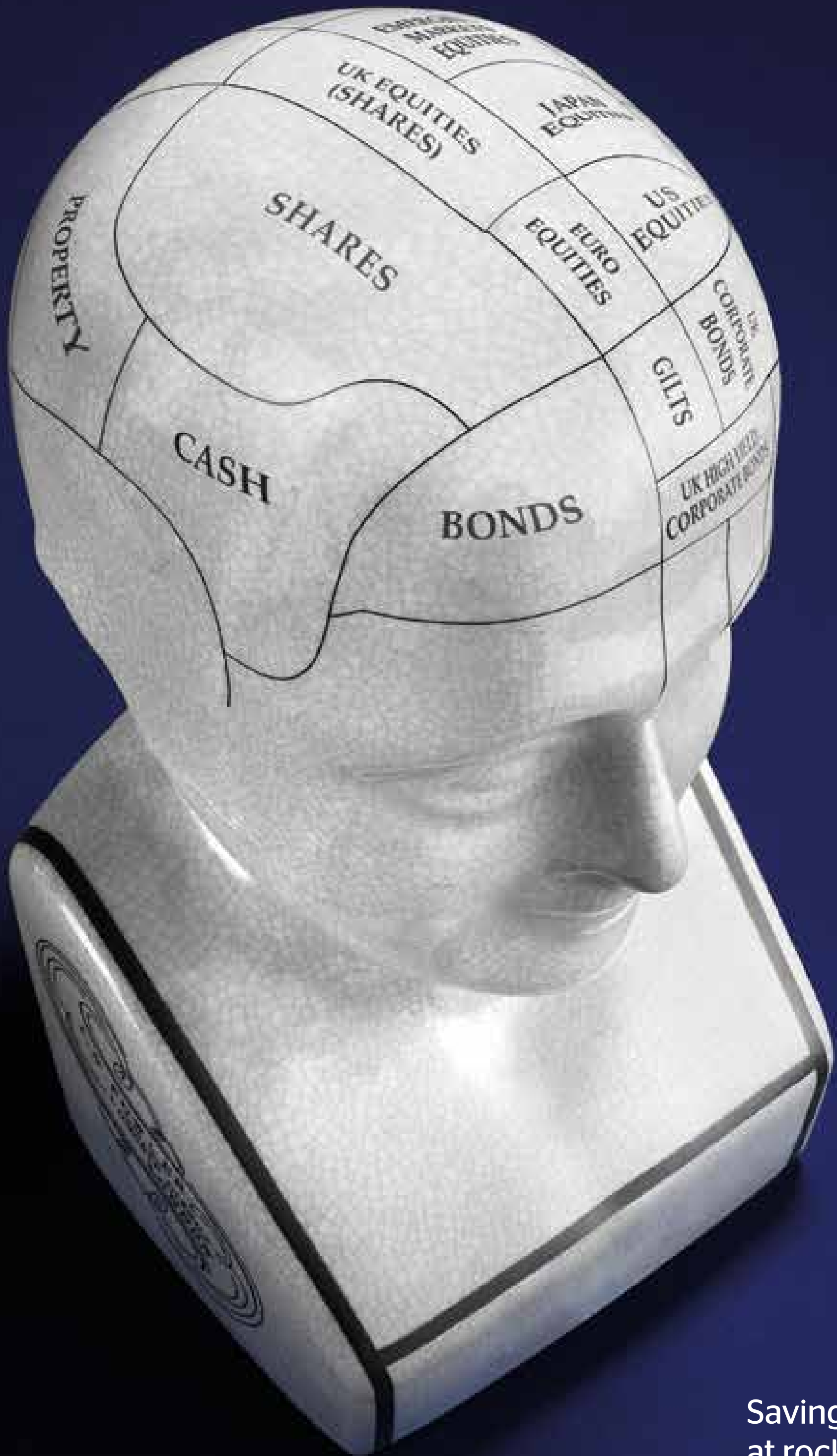


AT A GLANCE

- How to work out which level of risk suits you
- The most and least risky types of investment
- How to invest to suit the risk and returns you want

Making sense of investing

Savings rates are at rock bottom, so many people are turning to investing. Which? explains how to select the level of risk that makes sense for you

The thought of putting your money at risk can be daunting – but doing nothing with savings that are earning miserly interest will all but guarantee you lose out over time. During the past five years, returns on savings accounts and cash Isas have left savers increasingly frustrated and many have turned to the financial markets. In some cases they will have achieved huge returns by taking risks they may not have previously contemplated. If you're new to investing, or if you're already an investor but want to make sure you are making the most of your money, we can help you weigh up the choices and take action.

