How to make wise moves in the shares game

Doing well in the stock market is not just down to luck. If you're a novice investor, follow our tips to help you increase your chance of winning a good return

Be wary: the past performance of investment funds is not a reliable guide to future growth

Most people would probably say that property was the best place to invest money last year, but it was actually the stock market.

The stock market has been bouncing back for the last three years. The FTSE100 index of our 100 biggest companies hit a low point of 3,287 on 12 March 2003. Since then the index has leapt by over 75 per cent – meaning £1,000 invested at the low point could have grown to more than £1,750 now.

People who lost out in the stock market slide in the early 2000s may be feeling cautious about investing now. Others may be cursing themselves for not investing three years ago. But the past is irrelevant when it comes to investing. Decisions to invest must be based only on today's conditions and what you think will happen in the future.

Don't think about investing on the stock market unless you have the rest of your finances sorted out. It may not be as much fun but you must think about life insurance if you have dependants or how you'd cope if you lost your job. See 'Financial health check', *Which?*, March 2006, p34, for more on sorting out your financial basics.

You should look at investment as a five- to ten-year project that will have its ups and downs. If you can't face the downs, like the stock market halving in the early 2000s, stock market investment probably isn't right for you. But if you think you can ride the rough with the smooth, follow our tips.

You should never put all your eggs in one basket

Invest in a variety of companies

While your first instinct might be to invest all your money in your favourite company's shares, you should never put all your eggs in one basket. Investing in funds that pool lots of investors' money to buy shares in many different companies, such as unit trusts, is the best route for most people.

Choose your level of risk

Not all funds have the same level of investment risk. In general, funds invested in countries with well-developed stock markets, such as the USA, the UK and other Western European countries, tend to be lower risk than funds that are invested in the developing world. In the same way, investing in big companies is lower risk than investing in smaller companies. Remember: if you're investing abroad, there's the additional risk to your money caused by movements in exchange rates.

The higher the risk, the higher the potential return but the higher the risk of losing your money.

Be wary of past performance

Past performance of investment funds is not a reliable guide to future growth. Fund managers often push funds or areas that have been doing well, but there's no guarantee that they will continue doing so. For example, technology funds were heavily sold at the height of the dot com boom, only to crash heavily in the following years.

Check the charges

Low charges help boost your investment returns, so always compare charges before deciding on a fund. 'Tracker' funds tend to have low charges because they try to mirror the performance of the stock market rather than trying to beat it.

Use up your tax-free allowance

You can invest up to £7,000 a year through a stocks and shares individual savings account (Isa). This allows you to avoid capital gains tax and, if you are a higher-rate taxpayer, the top tax rate on dividends.

Don't delay investing

If you have money to invest, don't wait for the industry's so-called Isa season of February to April to invest it. The earlier in the tax year you invest, the more chance your money will have to grow.

The price of shares or units change from month to month. Regular monthly investments will smooth out the highs and lows to give you an average buying price.

Take independent advice

It's best to take independent financial advice unless you are an experienced investor. A good financial adviser will check your existing finances are in order and make investment recommendations taking into account factors like your age and attitude to risk.

Checklist

Useful investment sites

- **FT Fund Ratings**
  funds.ft.com/funds/
- **MorningStar**
  www.morningstar.co.uk
- **Trustnet**
  www.trustnet.com

Contacts for other sources of investment information are on p66

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