Goodbody

How to invest:
A beginner's guide

THE GLOSS x Goodbody
INVESTMENT CLUB

Introduction

When it comes to investing, we are often asked: where do I start?

We recognise that investing can feel intimidating at first, but as with everything knowledge is power. That's why The Gloss x Goodbody Investment Club have put together this simple guide to help you understand the basics of investing and to show you how to get started.

So, if you're thinking about investing, this beginner's guide is a good place to start.

The basics of investing

What is investing?

"Investing is often described as the process of laying out money now in the expectation of receiving more money in the future."

So said legendary investor Warren Buffett. Or put simply, investing is when you put your money to work for you. You buy an asset which you hope will increase in value over time e.g., a stock. Although the value of any investment can go down as well as up, and you may not get back what you put in, it has the potential for greater returns than putting your money in a bank savings account.

Types of investments

An asset class is the collective term given to different categories of investment instruments, with varying degrees of risk. Broadly speaking, these fall into five main categories: equities, bonds, cash, property and alternatives.

Equities: also referred to as stocks or shares. Company shares are traded on stock markets – and if you own equities or stock in a company, then you're a shareholder – or a partial owner of that company.

Fixed income or bonds: debt instruments issued by governments or companies when they need to raise money.

Cash: money on deposit (e.g., cash in a bank).

Property: investing in commercial property but it can also include residential property.

Alternative investments: investing in non-traditional assets or strategies e.g., hedge funds, crypto currencies.

Diversification

Asset diversification is the strategy of investing in a variety of asset classes and a variety of assets within those asset classes.

For example, if there are a lot of companies spread across multiple industries and one company or sector collapses, the other companies and sectors within your portfolio should help to insulate you against losses and protect your overall portfolio.

Other factors to consider when deciding which asset classes should go into your asset allocation include global events; geographical areas; and politics. Different events can have diverse impacts within asset classes.

A portfolio of assets that is well diversified helps to protect your investments. It also helps you achieve the most consistent returns in the long term and consequently, helps to achieve your investment goals.

Put simply, do not put all of your eggs in one basket – remember to diversify.

Investment tip | Diversification is key!

The power of compound interest

Simply put, compound interest is the interest on a loan or deposit calculated based on both the initial principal amount and the accumulated interest from previous periods. So, effectively the interest earns interest and so your money grows at a faster rate.

It is calculated by multiplying the initial principal amount by one plus the annual interest rate raised to the number of compound periods minus one.

It's worth noting that the number of compounding periods makes a significant difference when you're calculating compound interest. As a general rule, the higher the number of compounding periods, the greater the amount of compound interest.

Investment goals

Setting financial goals is key to reaching your wealth targets. At each stage in our lives, we've different financial demands and desires – from saving for a child's education to planning a retirement – and so, as your life changes, your financial needs and goals do too. It's important to consider how much income you need and when you need it – then, you can plan accordingly.

There are three main variables that influence investing: age, income and outlook.

Investment goals can be moving targets for many people. But generally, they fall into five main categories:

1. **Fun and young**: focus on saving for that great adventure.
2. **Young but thinking ahead**: e.g., saving for a house deposit.
3. **Middle**: focus on children's future, such as education costs.
4. **Long game**: financial goals generally focus on saving for retirement (how much is needed to retire comfortably?).
5. **Ever after**: focus on succession planning to best preserve wealth, leaving a good legacy behind for the next generation and those to come.

Having a set defined goal in place makes saving and investing much easier and achievable. From a psychological perspective, you're far less likely to spend on unnecessary purchases if you have a clear reason in your head as to why you're putting a portion of money to work each month. Putting a little bit of money away each month helps to build up a nest egg over time. So, the sooner you start, and the longer you can leave your money invested, the better.

