



FINANCE UPDATES NOVEMBER 2020



HOW MUCH IS NEEDED TO START INVESTING?

All investors have to begin somewhere.

The short answer is £50 a month, but that's probably not particularly helpful to you because it does not take into account your circumstances.

Whether you're a high earner who's belatedly decided to start tucking away big sums of money for retirement or you're reading this on behalf of your children and wondering what advice to pass on, everyone's circumstances for investing are different.

So let's look at the issues which will inform how much you need to start investing.

EMERGENCY CASH RESERVES

It is good practice to consider money put into investments as tied up for at least five years, and preferably longer.

While no guarantees can be made, this gives you a good opportunity to ride out the ups and downs of the market and to sell at the right time, rather than have your hand forced because you need cash.

With that principle in mind, the lesson when it comes to investing is to have an emergency cash reserve before starting to tie money up in longer-term investments.

This will vary from person to person but a good rule of thumb is three to six months of salary or expenditure, so this is a crucial number to consider for every person wishing to begin investing.

PRIORITISE PAYING OFF DEBTS

This is another good practice if you are at the start of your investment journey.

We are not talking about long-term structured debt like your mortgage or favourable student loans, for example.

But if you have credit card debt or expensive personal loans, it will likely be in your interests to resist the allure of the stock market and pay these off first.

CLEAR OBJECTIVES

It is helpful to understand what you are trying to achieve before you start any endeavour, and investing is no different.

While it is possible to begin investing with relatively small sums, modest amounts will not cut it if you have large financial goals.

For example, if you have no pension provision come your 40s or 50s, and are seeking to retire in your mid-60s, you are highly unlikely to meet your goals by investing say £100 a month or £1,000 a year. More realistically, you would want to be investing thousands of pounds a month.

Conversely, if you are in your early 20s, have a little bit of money left over after your monthly outgoings and want to instil a good savings habit, setting up a monthly direct debit for £50 into a pension or stocks and shares ISA could be a good thing to do. This will give you a strong head start when you do come to have more defined objectives.

If you are unsure of your goals and what it will take to meet them, booking an appointment with us should be high on your to-do list.

APPETITE FOR RISK

Having worked through all of the above, you should be getting a picture of how much money you'll need to begin investing.

However, there are further considerations which will influence you and your decisions. Two of these are your attitude to risk and how much you can afford to lose, because the reward you seek from investing is linked with risk.

Normally the greater the potential for reward, the greater the exposure to risk, and you have to understand and be comfortable with potentially not getting back what you put in.

So as well as allowing for emergency funds, you should consider what proportion of your money (whether that be of a monthly budget for regular saving or a larger lump sum) you are happy to expose to risk, and that you have the capacity to lose.

OTHER RESTRICTIONS ON INVESTMENTS

In order to understand the amount you need to start investing, it is good to be aware of some other constraints which might be relevant.

The type of investment you choose will have some bearing on the amount of money you need to get started, particularly if you are beginning with a lower amount.

For example, if you are interested in investing directly in shares, there will be individual share dealing charges that make it uneconomical to place lots of very small trades.

This, however, is not the case when investing in funds (like unit trusts) where there is often no fixed dealing charge.

They may well have minimum trade values though, like £50 for regular savings and £500 for a lump sum. And you should still scrutinise the charges to ensure they offer you good value.

When investing, it is normal to start by looking at the various wrappers that shelter your money from tax – the basic ones are ISAs and pensions.

These have statutory upper contribution limits of which you might need to be aware – for ISAs it is currently £20,000 a year, for instance. Individual products may have lower provider set limits, but these will often be pretty low.

For high earners or those with more complicated tax affairs, there are more advanced investment vehicles to consider.

These may require larger amounts to get started, and to make the most of the tax advantages you might need to be a higher-rate taxpayer.

To understand the minimum investments and the pros and cons, it is best to talk to an expert if these are of interest.

EXAMPLES

High-earning professionals

A husband and wife are both high-earning professionals with good pension provision. They have previously invested in a buy-to-let property and now want to steer excess salary into the stock market for diversification.

They want to be able to pass house deposits to their children or pay for the private education of their grandchildren in 15 or so years' time. Their outgoings are normally £5,000 per month and combined they earn £12,000 a month.

They should keep £15,000 to £30,000 as accessible cash in a rainy-day fund, and once this is achieved have up to £7,000 a month surplus to invest.

With their ambitious goals, they will need to begin investing with a considerable amount. They should speak to an independent financial adviser to understand how much is required to achieve their goals.

Young professionals

A trainee accountant in her early 20s is saving for a house deposit which she wishes to buy by the age of 30. She's saving £150 a month in cash, but her interest has been piqued by colleagues' tales of investing.

With a few thousand pounds saved she already has an emergency fund. She does not want to risk all her future savings, but is interested to see if she can reach her goal quicker over the coming years by allocating some of her monthly budget to funds in a stocks-and-shares ISA. She keeps £100 per month going into cash savings and begins investing £50 a month.

[!\[\]\(aceb1790ece33f2eac474d4a9431c6d6_img.jpg\) Talk to us if you would like to start investing.](#)

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. Pensions and ISA eligibility depend on individual circumstances.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

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