Over the past four years, Which? has worked with a specialist investment analytics firm to develop example portfolios, which include a different blend of investments depending on the risk level you are comfortable with. These are designed to work as a starting point for DIY investors or to form the basis of an informed conversation with a financial adviser. The latest versions of four of these are shown on p42 and p43.

To further help those who haven't invested before, we've answered the questions that you've been asking us on this subject, below. You told us that you want the facts, in plain, jargon-free English – so here they are.

YOUR QUESTIONS ANSWERED

Q What is an investment portfolio and why is it important to achieve a blend of assets?
Peter Barnes, 65, Folkestone

A portfolio is a collection of different assets, such as property and shares in companies. A well-designed portfolio should be a considered collection, not a list of investments bought at different times for different reasons. The key is getting the right balance so you can manage the risk and sleep at night knowing you're unlikely to lose more than you can afford.

The starting point for a portfolio is **cash** for emergencies. It would be prudent to keep enough in instant-access savings accounts to cover six months of outgoings. Next up the risk scale are **bonds**. With these 'fixed-interest' investments you lend money to the government or to a company. They promise to pay you back after a fixed term and pay you interest in the meantime.

Next comes **property**. In a portfolio, this usually means owning a share of a commercial property fund. Returns come from rental income and the potential for rising valuations. Finally, with **shares**, investors own the right to a slice of a company's profits through dividends, and can sell for a profit if their shares become more sought after.

Each of these types of investment (asset classes) should, in theory, rise and fall at different times for different reasons. Share prices move in line with company fortunes, for example, while commercial property values are more closely connected to how the domestic economy performs. In each asset class you can diversify further by holding a range of assets (eg shares in UK firms vs shares in Asian markets).

Q Everyone's attitude to risk is different, so how do you measure it?
Janet Green, 61, Broxbourne

Financial advisers often say that when they ask clients about risk the typical response is 'medium' or 'somewhere in the middle'. This can make assessing risk difficult, so many advisers resort to lengthy questionnaires. Risk also means different things to different people. One Which? member said: 'I spoke to an adviser and he was equating risk to the volatility of asset prices, but I think of risk in terms of how likely I am to lose all my money!'

A good way to think about it is whether you could afford the worst-case scenario. This is how we've designed our portfolios. So our 20% portfolio is for those prepared to see their portfolio lose a fifth of its value in one bad year.

Q In practical terms, how do I acquire the assets?
Sue Butler, 62, West Yorkshire

For most investors, the easiest way to create a portfolio is to buy funds such as investment trusts and unit trusts. These pool your money with that of other investors and invest in a range of shares, bonds or commercial properties. A relatively fuss-free option is to invest in a combination of low-cost tracker funds that aim to give you the average returns of a market. More expensive 'actively managed' funds can be worth considering, but often disappoint when compared with trackers.

A financial adviser will recommend you specific funds if this is the route you prefer, but increasingly investors are going down a DIY route and using an investment supermarket such as Fidelity, Hargreaves Lansdown or Interactive Investor. These brokers let you put together and manage your portfolio in an online account.

Q Please could you clarify when investments are taxed.
Yuh Saito, 47, London

The main taxes investors face are income tax and capital gains. The former is applied to dividends and interest payments, the latter to profits made when you sell.

If you make investments in a tax-efficient account, such as a stocks and shares Isa or a pension, you don't pay capital gains tax, and the only income tax you face is a 10% deduction that is made at source from dividend payments.

EXPERT VIEW

WHY IT'S VITAL TO BEAT INFLATION

Harry Rose, Which? investment expert

The risks involved in investing mean that it isn't for everyone. However, recklessness isn't just about taking too much risk – it can be reckless to take too little, as inflation means you are likely to struggle to maintain the spending power of your money over time.

