
Investing in funds

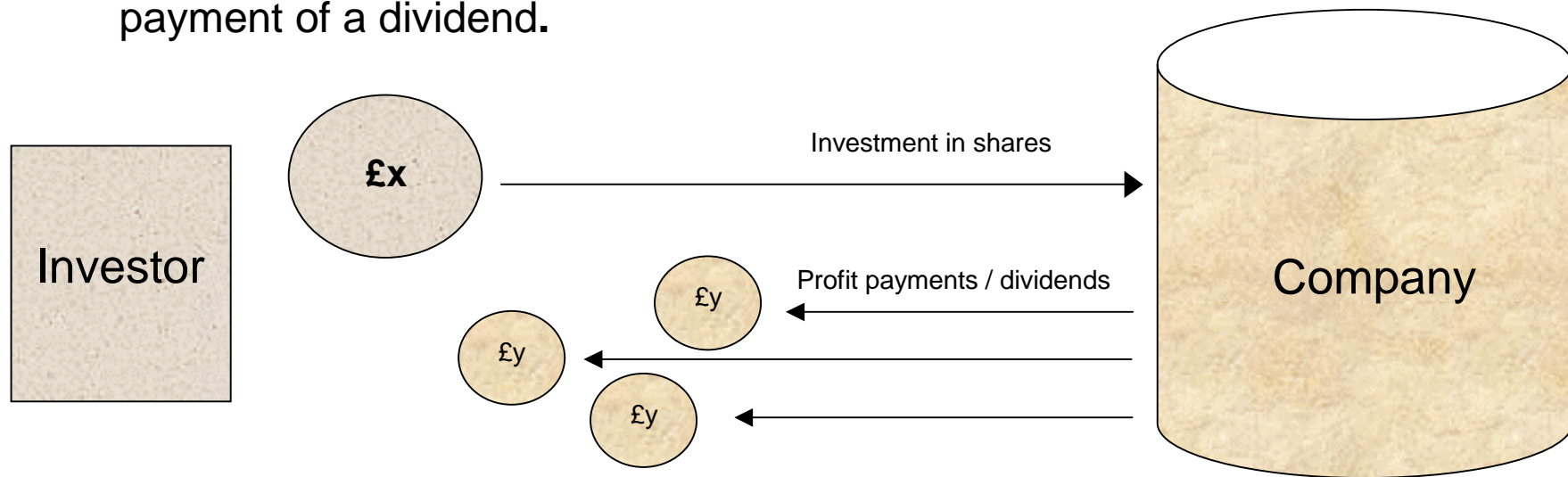
A look at collective investment schemes

The stock market

- A single market where investors trade in company shares
- The main UK stock market is the London Stock Exchange
 - New York Stock Exchange in America
 - Tokyo Stock Exchange in Japan
- London split into two markets
 - The Main Market; and
 - AIM – the Alternative Investment Market
- Benchmark indices track the performance of different sections, eg:
 - The Main Market is tracked by the FTSE All Share Index
 - The FTSE 100 Index tracks the 100 largest companies

