PSC
FINANCIAL PLANNING

A Guide to

# Savings & Investments

Your Future, Our Expertise.

# Contents

Savings & Investments

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# How can I invest for my future?

Most people will have some form of regular savings in place. Savings can be for a specific purpose, like paying for your children's education or paying off your mortgage early. You may just want to build up a "rainy day fund" that can help you deal with unexpected costs or finance some home improvements. Alternatively you may have a lump sum that you want to put aside for the future.

It is recommended to have a rainy day fund in an accessible deposit account to supplement cash flow when needed but it is worth considering a longer-term savings plan for longer term goals. Investment savings policies typically involve some element of risk and over the long term may give you a better return than a simple savings account. Such policies generally accept both regular and once off contributions.

# How much risk to take on?

This depends on your risk preference, your capacity to withstand risk and your financial objectives. Your risk capacity depends on your personal and financial circumstances – how much can you afford to lose on your initial investment? This is an area where your PSC Financial Planning adviser can give you key advice.

A key consideration is your investment term, how long do you want to invest for and what level of access do you need to the funds during this time? What are you hoping to achieve with your fund? Is there a required rate of return needed for this? Are you making this decision with your spouse/civil partner who might have different views to your own?

PSC Financial Planning regularly deals with these elements when deciding on appropriate risk and we can guide you in determining your risk profile.

# What are the main types of savings and investment products on the market?

There are many different types of savings and investment products on the market, each with varying levels of risk and return. Here are four of the main types of savings and investment products:

- **Fixed-term deposits:** these deposit accounts are typically for a set period of time at a fixed rate of interest that would be generally higher than interest rates offered for regular savings accounts. By saving your money in one of these accounts you understand that you cannot access your money during the fixed term. Deposit accounts are low in risk but on the flip side they tend to produce low returns over the longer term.

- **Investment funds:** these vary by what the particular fund invests in – whether it's shares in top multinationals, large commercial properties, fixed interest securities issued by Governments and large companies or deposits.

  Some funds may invest in just one type of asset, for example, an Equity Fund which only invests in shares in top multinationals. Other funds, referred to as Managed or Mixed Funds, invest in a mix of shares, property and fixed interest securities.

  **Remember:** Investment funds are subject to investment risk. Their value at any time could fall below the amount you invested and are generally only suitable for longer term investment, such as five years or more. The level of risk attached to a particular investment fund will vary by what the fund invests in. To guide you, funds are typically graded on a scale of 1-7 with 1 being the lowest risk and 7 being the highest risk.

- **Tracker bonds:** these bonds typically lock up a lump sum for a term of about five years. At the end of the term you are usually guaranteed to get back at least what you invested (or a high percentage of what you invested, such as 90%), together with a bonus related to the growth, if any, in one or more stock markets or in the shares of certain large multinationals. If the particular stock market or shares to which the bonus is linked, do not increase in value over the term, there is no bonus payable at maturity and in this case you would get back the guaranteed capital sum only, which would typically be the amount you invested.

- **Long term savings plans:** these plans are available from a life insurance company. They accumulate a capital sum over the longer term from regular monthly savings. The recommended minimum term for plans like these is five years and your savings are typically invested in the type of investment funds outlined above.

Your PSC Financial Planning partner can help you to decide what type of plan best suits you. They will ask you about your financial goals and your attitude to risk and help you come up with a savings and investment plan that helps you reach your goals.

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PSC Financial Planning will guide you through the basic elements of investing.

# Getting the Right Advice?

PSC Financial Planning are experts in financial matters and will work with you to understand your savings and investment goals and objectives, and help you create a plan to meet those goals. Your PSC Financial Planning partner will research the options available to you including deposits, investment funds, savings plans and tracker bonds, from the range of companies we deal with, providing you with a "fair analysis" of the market.

# Why PSC Financial Planning?

Choosing the right savings and investment products can be a daunting task. Some savings and investment products may be suitable for you and some may not. As your personal and financial circumstances change over time, so will your savings and investment needs. Your PSC Financial Planning expert will be able to explain the choices available to you in simple language allowing you to make an informed decision.

