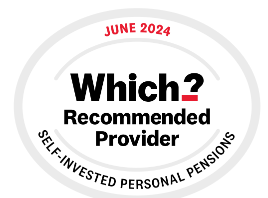
New to investing guide



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The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. Tax treatment depends on your individual circumstances and rules may change. Past performance is not a guide to future performance and some investments need to be held for the long term.

Introduction to investing

For someone just starting, the world of investing can feel like an intimidating place.

On the one hand, you're drawn by the stock market's potential to offer larger returns than are possible in your savings account. But on the other, you're wary of investing's reputation for being difficult and time consuming, full of risk, and littered with head-scratching jargon.

The simple truth is, investing doesn't have to be as difficult as its reputation would have you believe.

This guide will walk you through some basic information to get you started on your investing journey – from reasons to invest, through to the different types of investments and the tax-efficient accounts you can keep them in.

It's only a short guide because, although investing should be a long-term activity, learning the basics can be a lot quicker!

Why invest rather than keep my money in cash savings?

The best approach for you should largely depend on two things: your circumstances and your attitude to risk.

Arguably the most important circumstance that can help you decide what to do is your time frame. If you need to access your money in under five years, typically it would be best to save in cash. But over five years, investing is more likely to be for you.
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Saving in cash	Investing
✓ Cash is generally a better place for your savings if you need quick access to your money – especially in the short term.	✓ Investing can provide larger returns, especially over the long term.
✓ For a lot of people, cash savings are a 'safe haven': there's no risk of investment loss.	✓ Compared to cash, investments are more likely to beat the rate at which prices are rising (inflation).
✗ If the rate at which prices are rising (known as inflation) is higher than the interest rate of your savings account. That means the spending power of your money would decrease.	✗ Investing is riskier: your investments can fall as well as rise, meaning you could lose money.

Example: The impact of inflation on cash savings

If inflation is 2.5% and your bank account pays you 0.5% interest on your cash savings, you're effectively losing 2% of your money each year. While this might not seem like a lot, over longer periods of time it can add up.

Based on these percentages, cash savings of £5,000 would lose £100 a year in spending power because of low interest rates and inflation.

What should I invest in?

So you've decided investing could be for you. The next step is thinking about which investments to choose.

But 'what should I invest in?' can be difficult to answer straight off the bat. So let's break it down into four key questions.

Before you choose your investments, you'll need to ask yourself:

1. What you're saving the money for?
2. How long you're putting it away for?
3. How much do you plan to save?
4. How much risk you're willing to take?

What you're saving for, and when, has a big bearing on the investments you choose. If, say, you're saving to buy a house in five years' time, your portfolio should look very different to someone putting their money away for their retirement 30 years from now.

Thinking about what you're investing for will also help tell you whether you want to grow your pot of money for future or want it to bring you a regular income now. And yep, investing can do both of these things.

Why is risk so important?

Before you choose your investments, it's important to think about how much risk you're willing to take with them (known as your 'attitude to risk' or 'risk tolerance'). This is because different investments have different levels of risk.

Many new investors can be caught out by choosing something higher risk than they're actually comfortable with. One good way of helping you determine your risk tolerance, and choose investments that fit this, is to think about how you'd cope if your money fell in value.

If you'd have sleepless nights if your investment went down, you might be better off sticking to more stable, lower-risk investments. But if you wouldn't be phased, and don't think you'd panic and sell your investments if the markets fell, then you could take more risk.

Your timeframe is also important here. You might be willing to take more risk if you're putting your money away for longer. That's because the longer you can invest for, the longer those higher risk investments have to bring you a potentially greater return. Not forgetting the general rule of thumb here: the higher the investment risk, the higher your potential reward.

What are the different types of investment?

Knowing which type of investment to choose is tricky, and all the associated jargon definitely doesn't make it easier!

There are five types of investments we'll talk about here to give you a clearer idea of the main choices out there and how they differ from each other.

Shares

When you buy shares (also known as stocks or equities), you're buying part of a company. If the value of the company goes up or down, the value of your shares will too.

The price of a share also depends on other factors. These include how the wider economy is doing, and whether other investors feel positively or negatively about the company, its sector or its country's economy.

A company may pay out some of its profits or spare cash to shareholders in the form of regular income. This is known as a dividend, and helps to add to your returns.

Funds

A fund is essentially a collection of different shares and bonds (and potentially other types of investments, including cash), chosen and managed by a professional fund manager. Because they're managed by a professional, funds can be a good choice if you're new to investing and want the benefit from someone else's expertise.