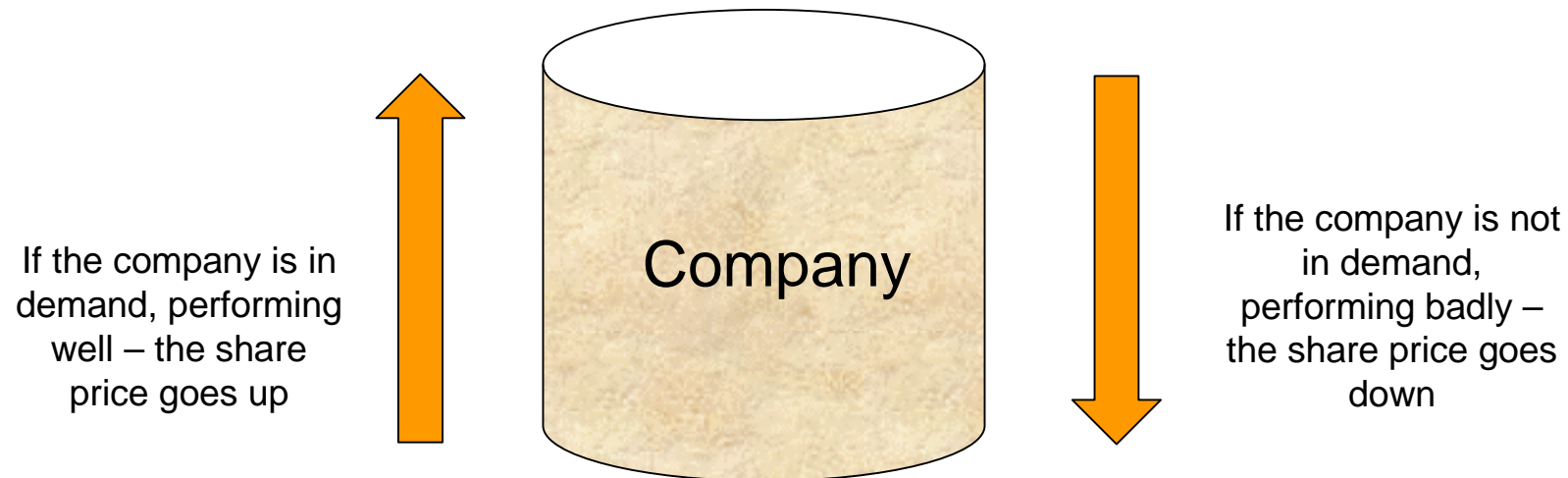
Investing directly in equities

- The purchase of an equity or share in a company allows an investor to participate in its future prospects
- A share is bought for a specific price on the market
- The holder then receives their share of any profits through the payment of a dividend.



Investing directly in equities

- The price of share is determined by the market
- This is influenced by a number of factors:
 - performance of the company in its market
 - how favourably the firm is considered by investors and
 - general market sentiment



Investing directly in equities

Investment is tied to the fortunes of a single company. If the firm struggles, if the market does not like the business or even if the sector in which the company operates is out of favour, the share price may fall.

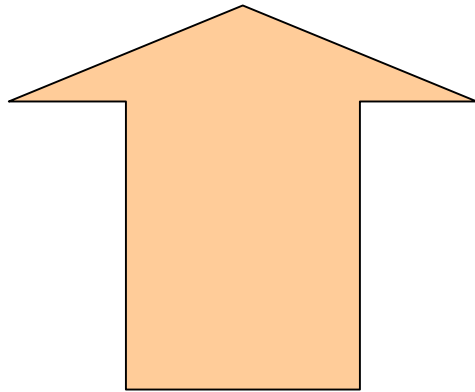
If the company fares well, or even if the sector in which it operates is favoured by the market, the share price is likely to rise. The larger the investment the larger the potential gain.

“The value of your investment can go down as well as up”

Investing directly in bonds

- Bonds are issued by companies when they want to borrow money
- Basically a loan, corporate bonds have:
 - a term;
 - A regular interest payment; and
 - an end date when the investment is intended to be repaid
- The investor buys the bond (lends the money) and in return receives the interest payment as a regular income

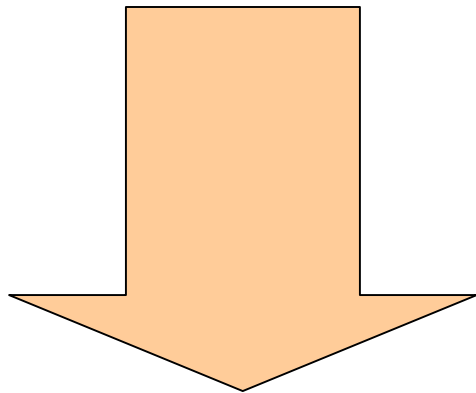
Highs and lows of bonds



Income is paid in recognition of the loan

An improvement in a company's financial position can increase the price

A fall in interest rates can increase the bond's price



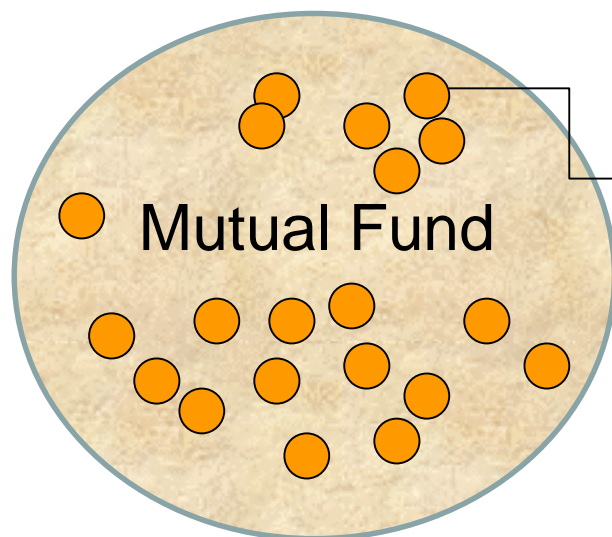
There is a risk the company may miss an income payment

There is a risk the investment may not be repaid

A rise in interest rates can reduce the bond's price

An alternative – investing in funds

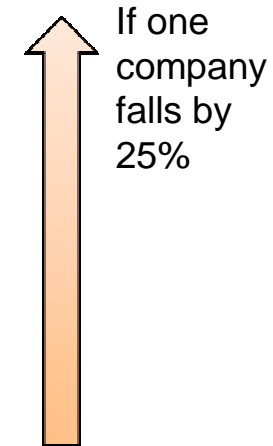
- A fund – also known as a collective investment scheme or mutual fund – invests in a range of equities or bonds
- This reduce the downside risks of holding just the one directly:



The fund holds a number of companies

→ The investor is not exposed to the fortunes of just one single firm.

