

# Investment Mediums

There are so many different mediums in which to invest, and here we look at just a few key areas:

## Bank Accounts

Current accounts may offer a very low rate of interest (if any) but they are the most flexible in terms of accessing your money. Banks can also offer savings accounts, with higher interest rates, and also notice accounts with very competitive interest rates, but you may have to give a certain amount of notice before making a withdrawal (60 or 90 days perhaps), or you must agree to invest the money for a set period of time.

## Bonds & Gilts

Bond/Gilt Funds are generally considered to be lower risk than direct equity (share) investment although the value can still fall as well as rise. Bond markets can be split into two categories. Corporate bonds are investments based on business loans offered by private companies and are 'rated' based on the ability of the issuer to maintain interest payments and repay the loan. A corporate bond fund will invest in a wide range of these loans. 'Investment grade' stock within the fund is rated AAA to BBB, whilst stock rated a BB or below is termed 'sub-investment grade' and is sometimes referred to as 'High Yield'. Some funds also invest in Government Bonds (known as Gilts in the UK).

The income yield that is available from fixed income investments varies according to the quality of stock. Lower quality (sub-investment grade) stock usually offers a higher yield to attract investors (as they may be otherwise put off by the increased risk/volatility) whilst gilts generally offer much lower returns, they are underwritten by the government and so the risk of default is much reduced. As things stand, in order to achieve a reasonable yield without taking too great a risk an actively managed fund that invests in both gilts and corporate bonds (i.e. investment grade and high yield) represents the most suitable option.

## Property

The historic performance of commercial property has very little correlation with the performance of corporate bond or equity based investments. For investors looking to diversify their portfolio property funds have offered historical attractive returns with relatively strong defensive characteristics (i.e. low volatility). Income from commercial property funds is often derived from contractually binding contracts of rent paid by business tenants to occupy property. Consequently leases are often arranged over a long period and generally include an 'upwards only clause' which ensures that rents are not negotiated downwards during the lease period, even in times of falling markets. Commercial property tends therefore to offer a more stable return than, for example, dividends paid on equities.

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## Equities (shares)

Over the very long term equities have historically offered better returns for investors. Although this is not a guide to the future, it is felt that the increased risk of investing in company shares can potentially be rewarded by investment returns in excess of what is available from traditional bank or deposit accounts. However, there are no guarantees.

## Investment 'Funds'

Specialist investment managers will often manage a fund (a pool of investments) that invests in one or more of the above categories, the aim being to diversify the risk across a spread of shares, or bonds, or both. There are hundreds of investment funds available, each with their own specific aims and objectives. Investment funds can also specialise in one particular sector, such as only investing in companies that are listed on the FTSE100 index, or only investing in construction and mining companies. There are also funds that invest geographically, perhaps only buying shares in Japanese or American companies. Each sector has its own unique characteristics, and your adviser will be able to explain more about this.

All these types of investment are available through your financial adviser. You may be able to include your investment within a tax-efficient product such as an Investment Bond, ISA (Individual Savings Account), unit trusts or even a pension.

*The value of investments can fall as well as rise and you may not get back the full value of your original investment. Past performance is not a guide to the future. Contact your Financial Adviser before making any decisions.*

There is a vast array of products available with which to save, and choosing the right one can be difficult, so why not let your Financial Adviser help you to decide which is most suitable for you?

*The Financial Conduct Authority does not regulate National Savings Products.*