By buying a fund, you're effectively pooling your money with other investors into a larger pot. Actively managed funds will have a fund manager who oversee the pot, deciding which investments it should hold, in what quantity, and when to move things around to make sure the fund is meeting its objectives. While passive or 'tracker' funds (such as exchange traded funds) will be set up to mirror the returns of a particular market or index e.g the FTSE 100.

Funds are usually less risky than shares, since the risk is spread across many companies and assets. But this can vary significantly, depending on what exactly the fund is invested in. For example, a fund investing in smaller, emerging market economies, such as Brazil, will be riskier than a fund that only invests in large companies listed on the FTSE 100 index of leading UK businesses.

Funds come in all shapes and sizes. You can get open-ended (known by the catchy acronym OEIC) or closed-ended, such as investment trusts (which we'll explore next). With open-ended funds, you buy a unit of it, and the fund will grow in size as more investors buy units. Another type of fund is known as a fund of funds or multi-manager fund. These don't invest directly in shares or bonds, but in a range of other funds.

Bonds

Bonds can be issued by a company or a government, and effectively mean that you lend money in exchange for being paid interest.
Each bond has an end date, when your loan must be repaid. Typically, the riskier the company or government borrowing the money, the higher the interest you'll be paid for lending. This is to compensate you for the fact that the company is likelier to fall on hard times and may not be able to pay you the interest, or may even go bust altogether.

Bonds are usually considered less risky than shares, and are likely to give you a lower return over the long-term. On the other hand, it's likely to be a less choppy ride (with fewer rises and falls).

Investment trusts

An investment trust is a type of closed-ended fund. These work in the same way as the other funds discussed above, except they're limited in size and listed on the stock market – meaning you buy a share in them, as you would with a company.

The price you pay for the share depends not only on the performance of the underlying investments in the fund, but also on how other investors' view the investment trust. As a result, investment trust shares might trade at a higher price (premium) or lower price (discount) than the total value of its underlying assets, known as its Net Asset Value (NAV).

Exchange-Traded Funds (ETFs)

ETFs are traded on the stock market in a similar way to investment trusts, above. Most track the performance of an index – such as the FTSE 100 – by buying shares in all the companies making up the index. This is why ETFs are also known as 'tracker' funds.

If an index rose by 10%, ETFs tracking it would increase by a similar amount. And if it fell by 10%, so would the ETFs. Some ETFs track the
price of commodities, such as oil or metals – and are known as Exchange Traded Commodities or Currencies (or ETCs).

How to pick a fund

Investing in funds typically requires less work than investing in shares. For that reason, they're generally the more popular investment type for first-timers. There are still an intimidating number of funds to choose from, though. So where do you start?

A good first step is to ask yourself: what are my investment objectives?

Actively managed funds can have lots of different approaches. Some fund managers will be ultra-cautious and invest in safer assets, while others will pursue a riskier investment style in the hope of higher returns – meaning a likely choppier ride along the way.

How diverse a fund is also differs greatly. Some fund managers will run very concentrated portfolios of just 30 or 40 companies, while others spread the risk across lots of companies, and invest in 100 or 200.

Some fund managers invest based on what is happening in the wider economy and the companies they think will benefit from political changes or economic events, while others invest purely on how well a company is run and its ability to outperform its competitors.

Generally, it could be a good idea to spread your money between different funds, investing in different areas and in different styles. This is called diversifying your portfolio, and it helps to ensure that all your eggs aren't in one basket.

Before investing in funds, make sure you read the fund fact sheet and Key investor information document (KIID).

Active Funds

A fund manager is employed to actively decide which investments to make. It's their job to pick the investments they think will perform better than others and avoid the ones that will fall in value. For doing this, they charge an annual fee.

What a fund manager invests in depends on the type of fund they run. Some are restricted to buying shares in a certain area of the world, for example, while others have a broader remit and can buy almost anything. The aims of funds differ too – some want to generate income, while others focus on growing your original investment.

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Passive Funds

The fund manager simply aims to track the performance of a market, such as the FTSE 100, rather than aiming to invest in winning companies and avoid losing companies. The investment process is typically run by computers, which automatically invest in the companies. Passive funds are generally cheaper than active funds. One disadvantage of passive funds, however, is that they can never outperform the market they're tracking; they can only rise and fall in line with it.

How to pick shares

If you want to go ahead and pick your own shares for your portfolio, you won't be short of choice. In fact, because there are so many to choose from – across dozens of different sectors and countries – it's essential you narrow down your options before you begin.