If you had put a lump sum in a savings account in 2004, it would have had to grow by around 30% since then to keep up with inflation – a tall order with miserly interest rates the norm after the financial crisis.

But the FTSE 100 share index is up around 120% (with dividends reinvested) over the same period. An index of corporate bonds – another popular kind of investment – is up around 75% with interest payments reinvested. These returns are despite spectacular falls between 2007 and 2009.

A gung-ho approach isn't the solution, but taking some risk with savings can be prudent. Our portfolios are designed to help investors of all attitudes to risk to consider their options and find the right mix of assets for them. Whether you decide to consult a financial adviser or try a DIY investment approach, we think you'll find our portfolios helpful. ›

PHOTOGRAPHY: PIXELEYES

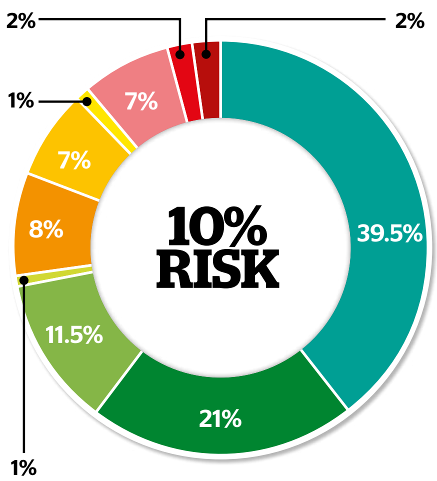
OUR MODEL INVESTMENT PORTFOLIOS

These portfolios show four possible investment combinations, each for a different attitude to risk. In each case we assume you start with £10,000 to invest. The percentage risk is how much you'd be prepared to see your portfolio lose in a single bad year. So '10% risk' is for those prepared to see their portfolio lose a tenth of its value. Our portfolios work on the basis that there is a 95% chance of losing no more than these amounts in any given year.

KEY CASH | GILTS | UK CORPORATE BONDS | UK HIGH YIELD CORPORATE BONDS | COMMERCIAL PROPERTY

Best for dipping a toe in the water

This mix of assets includes a relatively conservative 39.5% in cash, and around a third in government bonds (gilts) and corporate bonds. The rest of the portfolio is divided between property (8%) and a geographically diverse range of investments in equity markets (shares).

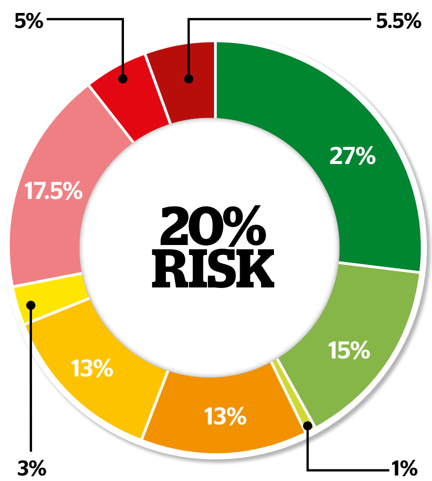


Expected growth ⬆ Lowest return ⬇

3 years	7 years	15 years	40 years
⬆£10,767	⬆£12,853	⬆£20,345	⬆£91,250
⬇£9,460	⬇£10,609	⬇£14,938	⬇£38,084

Best for hedging your bets

While significantly riskier than the 10% portfolio, this mix of assets still retains a cautious 43% in government and UK corporate bonds. However, the exposure to shares is more than doubled, with over 10% in the riskiest geographic areas in Europe and emerging markets.



3 years	7 years	15 years	40 years
⬆£11,144	⬆£13,880	⬆£23,899	⬆£135,089
⬇£8,326	⬇£8,995	⬇£12,983	⬇£38,200

These projections show how much we'd expect £10,000 to grow to over each time period, with interest and dividends reinvested. They also show what you could end up with if

THE BOTTOM LINE

A good mix is the name of the game for an investment portfolio. If you achieve the right blend of assets, at a level of risk you are happy to take, you should avoid the shocks and surprises that might arise if you are overexposed in any one area. But, as always with investing, there are no guarantees – and you should only start a portfolio once you've put aside a decent savings buffer first.

