is one of the best ways to potentially grow your money by more than inflation, over the long term. Cash can be a good place for money you need in the short term, or money that you don't want to take any risk with – but generally it won't grow by much each year.

Inflation is the big enemy of cash, as the interest rates paid on cash rarely match or beat inflation. What that means is that your money is losing spending power over the longer term – so £100 today will be worth less than £100 in a year's time. With investing you potentially have a better chance of matching or beating inflation – so that your money grows by more than rising prices.

Before you invest you should make sure you've done a couple of things. The first is paying off all your high-interest debt: we're talking store cards, credit cards, overdraft, money you owe friends or family, but not mortgages. Once you've done that you should think about building up an emergency pot – this is cash savings that you can dip into when you have a financial shock, like a big bill you weren't expecting or losing your job. This emergency pot is usually three to six months of expenses, but it varies depending on how much security you want.

Once those boxes are ticked you can think about investing. You'll need to work out how much money you have to spare to work out what you can invest. But also bear in mind that investing isn't a short-term thing – generally we say that you shouldn't want to access the money for five years or more in order to invest. Of course you can access the money in a shorter period if you need to (depending on which account you pick) but it's best to see it as a long-term endeavour so you can ride out the market ups and downs.

To highlight how beneficial investing can be, someone who starts saving at the age of 35 and puts away £50 a month will have just over £21,000 after 30 years if they save it in cash, earning 1% interest a year. But if that same person invested the £50 a month, earning 4% return a year, they'd have £35,000 after 30 years – boosting their pot by £14,000 just by investing.

How much can be saved?

*For illustrative purposes only

What can I invest in?

After cash, there are three main types of investment – shares, bonds and funds.

Whatever route you choose, it is important not to put all your (investment) eggs in one basket. You might hear this called **diversification** and it involves spreading your money across several investment types to try and reduce investment risk.

Investment type	How does it work?	Low or high risk?
Shares (also called stocks or equities)	When you buy a share you buy a tiny part of a company. If the company does well, then the value of your share should grow. You may also receive portion of the company profits (called a dividend).	Historically, shares have outperformed safer investments like cash and bonds. But they're also riskier and individual shares can change in value significantly. It also takes research to find companies worth investing in.
Bonds	Bonds are a bit like IOUs. When you a buy a bond, you're effectively lending a company or government money. You receive interest for your loan – the higher the risk of the government or company not being able to repay usually means a higher interest rate. Bonds issued by the UK government are called gilts.	Bonds are seen as less risky than shares and they have also historically offered lower returns over the long term than shares. But within the bond sector there is variation. For example, a 'safe' government is considered less risky than a new or smaller company.
Funds	A fund allows you to pool your money together with other investors. The fund is split into units or shares for investors to buy and sell. A professional fund manager will select, hold and manage a collection of investments in line with fund's objective or benchmark.	Funds are usually less risky than individual shares, as you are spreading your money across different companies and assets. But this can vary depending on where the fund is invested. A fund concentrating on large, UK companies is generally lower risk than a fund that focuses on smaller emerging markets.

At AJ Bell, we have a number of investment solutions to get your started. We have our own low-cost range of funds, managed by our experts and sorted by different levels of risk, as well as 'ready-made' portfolios of funds that you need to manage yourself.

You can find more information at ajbell.co.uk/investment-ideas

What account should I invest in?

Once you have an idea of what investments you want to buy, you'll need an account to hold them in.

Each account has different tax advantages, which means they are suited to different investment goals and objectives. Some also have limits on what you can pay in each year to put back in if you've used that year's allowance - unless it's a flexible ISA.

Stocks and shares ISA	Individual savings accounts (ISAs) offer a tax efficient way of investing. You can access your ISA money whenever you need it and any income and gains you make on the investments in it are free of tax. You can pay in up to £20,000 across all types of ISA, each tax year. If you take money out, you won't be able to put it back in if you've used that year's allowance.
Lifetime ISA	Available to people aged 18-39 who are saving towards their first home or retirement. You can pay in up to £4,000 each year, which counts towards the general ISA limit. The government bonus tops this up by 25% (so up to £1,000 max) each year. To use the funds for a house purchase you must be a first-time buyer, purchasing a UK property worth up to £450,000 with a mortgage. If you access your Lifetime ISA before age 60 for any other reason then a government penalty charge of 25% will be deducted from the money you take out.
Self-Invested Personal Pension (SIPP)	A SIPP is a tax efficient way of saving for your retirement. You can access a SIPP from age 55 (rising to 57 in 2028), when you can take up to 25% as a tax-free lump sum, with further amounts taken as taxable income. Money you pay into a SIPP is topped-up by the government with tax relief at 20% (basic rate). For example, if you paid in £800, the tax relief top up would be £200 a toal of £1,000 would be in your SIPP. If you pay tax at higher rates, then you can claim further relief directly by contacting HMRC. There are some limits to be aware of. 1. You can only get tax relief on your UK earnings 2. The pensions annual allowance applies. This covers all of the money paid in, across all of your pensions. It is usually £40,000 a year but can be as low as £4,000 for those with very high incomes. 3. The lifetime allowance applies. This is currently £1,073,100 and is the total value you can build up in pensions over your lifetime before further taxes apply.
Dealing account	This account has no limits on what you can pay in or restrictions on how and when you can access your money. However, the account has none of the tax advantages of an ISA or a SIPP. Investors who have used up their annual limits for ISAs and SIPPs often use a dealing account.

At AJ Bell, we also offer Junior ISAs and Junior SIPPs that parents can open and manage for children.

How can I invest?

Once you've decided that you want to invest and what you plan to invest in, you need to actually open your account and get started. Before you select your provider you'll want to look at the range of investment options they offer, to make sure they offer enough different options, and then you'll want to look at fees. Generally you pay a fee for buying and selling investments and also a charge to the platform provider each month or year. You'll need to weigh up these costs and make sure you're not paying too much.

Once you've picked your provider it should be simple to open an account – you'll usually just need some personal information, like your National Insurance number. Topping up your account is the next step, by transferring money from your bank account to your investment platform. You can start small and build up as you get more confident investing – with AJ Bell you can invest from as little as £25 a month.

Once you've got cash in your account you can start buying investments. It's a bit like any form of online shopping: you search for what you want and then select how much you want to buy, depending how much you plan to invest.

Some fund names might seem confusing and have various letters or codes after them, so here's our quick guide:

Inc: this type of fund pays out any income it generates, which will automatically go into your investment account

Acc: this type of fund takes that income and reinvests it in your fund automatically. It means you don't get a payout but it can really boost your returns over the long term

A, D, I, Z: some funds will have a random letter after them, which means there is more than one share class of a fund. The investments within the fund will be exactly the same but the charges on it will be different. It's confusing and relates to old versions of funds. You'll just need to compare the annual charge of each of the share classes and pick the cheapest one.

What about selling? The process is very similar to buying an investment, you select the one you want to sell and then just input information on whether you want to sell your entire holding or just part of it. Just bear in mind that each time you buy and sell a fund you might pay a fee – so doing it too often will mean you start to rack up lots of costs.

Regular investing is something else to consider, this is where you invest every month and the process is automated so you don't need to think about it. Most platforms let you set it up so that money is pulled from your bank account each month and then invested in your chosen investments a few days later. You just need to pick what investment you want to put your money in and set it up.

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