

Financial independence

Have you lost sight of your investment goals?

Planning for your future financial independence relies on selecting the right type of investments and balancing the risks you are comfortable with alongside the potential returns. Every investor is unique and complex, so when it comes to investments, a one-size-fits-all approach just doesn't work – there isn't a single investment strategy that will work for everyone.

Whatever your investment objectives are for the long term, initially it is prudent to set aside short-term savings to meet any future emergencies. This should be held where you can access your money easily. Your investment goals and attitude to risk for return are personal and may change over time, particularly as you near retirement.

Looking ahead

There are, of course, times in our lives when saving money may be difficult (for example, when studying or bringing up children) but it is important to look ahead. Saving little by little out of your income or investing lump sums when you can all helps. Holding savings for a long time means they can grow in value as well. There are different types of risk involved with investing, so it's important to find out what they are and think about how much risk you're willing to take. It all depends on your attitude to risk (how much risk you are prepared to take) and what you are trying to achieve with your investments.

The questions you need to ask

- How much can you afford to invest?
- How long can you afford to be without the money you've invested (most investment products should be held for at least five years)?
- What do you want your investment to provide – capital growth (your original investment to increase), income or both?
- How much risk and what sort of risk are you prepared to take?
- Do you want to share costs and risks with other investors (by using a pooled investment, for example)?
- If you decide to invest using pooled investments, consider which type would be most suitable for you. The main differences between pooled investments are the way they pay tax and the risks they involve (especially investment trusts and with-profit funds).
- What are the tax benefit implications, what tax will you pay and can you reduce it?

Self-employed

If you are self-employed, then no work is also likely to mean no income. However, depending on what you do, you may have income coming in from earlier work, even if you are ill for several months. The self-employed can take out individual policies rather than business ones, but you need to ascertain on what basis the insurer will pay out. A typical basis for payment is your pre-tax share of the gross profit, after deduction of trading expenses, in the 12 months immediately prior to the date of your incapacity. Some policies operate an average over the last three years, as they understand that self-employed people often have a fluctuating income.

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Future planning

You may be looking for an investment to provide money for a specific purpose in the future. Alternatively, you might want an investment to provide extra income. So having decided that you are in a position to invest, the next thing to consider is:

'What am I investing for?' Your answer will help you to choose the most suitable type of investment for you. If you have a particular goal, you will need to think about how much you can afford and how long it might take you to achieve your goal.

You may have a lump sum to invest that you would like to see grow or from which you wish to draw an income. Equally, you may decide to invest in instalments (for example, on a monthly basis) with a view to building up a lump sum.

Investment goals

Your investment goals should determine your investment plan, and the time question 'How long have I got before I need to spend the money?' is crucial.

Generally, the longer it is before you need your money, the greater the amount of risk you are able to take in the expectation of greater reward. The value of shares goes up and down in the short term and this can be very difficult to predict, but long term they can be expected to deliver better returns. The same is true to a lesser extent of bonds.

Broadly speaking, you can invest in shares for the long term, fixed interest securities for the medium term and cash for the short term.

The right mix of assets

As the length of time you have shortens, you can change your total risk by adjusting the 'asset mix' of your investments – for example, by gradually moving from share investments into bonds and cash. It is often possible to choose an option to 'lifestyle' your investments, which means that your mix of assets is risk-adjusted to reflect your age and the time you have before you want to spend your money.

Income can be in the form of interest or share dividends. If you take and spend this income, your investments will grow more slowly than if you let it build up by reinvesting it. By not taking income you will earn interest on interest and the reinvested dividends should increase the size of your investment, which may then generate further growth. This is called 'compounding'.

The value of your investment can go down as well as up and you may not get back the full amount invested.

The fund value may fluctuate and can go down as well as up. You may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. This is for your general information and use only and is not intended to address your particular requirements. It should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, we cannot guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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