Focusing on your investment goals, and deciding how much need to invest, what risk is in line with your desired outcome, and what risk level you are comfortable with will help you achieve your overall financial objective. Prioritising your goals in line with your life stages while also paying for any outgoings and expenses and being tax efficient can seem complex but working with an experienced advisor can make the process easier and more effective – and you can confidently plan your future. Getting the right advice can make a significant difference to your financial wellbeing.

Investment tip | You don't need to pick your own stocks. Many beginners start investing in funds.

Key factors to consider when investing

1. **Your financial situation**: will you need all or a portion of your funds in the next 12-24 months? If so, it should be kept liquid and in cash and not form part of an investment portfolio.
2. **Your investment time horizon**: the length of time you're willing to invest. Your financial situation is an important gauge of this.
3. **Your willingness and ability to tolerate risk**: how much stock market volatility are you willing to accept in exchange for potential longer-term growth? Ultimately, your investment mix should reflect your willingness and ability to tolerate risk in the context of your investment time horizon. Often, people feel like they are risk takers but when this is quantified by illustrating examples of stock market corrections, they can become uncomfortable. A diversified investment in global equity markets can offer high single digit returns on average over the long term, but we can also expect them to correct by between 30-50% every six to eight years. Time makes a big difference when it comes to taking risk with your investments and the ability for your investment to recover from market corrections and drops.

Taken together, your financial situation, investment time horizon and risk tolerance will be key factors in deciding how to invest your funds.

What risk level are you comfortable with?

Risk is the potential for making money and losing money – the greater the risk, the more we would be expected to make, or potentially lose.

No investment is risk free. When we think of risk, the first thing to consider is how comfortable we are with different levels of risk: are you risk averse? Or would you prefer to take on more risk? Once you understand where you sit on the risk spectrum, it's easier to plan your investments accordingly. Your risk appetite tends to change with your age and your subsequent needs. People in their twenties tend to be more adventurous and prefer to take on more risk with the potential for greater returns. But as people get older, they prefer to take on less risk and have a lower but more reliable income.

Different investment goals also influence risk. People tend to take a more risk averse approach for things like their education and pension funds, but you may be happy to take on a greater amount of risk for a small proportion of your funds. This ties in with the level of risk you can afford to take. Time is a great defence against risk. The longer you leave your investment to mature, the more you're insulated against market dips and bumps. As a general rule of thumb, higher-risk investments, including shares, have the potential to give you higher rewards. Lower-risk investments tend to equal lower rewards.

The two main factors that impact the risk of your investments are the type of assets you invest in and the length of term of your investment period. It's best to invest in well diversified asset classes over a longer period of time – this will help mitigate risk.

Finally, it's always important to remember that the value of your investment may down as well as up – and you may lose some or all of the money you invest.

Investment tip | Educate yourself before you part with your cash.

Making losses

Every investor will take a loss at some point. You must accept that not everything will work out for you.

When an investment is not working, you should consider:
- What is the cause of the problem?
- Has anything changed in terms of the outlook for the company and the economy?
- If not, was your timing off?

In terms of what to do next, you must be clear on your time frame. Are there any catalysts likely to reverse the underperformance over this timeframe? The passage of time can fix a lot of problems, if the underlying investment is sound, but there is an opportunity cost to holding shares, so you must consider whether it is worth it – and ask yourself: are there better uses of the funds over time?

Investment tip | Don't invest in something you don't understand.

Choosing your first stocks

If you would like to invest on your own (see page nine 'How to get started'), here is some important information to remember when buying stocks and shares yourself.

The most common form of investing is buying stock – also referred to as shares or equity, as we mentioned earlier.

You should only invest in a company that you know, understand and believe in. Don't be swayed by peer pressure or media hype. With this in mind, before you choose your first stocks, consider the companies that you use on a daily basis:

- What brands do you wear?
- What household goods do you use?
- What streaming services can you not live without?

Now, ask yourself:

- Would you like to be part owner of that company?
- If so, do you like the way the company is operating?
- Do the company's corporate values, such as its sustainability strategy and company culture, align with your own values?
- How does the company make money?
- Do you think sales will continue to grow in the future?
- What competition does it face in the market/industry in which it operates?

