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GUIDE TO INVESTING THE BIG PICTURE

Investing for beginners: what is investment?

Before we get started, we have to understand the fundamentals: So what is investing? It simply means buying an asset (something of value) in the hope that the asset's value will increase over time, at which point you can sell said asset and make a profit.

So, naturally, investors target assets they hope will rise in value over time and/or produce an income.

Should I invest or save?

Unfortunately, there is the chance that the value of an asset will decrease over time. You may be wondering, "Why not keep my money safe in the bank then?" In a nutshell, the potential benefits could outweigh the risks.

In the bank, your money is either earning no interest, earning very little interest, or even costing you money. In fact, if your money is earning interest, it's rarely greater than inflation, meaning that interest isn't giving you more purchasing power in the long run. Investing, on the other hand, is an opportunity for passive income. In other words, putting in little to no effort to potentially make money.

Are you ready to invest?

First, take a look at your current financial situation to make sure that you're ready to get started.

- Do you have any debt that you need to pay off first?
- Is there a specific time that you expect to need the money back?
- Do you have enough saved to cover three to six months of normal living costs?

The Investing Jargon

There's no denying it: when you're a beginner, investing has its fair share of technical lingo to get the hang of. So let's start by covering the basics.

Asset

An asset is what you invest in. Assets can be all kinds of things from art or antiques to more traditional things like shares, property, and bonds. They can be tangible (physical items) or intangible (things that don't physically exist but still have monetary value).



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Share/Stock/Equity

A company's ownership is divided into shares – think of a share as one slice of a pie. The value of shares can rise and fall in line with the company's performance. The terms share, stock, and equity are often used interchangeably.

Bond

A bond is a loan of money from an investor to a company or government.

Investment Funds

A fund is typically combined money coming from multiple investors, which is designated to a specific purpose.

Managed Fund

A managed fund is overseen by an expert. They're knowledgeable about the assets and market, so can help manage risk and reduce costs.

Multi-Asset Portfolios (MAPs)

MAPs are a range of unit-linked funds that are invested across multiple types of assets and are available across Irish Life Assurance plans. The funds range from lower to higher risk depending on the combination of assets and their volatility.

Volatility

Volatility is the change in the price or value of an asset, especially in the short term. This is completely normal. It can be caused by changes in the asset itself or changes in the market.

Low volatility = less risk of large changes in value. High volatility = higher risk of drastic ups and downs.

Diversification

Diversification is one strategy to manage risk. It's the investment form of not putting all of your eggs in one basket. If the value of one asset falls, simultaneously another might increase, lowering the risk of overall loss. An investor buys different types of assets in the hopes that it will smooth the journey, giving peace of mind in the long run.

How to invest money

Alright, so you have the lingo down, and you're well on your way to becoming a savvy investor. Here's how to get started.

Choose the right investments

Before you choose where to invest money, you'll need to consider what level of risk you want to take. This will help you find assets that have a matching volatility.



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It might be easier to think in the mindset that higher risk means greater potential profit but also higher potential losses. Keep in mind that when choosing funds with lower risk, while there's less chance you'll suffer a high loss, lower volatility also means the highs aren't as high either.

Tools like Smart Invest will ask you questions to match you to a suitable risk profile.

Before you start investing: set your goals

Goal-based investing can help you pick a fund that's right for you.

Think about why you want to invest with the hopes of making a profit. Is it maybe:

- To go on the holiday of a lifetime
- To save a deposit for a house
- To provide for your children's future
- To start your own business
- To protect your purchasing power on your hard-earned money

Or is it something else? When considering your goals, think at least five years in the future - don't forget that investing is a long game. Make sure that you will not need to access the money you are investing in the short term.

Decide how often to invest

If you don't have a large lump sum, that doesn't mean you can't invest. Investing in instalments can be a great way to get started and can be better than not investing at all.

You can invest a smaller amount and top up as often as you'd like once you have more money to invest. For example, you could siphon off a portion of your paycheque each month, or save your money from takeaways for a few months and top up your investment with that money.

However, if you have the lump sum to invest from the get-go while still maintaining rainy-day savings, it's worthwhile to invest in one go. When investing, time really can equal money!

Can I reduce the risk of losing money?

Risk is probably top of mind for you right now. As a beginner, it can feel intimidating to take a leap of faith. But risk isn't a bad thing - it's the name of the game.

While lower-risk investments are less likely to lose value over time, there is the risk that the value will not beat inflation. On the flip side, while higher-risk investments might make more money in the long run, the journey isn't as comfortable when asset values change drastically. There is a greater risk that you may lose some or all of your money, and there's no guarantee of a payoff in the end.



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The best way to invest money: cardinal rules

Beginning investing in Ireland doesn't have to be an unknowing and risky gamble. The good news is there are plenty of ways to help reduce your risk when investing.

Diversify

As we mentioned above, investing in diverse assets is key, because both elements spread your risk. Combining diversification with a managed fund? Now that's the secret sauce.

Focusing on assets like stocks in a single company, which can be very unpredictable, is the opposite of spreading risk – it's effectively putting all of your eggs in just one basket. It can not only be daunting and time-consuming – but also a bad idea for beginners. Do you have the time to go through a company's books and make a call on its future potential?

An investment that is well-diversified and also well-managed can help decrease your risk. Plus, with a managed fund you won't have to try to research and pick the "perfect" combination of assets to diversify your investment – the expert will do the heavy lifting for you.

Invest for the long run

No one knows for sure when the stock market will peak – or bottom out. But experienced investors do understand that this is a long game. As a rule of thumb, you should invest for a minimum of five years.

All you have to do is buy wisely – and then try to forget about it for a bit. Check in roughly once a year to make sure everything is on track. It's like that feeling of finding money in the pocket of an old jacket you haven't worn in years (if all goes well!).

Don't let your emotions get in the way

Emotion is one of the biggest risks to investors. Jittery investors make bad decisions. Buying or selling in response to media hype or sudden market rises - or falls – can lead to bad decisions. Drown out the noise and stick to your plan.