While the share price of one firm might fall, another may rise – compensating for some of the loss.



But another rises by 25%



By holding both, the effect of one cancels out the other.

Types of fund – by structure

Unit trusts

- **Governed by UK Trust law**
- 'Open ended' meaning the fund can buy and sell units at any time
- The price of units is determined by the fund holdings

OIECs

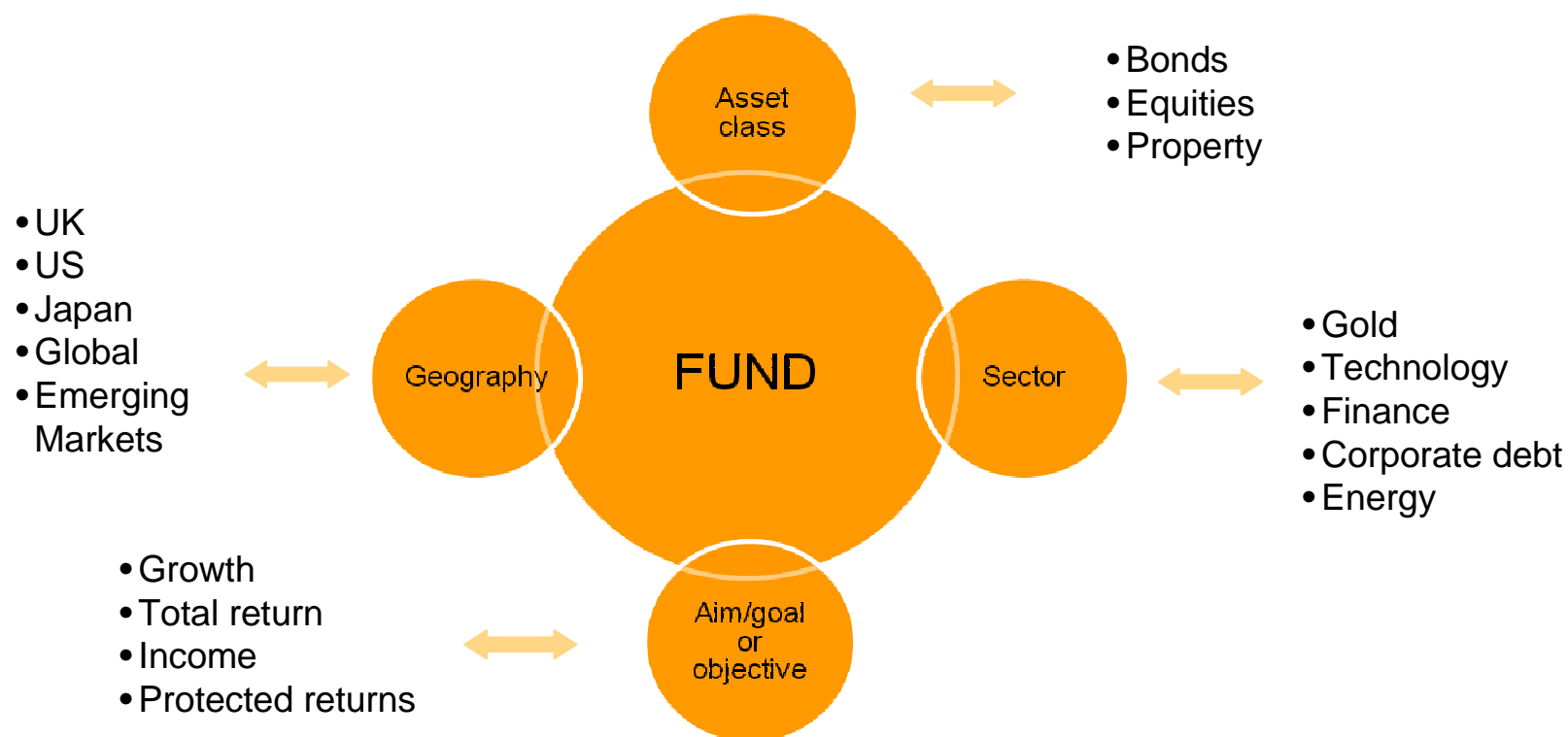
- **Governed by Company law**
- 'Open ended' meaning the fund can buy and sell units at any time
- The price of units is determined by the fund holdings

