

Wealth creation

Should you spread your capital across different investment vehicles?

Having the right mix of investments may enable you to plan to keep your savings ahead of any inflationary concerns you may have. Spreading risk and getting a good mix of assets is known as 'diversification'. This is a relatively simple concept; it means spreading your capital across different asset types rather than placing all your capital solely in one place.

Spreading risk

Diversification is an important factor for advisers and investors to consider. By spreading risk across different investment types, you reduce the chances of your entire investment capital being adversely affected by any sudden market movement in the sector that you happen to be invested in.

Taking calculated risks is an important part of managing your money. Saving money in deposit-based accounts is usually the safest option; however, the real value of your savings can be considerably eroded over time by inflation. For most of us, savings alone may not deliver high enough returns to support our lifestyle in the future, for example the next five to ten years, let alone in retirement.

Diversified approach

If you are willing to accept the added risk of investing in asset-backed investments, it is important that you consider a diversified approach. This means you spread your investments, and therefore your risk, among several asset classes. No investment is completely free of risk so the asset classes you choose and your relative exposure to each class must reflect your attitude to risk. You can build your own diversified portfolio by selecting your own investments, or you can entrust it to fund managers who will do it on your behalf.

When diversifying your portfolio, this will probably entail investing in a combination of UK equities, overseas equities, property, bonds and cash. Your relative weighting in each asset class will depend on your attitude to investment risk. You will also need balance within each asset class to ensure you do not overexpose yourself to one industry or currency. You'll probably hold a basket of assets that behave differently in differing investment conditions. This can have a smoothing effect during volatile investment conditions, stabilising your overall investment return.

Collective investments

Investing direct into the markets maybe too risky for some people which is why many investors choose to invest in collective investment funds, such as unit trusts and Open-Ended Investment Companies (OEICs), where you can pool your investment with others and spread your risk much wider.

You can also diversify within the geographical areas and asset types. This provides more scope to spread your portfolio across different-sized companies, from the big blue chips to smaller

ones, and across managers with different investment styles. This enables you to reduce the impact on your investments from one region or sector or from a particular manager.

Reduce your risk exposure

By diversifying your assets and classes of assets more widely you can actually effectively reduce your risk exposure, although even with a diversified portfolio the value of investments can go down as well as up.

It's not always easy making decisions about how to invest your hard-earned money. There's a lot to consider and it can be difficult to know where to start. We can provide the essential information you'll need to enhance your understanding of investment and the products available, allowing you to make better choices.

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