FIND OUT MORE

On Which.co.uk

- To see the full range of the Which? investment portfolios and for more information on how to build one: **which.co.uk/portfolios**
- For our comprehensive reviews of investment supermarkets: **which.co.uk/funds**
- For our guide to finding the best financial advice for your needs: **which.co.uk/financialadvice**

Recent investment articles in Which?

- 'How much does financial advice cost?', Feb 2014, p36
- 'The great fund fee robbery', Aug 2013, p36

Other useful contacts

- To find an independent financial adviser, visit **Unbiased.co.uk**
- To discuss your investment options,call our Money Helpline on **01992 822848**
- For fund research & analysis go to **Morningstar.co.uk**

What next?

Our portfolios, above, should have given you an idea of the range of possible investment options. Here are some possible next steps you can take, who they may suit and what you might expect to pay.

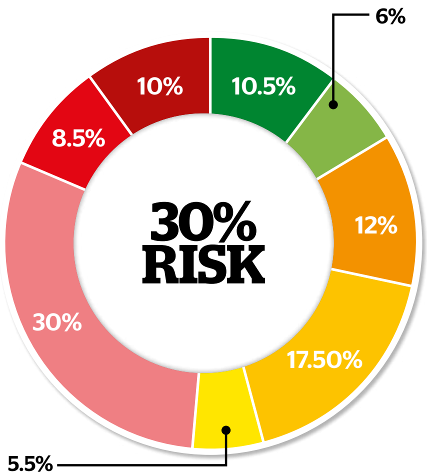
WHAT ARE THESE PORTFOLIOS?

These portfolio models do not constitute financial advice. They should be used as a starting point for wider research or to help you have an informed discussion with an independent financial adviser, who can talk through all of your financial needs and options. Seeking advice also means that you can complain to the Financial Ombudsman Service if you're unhappy with the recommendations you've received. The expected growth and potential losses expressed in our portfolio models are based on forecasts for future performance. They are not guaranteed, and the value of your investments can go down as well as up.

UK EQUITIES (SHARES) | JAPAN EQUITIES | US EQUITIES | EURO EQUITIES | EMERGING MARKETS EQUITIES

Best for ratcheting up the risk

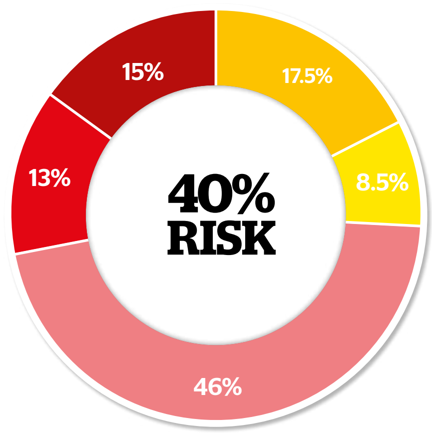
This mix of assets includes more than 70% in shares, with core holdings in developed markets such as the US and UK, and significant exposure in even riskier geographical areas. The 10% in emerging markets would typically be invested in places like Brazil, Russia, India and China.



3 years	7 years	15 years	40 years
↑£11,528	↑£14,962	↑£27,996	↑£207,644
↓£7,277	↓£7,659	↓£10,695	↓£30,131

Best for the very long term

This mix allows for more risk than would be considered sensible in most scenarios. With 100% in shares, it would leave you very exposed to a stock market crash. But it might make sense to invest in this way if, for example, you're in your 20s or 30s and investing for your retirement.



3 years	7 years	15 years	40 years
↑£11,834	↑£15,835	↑£31,437	↑£284,524
↓£6,377	↓£6,069	↓£8,042	↓£18,194

our expected growth didn't happen. **Source** Information is based on economic risk modelling provided by Moody's Analytics UK Ltd in April 2014

Select a portfolio model

Independent financial advice

- **Who does it suit?** Those who would welcome personal advice to help with their investment decisions.
- **How much do you need?** Many advisers require you to have at least £50,000 to invest.
- **Cost?** Initial advice will usually cost around 3%, with up to 1% for each annual review.

DIY investment supermarket

- **Who does it suit?** Those who have the time and confidence to be able to do their own research.
- **How much do you need?** Our portfolios are designed with £10,000 in mind but you can invest less.
- **Cost?** Between 0.2% and 0.45% per year, or £80 to £90 a year if there's a fixed fee.