Research, research, research!

Next up, you should look at the company's financial metrics, sources of financial information as well as any relevant news.

If you're interested in investing in a company, look at the news flow – resources such as The Financial Times and CNBC are excellent and can offer investors useful insights into companies and their industries. You'll find essential information around what the company is doing, what their earnings have been like, what competitors are doing, as well as what's going on at a macro level.

Likewise, social media platforms, such as Twitter, can be valuable resources. Follow the company you're interested in as well as their competitors to keep up to date with information.

It is also useful to look at the investor relations section of a company's website. This will give a flavour of any recent activity and any news the media has published about the company.

When you're researching a company, financial metrics are important too. They allow you to assess a company's financial strength. Yahoo! Finance is an easy-to-use, free tool available to all and presents a company's overall financial situation – from historical price performance to its trading range as well as buy and sell recommendations.

Investment tip | Invest at a pace you are comfortable with.

Some key metrics that we recommend investors look at include:

- **Historical price performance** is a useful guide to figure out trends and when to execute a trade. When you look up a particular share, you will typically see the current share price, its 12-month high and its 12-month low.
- **Price-to-Earnings (PE) ratio** shows the relationship between a company’s share price and its earnings. It is calculated by dividing the current price per share by the earnings per share for the past 12 months. Relative comparisons are important when looking at the PE ratio (i.e., comparing to peers or a specific sector).
- **Dividend yield** indicates how much income investors can collect from holding a share. Dividends are usually paid quarterly. The yield can vary by sector. More mature companies with stable revenue growth tend to pay dividends, whereas companies in an early growth phase may opt to re-invest this capital back into a business.

Financial statements are particularly useful when assessing the consistency of a company’s performance and its overall financial position. Potential investors should look at a company’s balance sheet (a snapshot of a company’s financial position, outlining what they own and owe) and its profit and loss account (outlining a firm’s performance in relation to incomings and outgoings).

As an investor, it’s important for you to choose the right stocks for your portfolio – and so, you may need to research the companies you’re considering – and these tips should prove to be a helpful starting point.

Once you’ve purchased your first stock, it’s a good idea to reduce your risk – and you can do so by purchasing additional companies. This will help to diversify and protect your investments against market movements, as we discussed earlier.

How to get started

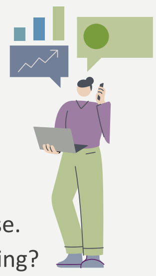
How to get started: three steps to start your investment journey

Armed with the basics, you should now be ready to start investing. Here are three simple steps that will guide you on your investment journey and help you identify the investment strategy that best matches your needs.

STEP 1: **Open an account** with a stockbroker or an adviser

STEP 2: **Discuss** your needs and investment goals

As a beginner, it is worth investing with the help of a financial adviser to gain more expertise, advice and perspective.



Talk to your financial adviser about your:

- **Investment goals**: are you planning for retirement; saving for your children's education; or thinking about leaving a legacy behind for the next generation?
- **Financial situation**: how much do you want to invest? When will you need to access your funds?
- **Investment time horizon**: the length of time you're willing to invest.
- **Attitude to risk**: all investments carry a degree of risk, so you should never invest more than you can afford to lose. How much money could you face losing without it having a negative impact on your lifestyle and emotional wellbeing?

STEP 3: Learn about your **investment options** - and decide what is right for you

1. Investing on your own

- Trade conveniently online
- Pick your own shares and ETFs
- Don't want investment advice – do your own research
- Low-cost and efficient

2. Grow your nest egg

- Get a personalised financial review
- Advice on the best ways to save/invest monies
- Commitment: five years plus
- Examples include savings plan; pension pot tailored to your retirement objectives

3. Goal-specific portfolio

- Goals include retirement plans; children's education; building wealth
- Hands-off approach: fund manager chooses investments and makes decisions about diversification for you
- Risk set to your profile
- Commitment: five to 10 years
- Less admin required

4. Personalised investment strategy

- Bespoke wealth advice designed around your financial needs and values
- Complex investment needs
- Often encompasses different investment pots to meet different goals
- Investment decisions made on your behalf

5. Active trading

- Leverage traders' knowledge and expertise
- Ideal for those interested in markets
- High-risk tolerance
- Seeking higher returns

Still not sure? Contact Clare Duffy at clare.duffy@goodbody.ie to set up a consultation.