Investment trusts

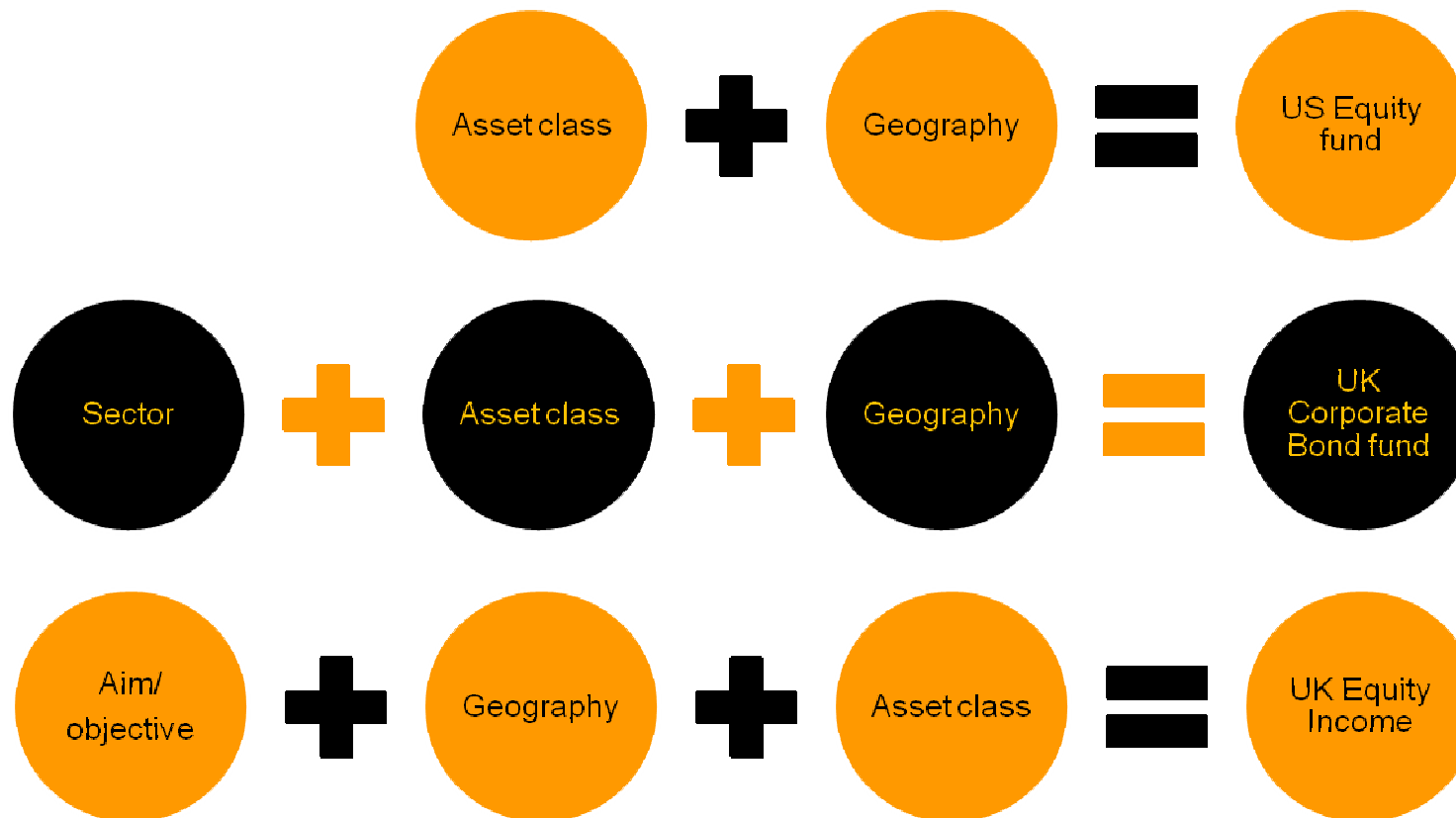
- **Governed by Company Law and Listing Rules**
- 'Closed ended' meaning there is a limited number of shares in issue
- Shares are traded on the stock exchange
- The price is determined by the market

Types of funds – by investment

- Funds come in all shapes and sizes...



Typical combinations



Advantages of funds

- Diversification
 - Funds invest in more than one holding
 - Can invest across asset classes, sectors and/or geographic regions
 - Smooths out some of the risks involved in direct investment
- Choice
 - There are thousands of different funds to choose from
- Expertise
 - Access highly experienced fund managers, dedicated to making the most of your money
- Access
 - Enables cost effective access to specialised areas such as natural resources or gold.