Before buying a share you'll want to look at the company itself. Usually, your first port of call will be the business's financials: its earnings and profits over the past 10 or more years, how much cash it has, and whether it's reinvesting that back into the business. You'll also want to look at its level of debt, check if there have been any recent changes, and try and assess how the company's fortunes might be affected by a change in the broader economy.

Just as when picking funds, it's usually a good idea to diversify your selection of shares, to invest in companies across different sectors so your portfolio can perform well across various market environments. You don't want to put your eggs in one basket and be overly reliant on one company's fortunes.

One big difference between fund investing and going directly into shares is time. You'll need to set time aside to monitor the companies you buy. While you don't need to track the share price every day, you'll want to keep up to date with company results, big personnel changes, announcements from the company and forecasts for future growth. This helps you check whether the company is sticking to your expectations, and assess whether there are reasons to sell, or even to buy more.

How often should I invest?

Lumps sums or regular investments

So you've chosen what to invest in. The next key question is do you want to invest a lump sum of money up front, or invest smaller amounts of money regularly? Either way, you don't need a lot to get started.

Regular investing has two main benefits. First, it gets you into the savings habit of putting aside a bit of money each month and investing it. And second, it lets you take advantage of a clever money-maker known as 'pound cost averaging', which can help to boost your returns.

Did you know?

With AJ Bell you can open an account with as little as £25 a month, or a £500 lump sum.

Regular investing and 'pound-cost averaging'

The theory is that by committing the same amount each month, regardless of whether markets are up or down, you end up with higher returns and less yo-yoing of your investments. When stock markets fall, your regular monthly payment buys more shares or units in a fund, and when markets rise your regular amount buys fewer units or shares. This reduces the risk of you putting all your money in at the wrong point in the market. So-called attempts to 'time the market' often end up in failure, even from professional investors.

The bottom line

Whether you choose to invest regularly or with a lump sum, it's important to keep an eye on how your investments are doing. Remember, though, that some investments need to be held for the long term – you don't want to buy and sell your investments too regularly.

Pension, ISA, Lifetime ISA, General investment account – which account should I choose?

You should choose the account you invest within based on what you're investing for and your individual needs.

Each account type has particular benefits, making it suitable for a particular savings goal. There are also limits and risks to each account type, which could make them less suitable for your needs.

Here is how the four main investment accounts work.

Stocks and shares ISA

Saving for a rainy day? Individual savings accounts (or ISAs) offer generous tax benefits, as well as the ability to access your money when you need it*.

For a Stocks and shares ISA, also known as an 'investment ISA', the big benefit of investing within one is its tax efficiency. You pay no tax when you sell your investments, and no tax on any income your ISA investments earn.

For the current tax year, you can invest up to £20,000 each year into your Stocks and shares ISA – though this is a general ISA limit, so keep in mind it includes money you pay into other types of ISA (including cash ISAs). This limit starts anew each tax year, but it doesn't roll over. So if you use only part of your full £20,000 allowance, you'll lose the rest.

As well as a Stocks and shares ISA, you can choose from other types of ISAs that are designed for specific savings goals. These include the Lifetime ISA (for people aged between 18 and 40 who are buying a first home or saving for a retirement), and the Junior ISA (letting you save tax-efficiently for your child's future). You can find more about Junior ISAs on the investing for children pages of our website.

*Though if you take money out your ISA, you won't be able to put it back in if you've used up that year's allowance.

Lifetime ISA

Are you over 18 and under 40? And looking to buy your first home, or save for retirement? Then the Lifetime ISA may well be for you.

For every £4 you save into a Lifetime ISA, the government will add £1. You can put in up to £4,000 per year, that means an annual bonus of up to £1,000. This £4,000 counts towards your overall £20,000 ISA annual allowance.

If you withdraw cash from your lifetime ISA before age 60 and aren't using it to buy your first home, you'll have to pay the 25% government withdrawal charge on the amount you take out. That means you could get back less than you paid in.

Pension

Saving for retirement? A self-invested personal pension (SIPP) lets you invest your retirement savings exactly as you want to.

Not only do you get to decide where it gets invested, a SIPP, like all pensions, is a very tax-efficient place to invest your savings. That's because you get government tax relief on the money you put in, up to certain limits, and the investments you hold in your pension are protected from capital gains tax and income tax.

