Investing and Risk

This page includes some of the good reasons for making investments into specialist ‘funds’ run by ‘fund managers’ on behalf of the investors.

Whether you are looking at investing in a pension, an investment bond or perhaps using an ISA you might consider using investment funds. Put simply a fund is a collection of many different peoples money in one place. Buying large numbers of shares or achieving a portfolio of investments may well be beyond most average investors so they effectively club together to increase their purchasing power.

Typically these pools of money are run and managed by an investment specialist. He is paid to make the day to day decisions of where the pooled money is invested. Rather than individuals (who have no interest in markets and shares, or who don’t have the knowledge or time to study market information) choosing which shares to buy, to hold and to sell and at what time, the fund manager uses his expertise to make suitable investments in order for the value of the pooled fund to hopefully grow over time.

Another advantage of pooled investment is being able to diversify.

Diversification and Risk

All investments carry some element of risk. The value of the fund can fall as well as rise and you may not get back the full amount you originally invest. To enable funds to be able to manage the risks the manager will usually practice some level of ‘diversification.’ This works on the premise that holding 2 different shares is better than 2 of the same shares. This is because all shares react differently to investment conditions and changes.

For example, imagine that there are only 2 companies, one company making t-shirts and one company making wooly jumpers. If the weather forecast is for sunshine, then investors would be wise to buy shares in the t-shirt company as they expect demand for t-shirts to increase and sales to rise, increasing the company share price. However, we know that it is not always sunny and therefore a good manager would buy shares in both companies, so when one share price is static or even falling the other is able to support and perhaps offset the falls, meaning that the investor doesn’t suffer a loss.

The value of investments can fall as well as rise and you may not get back the full value of your original investment. Contact your Financial Adviser before making any decisions.