

Types Of Investment

The three main areas of financial investments are deposits, fixed interest and "Real Asset". Real assets are principally property and equities (company shares).

Deposits comprise of national savings, bank and building society accounts and plans. Their most common features are that the capital (the original investment) is fixed in value and reasonably accessible while a variable interest rate is paid.

There are times when deposit interest rates outperform other investments but those times are strictly limited and over the long term deposits while essential for liquid cash, do not normally produce as high a return as other forms of investment.

Fixed Interest investments are sometimes called "bonds" and include Gilts and corporate bonds. They are in effect loans to a government or company that have been created in the form of a security that can be traded. Their characteristic is that a fixed rate of interest is paid and the loan is repaid to the investor at a stated redemption date. The value of fixed interest investments varies broadly with interest rates in the economy, growing in value as interest rates fall and vice versa.

There are periods when very good returns can be made on fixed interest investments, but real asset investment normally produces a better long term return. Fixed interest investments are used to boost income from a portfolio but it should be noted that this is almost always at the expense of possible growth in both the income and capital. Fixed interest forms an important part of the proper diversification of a portfolio and we would expect to make some use of it in all portfolios.

Investment in Property should produce a long term hedge against inflation as well as income or growth from rental income. However, like all investments, it is affected by market conditions and is normally left to specialists to handle. Common routes into property investments are through capital investment bonds and special property unit trusts. These avoid the problems of owning property directly, such as difficulty in taking out your money, taxation, obtaining tenants and managing the property. Again, we consider property to be an important part of a portfolio properly diversified by asset type and it will normally feature in our recommendations.

Equities are company shares. For investment purposes, we are normally only concerned with those traded on a recognised stock exchange or market. Equities are probably the most volatile of the main financial investments, but they undoubtedly carry the potential of by far the greatest reward. Managing risk and reward is the key to the subject and **Johnston Financial** pay a lot of attention to this aspect.

Common routes into equities, which seek to reduce risk through a diversified portfolio, are capital investment bonds, unit trusts, open ended investment companies (OEICS), investment trusts, life assurance plans and pension plans. We would expect equities to form a major part of most clients long term investments.