

SAVINGS AND INVESTMENTS

There are many different types of savings and investments. Each investment has a short, medium or long-term prospect, or an optimal investment horizon, which is the length of time the money is expected to be invested. The investment horizon depends on how much money is available and when it will be needed. Choosing the best investment strategy depends on understanding your investment horizon. In general, the shorter your horizon, the less risk you should be willing to accept. Here are seven financial services products:

- pensions;
- shares;
- current account;
- unit trusts;
- deposit account;
- savings account;
- insurance policies.

Each financial product has characteristics that will meet specific investors' needs. Pension plans are designed to provide for the retirement of the investor. Shares present a high risk/return profile. Current accounts do not provide any income so they are only an instrument for managing your money and depositing your spare cash. Unit trusts are pooled investments. Deposit and savings accounts are designed for the short to medium term because they provide a low risk return alternative. Insurance policies are products designed to cover the risks of losses from certain predetermined events.

Activity 8.1

Which of the products listed above do you believe you will purchase in the next year? Twenty years? Forty years? Sixty years? Eighty years?

- Savings accounts are for short-term savings.
- Deposit accounts are relatively risk free and for the short to medium term.
- Current accounts are safe and convenient places to hold your spare cash, but are not investment products.
- Shares and unit trusts tend to be for medium- to long-term investors.
- Pensions and insurance policies are for the long term – that is, for the later stages in your life, when you retire and need a mixture of capital and income.

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Activity 8.2

Jenny is 25 years old. Jenny and her mother, who is 55 years old, inherited £100k each and they do not know what to do with the money. They ask a finance expert for advice. Do you think he would suggest the same type of investments for Jenny and for her mother? Why? What do you think he would suggest Jenny should do with the money? What about her mother?

The adviser concluded that the best allocation for them would be:

Investment product	Jenny	Jenny's mother
Pensions	5%	10%
Shares	30%	5%
Current account	5%	3%
Unit trusts	30%	25%
Deposit account	10%	10%
Savings account	15%	17%
Insurance policies	5%	30%

Do you agree with this allocation? Why should Jenny's allocation be different from her mother's? What other information do you think is important to help define their investment strategies?

Tip Discuss with family members or friends what would be their choice of investment if they received an unexpected amount of money. Compare individual choices to see who is willing to take more risks.

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Activity 8.3

Find out more about insurance by exploring this website:

www.uknetguide.co.uk

Go to 'Insurance'. What types of insurance are available in the comparison menu? Click on each to find out what they insure against.

Click on:

www.moneysupermarket.com

Go to 'Insurance', then 'Life'. Go to the 'Life Insurance Guide' and investigate what endowment life insurance products offer an investor. What advice does the site give for 'Risks and exclusions' and 'Saving money on your life insurance policy'?

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Activity 8.4

Click here to find out more about open-ended funds:

www.trustnet.com

Go to 'Education', then 'Education Guides', and then 'Unit Trusts & OEICs'. What are open-ended funds? What are the differences between unit trusts and OEICs?

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Activity 8.5

Click on:

www.morningstar.co.uk

Go to the Learning Centre. Look for the Investing Guide called ‘Advantages of fund investment’ (you may need to click the ‘Read More ...’ link). What are the benefits of funds for investors?

Activity 8.6

For some basic background on pensions, go to:

www.moneymadeclear.fsa.gov.uk

Go to ‘Pensions & retirement’. How do pensions work and what are the benefits of a pension fund?

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