Glossary of investment terms

- **Active fund**: an investment strategy that is directly managed by a manager or team; they select securities to beat the benchmark index.
- **Alpha**: gauges the performance of an investment against the benchmark index; often described as an investment strategy's ability to beat the market.
- **Annual report**: a document that public companies must provide every year to shareholders, describing their operations and financial condition.
- **Asset allocation**: the process of putting money across different asset classes to maximise portfolio returns and minimise risk.
- **Asset class**: the collective term given to different categories of investment instruments with varying degrees of risk.
- **Bear market**: a prolonged period of falling stock prices, usually marked by a decline of 20% or more.
- **Benchmark index**: a standard against which the performance of a security, investment strategy, or investment manager can be measured.
- **Beta**: a measure of the volatility—or systematic risk—of a security or portfolio compared to the market as a whole.
- **Bond**: a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or government).
- **Bull market**: a period of time in financial markets when the price of an asset or security rises continuously.
- **Cash flow**: measures the previous, current, and future value of a company's assets based on the financial behaviour that a company demonstrates.
- **Compound interest**: interest calculated on the initial principal, which also includes all of the accumulated interest from previous periods on a deposit or loan.
- **Diversification**: a strategy of investing in a variety of asset classes and a variety of assets within those asset classes. It helps to protect your investments and achieve the consistent returns in the long term.
- **Dividends**: a portion of a company's profit paid to common and preferred shareholders.
- **Dividend yield**: indicates how much income investors can collect from holding a share.
- **EBITA**: earnings before interest, taxes, depreciation, and amortization.
- **Earnings per share (EPS)**: a company's profit divided by the outstanding shares of its common stock.
- **Economic cycle**: the fluctuations of the economy between periods of expansion and contraction.
- **Equities**: shares issued by a company which represent ownership in it.
- **Financial planning**: helping clients create everything from savings plans; complex pension structuring; directors' pension planning; inheritance planning; and investment strategies; in turn, this helps them achieve their financial goals.
- **Fixed income**: an investment security that pay investors fixed interest or dividend payments until its maturity date. For example, bonds.
- **Inflation**: the increasing price of goods and services over time, which reduces a currency's purchasing power.
- **Investing**: when you put your money to work for you. You buy an asset which you hope will increase in value over time e.g., a stock.
- **Investment performance**: often referred to as investment returns; it is an investment's level of growth over time.
- **Liquidity**: the ease with which an asset can be converted into cash without affecting its market price.
- **Market capitalisation**: the total equity value of a company's publicly traded shares; commonly referred to as market cap.
- **Portfolio manager**: makes investment decisions regarding the assets in an investment portfolio to meet clients' investment goals.
- **Price-to-earnings ratio**: measures a company's current share price relative to its earnings per share (EPS).
- **Recession**: a downturn in economic activity; it is often defined by economists as at least two consecutive quarters of decline in a country's gross domestic product (GDP).
- **Risk tolerance**: the amount of stock market volatility that you are willing to accept in exchange for potential longer-term growth.
- **Sector**: a group of similar securities, such as equities, which operate in a specific industry.
- **Shares**: units of equity ownership in a company.
- **Sustainable investing**: sustainable investing incorporates ESG factors into investment decisions to better manage risk and generate sustainable long-term returns. It complements traditional analysis and portfolio construction techniques.
- **Time horizon**: the length of time that you're willing to invest.
- **Volatility**: the amount and frequency with which an investment fluctuates.

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