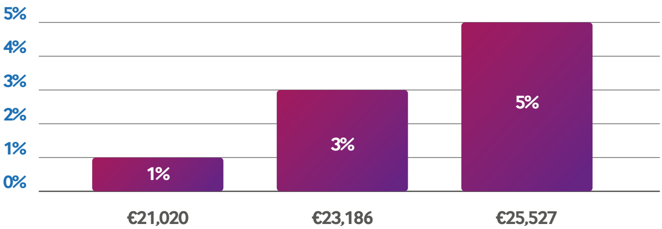
We will guide you through the basic elements of investing – risk and return, diversification and your attitude to risk – and ensure you understand what's at stake. Your PSC Financial Planning adviser will get to know you, your personal and financial circumstances, financial plans and your attitude to and capacity for investment risk – products like investment funds, for example, can contain a level of risk that you need to be aware of.

Your PSC Financial Planning partner will guide you through the process of setting up your savings and investment product and help you to make sense of charges, tax on returns and investment risk. We will advise and assist you in developing a well-researched and structured savings and investment portfolio that is compatible with your attitude to and capacity for investment risk and is designed to achieve your goals as far as possible. Ultimately, PSC Financial Planning will ensure you choose the products best suited to you.

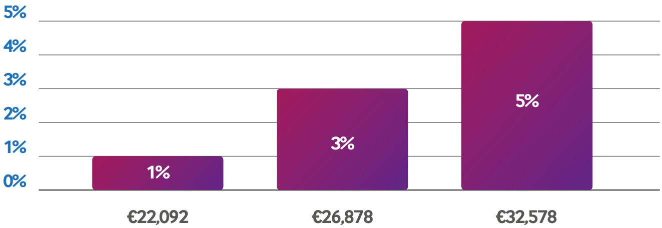
# What kind of return can I expect on my investment?

The longer the term, the more impact even a small extra return will make on your investment due to the return multiplying over time. Take for example €20,000 invested for 5, 10, and 20 years and say your options are 1% per year on deposit; 3% per year on a mid-risk fund and 5% per year on a higher-risk fund (after taxes and charges). Let's look at your potential return:

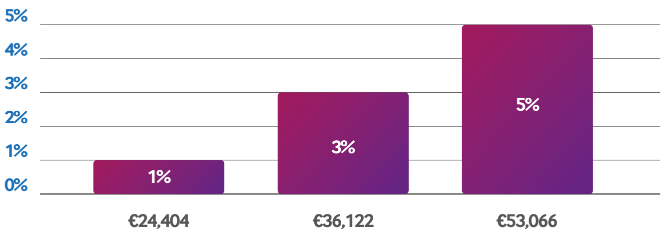
**€20,000 invested for 5 years:**




**€20,000 invested for 10 years:**



**€20,000 invested for 20 years:**




**Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.**

It's important to remember though that investment returns can fluctuate and you may not get the average return (it could be higher or lower). There are typically no guarantees with riskier investments but the difference on expected returns widens the longer your investment term.

Additionally, while stock markets and other equity-based investments can be volatile and subject to sudden drops, they tend to trend upwards over time so if you have a long time horizon, you can "ride out" the ups and downs of riskier funds.

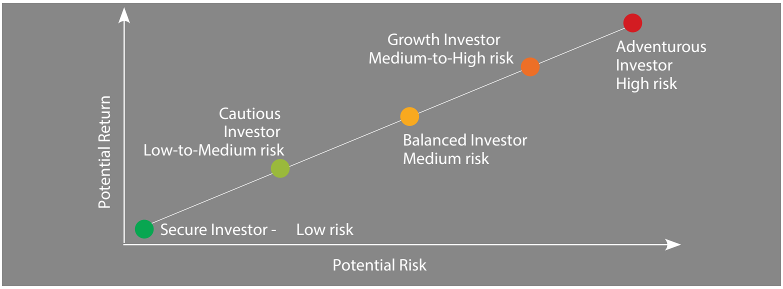
Another factor to consider is how safe are investments? Without doubt, the financial crisis has reshaped the view of what is considered safe for your money, but what about inflation? This erodes what your lump sum is worth in the future. Investments with low volatility (deposits, government bonds, etc.) tend to have greater inflation risk and again this is magnified for longer investment terms. Shares, property and other "real" assets have in-built protection against higher inflation.

For these reasons, it is generally recommended that you take on some investment risks when investing for the longer term to protect against inflation, but it is a complex area and you will benefit from guidance from PSC Financial Planning.

# Investing your money

**Some simple rules to follow:** Before you decide what funds to invest your savings into there are a few important facts we think you should consider.