There are some limits to a pension though. You won't be able to access your money until the minimum retirement age (currently 55 but increasing to 57 from 2028) and there's a maximum you can pay into your pension each tax year. For most people this annual allowance is £60,000 but for some this could be less.

Find out more about the benefits and risks of a pension and the rules around contributing to it on our website.

General investment account

Want to save without limits? A General investment account, also known as a Dealing account, has no tax benefits, unlike an ISA or SIPP, but you can put in as much as you want and take it out whenever suits you.

Investors who've used up their annual allowance for their ISA or Pension could invest in a Dealing account if they have the spare cash to do this.

Checklist: before you invest, ask yourself the following...

Do you understand investing?

As you're new to investing, you need to make sure you understand enough to get started. If you feel unsure, then check out the 'Free guides' section on our website.

But if you still feel uncertain, then it may be better to seek professional advice from a suitable financial adviser, and they can take control of your investments for you.

What's your goal?

Do you know what you're saving and investing for? This is important, because it determines how long you're willing to invest for and ultimately how much you need to save. The length of time you're investing for can help determine how much risk you should take with your investments: typically the longer you invest, the more risk you can afford to take.

Do you have money to spare?

Before you invest, you should make sure that you've paid off any expensive debt, such as credit cards or loans. It's also a good rule of thumb to have between three and six months of expenses set aside in an easy-access cash savings account to cover your rent, mortgage and bills if you were to lose your job or fall into financial problems.

If you do have cash to spare, you'll just need to work out how much you can afford to invest each month or year. Make sure you cover all your other financial commitments first.

Can you stand to lose money?

On average, over longer time periods investments should hand you a positive return. But you have to be prepared that this won't always be the case, and you could lose some or all of your money. If you're not prepared for this, then investing may not be right for you.

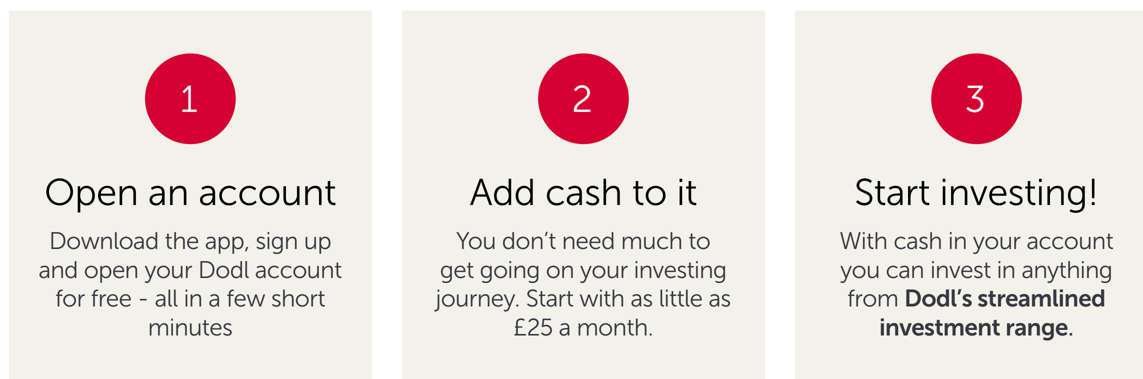
How do I start investing with AJ Bell?

With AJ Bell you have lots of choice when it comes to investing. And while personal choice can feel empowering, we also recognise that too much of it can often feel overwhelming, and potentially stop you from taking the first step on your investing journey.

That's why our AJ Bell Dodl app exists. To give you the opportunity to ease into investing at your own pace and without feeling overwhelmed by options. Because it's an app, you'll have to feel confident managing your finances on your phone or tablet (sort of like mobile banking!).

How do I get started with AJ Bell Dodl?

With your phone in your hand and Dodl app at the ready, you can start your investing journey in three quick and easy steps.



While AJ Bell Dodl offers a range of accounts and investments, it doesn't offer financial advice. And remember, investments can rise and fall in value and you could end up with less than you originally invested. Learn more about the risks of investing.

Where can I find more information?

The fun doesn't have to stop here! You can find lots more information about getting started with investing on the AJ Bell and Dodl websites. And we've highlighted some of the most useful pages below.

Our new to investing page tells you more about AJ Bell Dodl – how it works and the accounts and investments on offer if you choose to download the easy-to-use investment app.

And our learn hub is a one-stop-shop for your knowledge needs. It covers the hows, whys and whats of investing. From the basics to the nitty gritty, here's the knowledge you need to feel good, investing.

Finally don't forget all our other free investment guides, available to flick through and download in a click.

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