Wise up to a wide world of investment

*Starting today: **The Ecology of Investment** is a new way to look at personal finance. In this series, the Telegraph, in partnership with Alliance Trust, will take a wider look at the world of investment through four interconnecting sections: **Climate and Environment**, **Life**, **Habitat** and **Resources**. The Climate and Environment section will discuss the forces at play in world markets – such as the changing price of oil, the effects of inflation and the ageing population. It will also demystify investment terms. The Life section, starting below, will weigh up investment strategies for different personalities, illustrated by Sue Macartney-Snape. The Habitat section will profile the varied companies that have benefited from investment by Alliance Trust. And the Resources section will offer comment and analysis from Alliance Trust experts on topical issues such as the forthcoming UK election and the new pension reforms. Visit **telegraph.co.uk/alliancetrust** to keep up with the series.*

Life: investment strategies for different personalities

Whether you are saving for a house or looking for ways to grow your pension, putting cash in an investment fund or a trust is ideal to help fulfil your ambitions. For the first piece in the series, Rosie Murray-West puts the financial affairs of two couples under the microscope to determine which routes could help

NEIL AND JOANNA

Meet the Jays. Joanna, 34, is a medical receptionist with a penchant for buying costume jewellery and vintage clothes on eBay, and her husband Neil, 33, is a thrifty freelance journalist who is into DIY.

They live in Edinburgh where they rent the top floor of a Georgian house in Bruntsfield. Jo earns £31,000 a year while Neil brings in anything from £12,000 to £25,000, and between them they pay £650 a month in rent.

The state of their affairs

Breadwinner Jo wants to start a family but Neil is not so sure – his income is not secure and he is worried about what would happen to their finances if she were to go on maternity leave. They also want to buy a house but are still £10,000 short of a decent deposit.

The expert's advice

"The Jays need to establish a financial plan that they both agree to and will follow," says wealth manager Philippa Gee. "Buying a property in Edinburgh, financing a family and setting some retirement provision is going to take a lot of money.

"It's not impossible, but they definitely need to get started now.

'The Jays need to establish a financial plan that they will both follow'

"A monthly Isa would seem a sensible starting point. However, it may have to be limited to the best cash Isa they can get if the funds are needed almost immediately."

If they think that they will be putting money away for five years to buy a home, Ms Gee suggests that investing in funds would be an option to potentially grow the money faster. "If they need the money soon, within months or a few years, cash would be the only option," she explains.

"Alternatively, they could be willing to ensure that the funds can remain in place for at least five years, which would make investing the money more realistic. There are a range of funds to suit different risk tolerances and equity appetite."

Ms Gee suggests that the Jays keep a weather eye on the charges that they are paying for their investments, which will eat into the returns that they get, and can vary hugely between fund providers and types.

She suggests passive-based funds. These tend to track a market, eliminating the need for an expert manager, which raises the costs. "These passive-based funds have lower charges," she says.

BILL AND DEIRDRE

Bill and Deirdre Copleston have been fixtures in their village just outside Weymouth for as long as anyone can remember. But pulling pints at the pub is taking its toll on the couple's health, and Bill, 67, is beginning to feel that being a landlord is a young man's game.

Deirdre, a young 63, is more reluctant to leave the pub that is both her home and livelihood, but recognises that it is time to pass on the family business.

The state of their affairs

Bill and Deirdre are selling the family pub for £100,000 to their son, and plan to move into a rented cottage.

But the couple have no pension, are nervous about not having a secure income and feel pressure to support their kids. They have worked hard and would like to travel but are worried that their savings will not stretch that far. They are not natural investors and are more likely to stash their cash under the bed than put it in a pension.

The expert advice

"Bill and Deirdre need to ensure they are looking after themselves, not just the children," says wealth manager Philippa Gee. "They need to establish whether they are selling the pub for a fair market value, as £100,000 will not help them to achieve much in retirement.

"They must not feel the need to give money to family and should be strong enough to preserve what they have worked so hard to achieve.

"If they have virtually no other income sources for retirement, trips abroad may be only a pipe dream. The more they can defer the sale and get a competitive price, the better. They need to look at where they will live and what costs they will incur, and they need to establish what other retirement income they might receive.

"They should obtain state pension forecasts [available from gov.uk], so they are clear what they might receive, and consider any previous employment which might have had a pension attached to it." Ms Gee also urges them not to be afraid of investing their pension money, rather than leaving it in cash. "They shouldn't be too concerned about risk, as their money can be invested in a way that reflects their risk tolerance; however, the lower the risk, the lower the potential return.

'They shouldn't be afraid of investing their cash'

"They should look to set up a portfolio of unit and investment trusts, to spread the risk as much as possible," says Ms Gee. "I would suggest combining both passive and active funds, to increase the blend, but it depends on costs.

"They should also make sure that they are investing in a range of areas, not just one sector or one type of asset, and be aware that, generally, the higher the yield [income] an investment produces, the greater the risk to capital."

SUE MACARTNEY-SNAPE

Investment explained: funds and trusts

FUNDS

A fund is an investment strategy that allows you to pool your money with other investors.

In contrast to buying individual shares – which requires you to do research into specific companies and their individual performance and fortunes – buying funds allows you to spread your money across a variety of investments.

This reduces your risk because you do not end up with all your eggs in one basket. Some funds are sector-based, while others are geographical.

Some funds invest in specific assets, such as equities, property or government debt, and some are a mixture of them all. You can do your buying through a fund supermarket, directly or through a financial adviser. You can hold funds in tax-efficient wrappers – for example, individual savings accounts (Isas) or in your self-invested personal pension (Sipp).

TRUSTS

Like funds, investment trusts are a way in which you can pool your money with other investors so that you can benefit from the many advantages of investing as part of a group. But unlike funds, trusts operate as listed companies that are traded on the stock exchange.

They issue a fixed number of shares, which can then be bought and sold on a stock market. The price of these shares, like any others, is determined by demand and supply in the market.

Trusts can boost their performance by taking on what is known technically as "gearing". This means that they can borrow more money to invest – so when the market is strong and share prices rise, their gains are multiplied.

However, on the flip side, if shares fall in value then the reverse happens.

Investment trusts can be a good way for the investor with a long-term view to gain exposure to a diversified portfolio of assets.

Always remember, your investments can go down as well as up and you may get back less than you originally invested. Alliance Trust does not give advice.

You need to ensure that you fully understand the risks and the commitments before investing. If you are unsure, do consult a financial adviser before investing.

For more information on the Ecology of Investment Series, visit **telegraph.co.uk/alliancetrust**