**1. Understand your attitude to risk and return:** Investing typically involves a trade-off between risk and return. You may be a cautious investor and are willing to accept a lower level of return for less risk. On the other hand, you may be a more adventurous investor and are willing to accept a higher level of risk for the potential of a greater level of return. Or you may sit somewhere in the middle and want to spread your investments between a mix of cautious and higher risk funds.




**2. Don't put 'all your eggs in one basket':** We have all heard the old saying; don't put all your eggs in one basket. The same can be said of your investments.' Spreading the risk' or 'diversifying your investments' involves selecting funds that include options from different asset classes, sectors and regions. As there is no way of predicting what asset class will be the star performer each year, this type of diversification is key. By balancing risk and return through diversification, you can:

- Participate in market gains.
- Minimise the effect of market downturns on any one asset class, sector or region.
- Achieve more consistent and steadier returns over the long-term rather than 'chasing winners'.
- Reduce the risk profile of your portfolio.

**3. Take a long-term view:** Setting financial goals and staying the course during market highs and lows can help you achieve your investment aims. Of course, we would all like to sell our shares when the market has peaked, just before it starts to fall – and then buy them back again at the bottom of the market, just before the recovery begins. However, getting the timing exactly right is virtually impossible, even for the most experienced investors.

**4. Don't ignore inflation:** Inflation is simply a measure of the increase in the price of goods and services in a region. However, despite its simplicity, it can have a serious effect on your investments. Inflation can erode the purchasing power of your investments. Investing in equity, natural resources and property assets has historically provided the best insulation against the impact of inflation. However, past performance should not be regarded as a guide to future performance.

**5.'Averaging' can boost the value of your savings:** Saving regular monthly amounts means that you could turn stock market volatility to your advantage. This is because your contributions buy more units when prices are low. Provided that the market subsequently improves, all units purchased by the plan will benefit from this recovery. This example shows the benefit of paying contributions of €500 per month during a 6-month period of stock market volatility versus a single €3,000 investment.

| Month | Contribution paid | Unit price | Units purchased |
|---|---|---|---|
| 1 | €500 | €5.00 | 100 |
| 2 | €500 | €4.50 | 111 |
| 3 | €500 | €4.00 | 125 |
| 4 | €500 | €4.00 | 125 |
| 5 | €500 | €4.50 | 111 |
| 6 | €500 | €5.00 | 100 |
| **Totals** | **€3,000** | **Average €4.50** | **672** |

**The benefit:** A single contribution of €3,000 at the outset would have bought 600 units at €5 each. In this example the unit price is again €5 at the end of 6 months and hence the value of the units is €3,000. However, due to the fluctuations in unit price over the 6-month period, a regular saver contributing €500 a month (€3,000 in total) has bought 672 units. At €5 per unit, the regular saver's plan is worth €360 more than the lump sum investor's!

# What factors should I consider when choosing a savings and investment product?

When you choose a savings and investment product, whether it's a deposit account or an investment fund, there will be a number of different things to consider:

- **What's the recommended minimum savings and investment term of the product?** Some products may be suitable for short-term investment, while others may require you to take a longer-term view.
- **What kind of access will I have to my money?** Some products offer immediate access while others may lock up your money for a particular period.
- **Does this product provide an income or capital growth?** Some products may be geared to provide regular income along the way, while others provide the opportunity for capital growth.
- **What is the associated investment risk?** Some products may guarantee to return your full investment while others may involve a risk of getting back less than you put in.
- **How will my returns be taxed?** The income and/or capital gain you earn may be taxed in different ways, depending on the type of product. For example, deposit interest may be subject to Deposit Interest Retention Tax (DIRT) while gains from life assurance savings and investment policies are subject to an 'exit tax' deduction before payment to you.

Investments can be complex but choosing the right fund for you can make a serious difference to your eventual return, especially for longer term savings and investments. PSC Financial Planning will be able to guide you through the different options available to you. Based on our knowledge of your financial circumstances, your goals and your attitude to risk, we can help you choose a particular product that will meet your requirements and help you achieve your financial objectives.

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**PSC Accountants & Advisors provide the following services:**

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- Taxation
- Book keeping
- Business start ups
- Payroll
- Value Added Tax
- Relevant Contract Tax
- Company Secretarial
- Corporate Finance, Recovery & Insolvency
- Budgets & Cashflows
- Financial Planning

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