HOW TO GET RICH BY THE TIME YOU'RE 50

It might seem a long time away now, but sensible investing could make you financially secure by the time you're 50

Saving is important if you want to get rich, but there's a much faster way to grow your money – investing. Investing is an essential tool if you want to get rich by the time you're 50 because it gives your money more potential for growth.

If you're looking to grow your money, one of the major problems with saving is a huge and unstoppable beast that will eat into your money and devalue it over time. That beast is inflation.

So what exactly does it do? Let's pretend you want to buy a pair of £100 headphones, but you are going to wait until this day next year. So you put £100 in a savings account with a 3 per cent interest rate and wait. What will happen to your cash? Well, because the current rate of consumer price index inflation is 2.8 per cent, that means that in a year's time, your money will be worth 2.8 per cent less than it is today. So, although the interest will turn your £100 into £103 after a year, in today's money it'll only be worth £100.80. That means you can still afford the headphones, but only just. This is pretty lame.

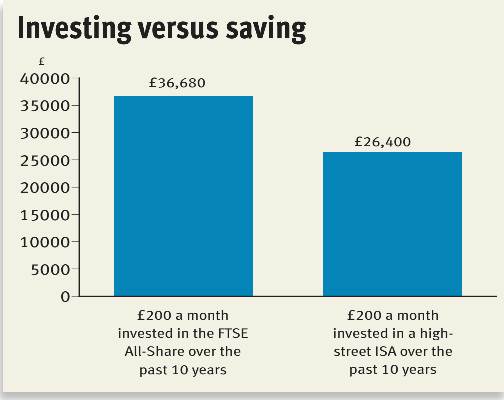
If you want to beat inflation, investing is a much more effective tool than saving – and we'll come on to why in a second. Now, forget the headphones we just talked about – because you've got much bigger fish to fry. Investing can help you reach your life goals faster than saving – and if you're in your 20s – the one that probably springs to mind first is buying a house.

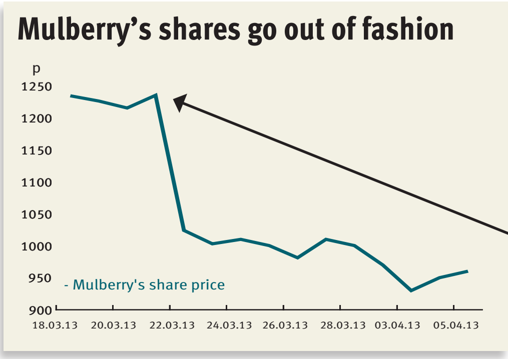
But if you're a first-time buyer in the UK, on average you'll need to stump up a £31,000 deposit (source: Council for Mortgage Lenders). Most people don't manage to save this much until they're in their 30s – and many will never manage it. Let's look at how much faster investing £200 a month can grow your money than if you're saving the same amount in a cash individual savings account (Isa) over a 10-year period.

Investing in the stock market can help you achieve this much faster. As you can see from the chart on the next page, a £200 monthly investment into the FTSE All-Share over the last 10 years would be worth £36,680 now compared with the £26,400 you'd have if you'd invested it in a high street cash Isa. So the difference between saving and investing could mean years between you being stuck renting and affording your first home.

So, how is investing different to saving? It's actually quite simple. When you save money it sits in the bank and the bank give you a bit of interest, which makes it grow. But when you invest money, it is not just sitting in the bank. What you are doing instead is handing over your cash to buy assets that rise and fall in value over time. After you buy them, they will either lose or gain value, so when you decide to sell them in the future they will have either stayed the same or generated a profit or a loss.

There are many different types of assets you can buy and we will take a closer look at them soon. Collectively we refer to them as the stock market.





Shares in handbag-maker Mulberry plunged the day after it announced a profit warning

HOW TO MAKE MONEY BY INVESTING IN THE STOCK MARKET

The value of assets can go in any direction. To make money by buying them, you have to buy them when they're cheap and sell them when they've risen in value. For example, if I buy an asset today for £10 and it's worth £50 in five years, I'll have made £8 a year if I sell it in 2018. This sounds simple, but it's much easier said than done because assets can suddenly fall in value – often without warning. If I decided to hang on to that asset until 2019 and its value falls by just 10 per cent in that extra year, I'll have only made £5.83 for every year I invested.

So you can see it's a risky business. But investing is not based on wild guesses, or even taking a punt on a probability (like gambling). Even picking one or two assets you're confident to invest in isn't really enough. The proper way to do it if you want to make serious money is to build yourself an investment portfolio – and I will show you how to do this. Everyone has their own style of investing, but if you're going to make money by buying and selling assets, you need to be able to formulate a case for the assets you have chosen being likely to do well over the time period in which you want to invest.

And this is the tricky bit. No one gets it right every time with investing because no one can predict the markets (if they could they'd be very rich!). But knowing the right things to look out for will help you make good investment decisions.

So, if you're actually going to take the plunge, you need to really swot up on the areas you're interested in. Our free guide on how to get started in investing is a great place to start as it covers all the basics you need to know.

So we've talked about these 'assets' – but what exactly are they? And how much money could you make from them? There are loads of different types but as a beginner investor your main focus should be on the two main ones, so we'll stick to these for now. They are called: equities and bonds.

EQUITIES (STOCKS AND SHARES)

- **Typically higher risk**
- **Capable of producing the biggest rewards**

Equities, or stocks and shares, are the core building blocks of the stock market. When you buy a stock you are getting a small part of the ownership (equity) of a company, which makes you a shareholder. As a shareholder with equity in a company, you are entitled to a proportionate amount of its material growth and dividend payouts (similar to interest you get from a bank). So, if you've got shares in a company that's growing, your shares will be growing too – but if its overall value decreases, so does the value of your chunk of it.

The value of stocks can jump rapidly because they are being traded every second of every day that the market is open (which is most days). This means the price of my shares this morning could look very different to their value this evening. This normally happens when a company that issues shares makes a big announcement that will affect whether people want to buy shares in it. Look at how far shares in handbag-maker Mulberry group plunged the day after it announced a profit warning (see chart above).

Because prices move so fast, people who buy and sell shares tend to monitor their share portfolio on a daily basis, which means they require a lot of time and attention and are only really suitable for sophisticated investors who know a lot about companies and markets.

But if you do want to learn how to pick individual shares that will make you money, our free guide on how to become a stock-picker is essential reading.

BONDS (FIXED INTEREST)

- **Typically lower risk**
- **Produce higher returns than cash but less than equities**

A bond is basically an IOU. Bonds are issued by companies (corporate bonds) and countries (sovereign bonds) to investors so they can raise money quickly and don't have to pay it back as fast as they would if they had borrowed it from a bank. You give them money and they agree to pay you the amount you paid (plus a little bit extra for the favour) back over set periods. These periods are pre-agreed and can be as short as a year or as long as several decades. You receive fixed income from your bonds over the agreed period. Some investors, who have received a battering from falling interest rates on cash accounts in recent years, have turned to bonds as a source of higher income.

If you want to swot up on investing in bonds, read our free guide to investing in bonds as it contains vital information on how to go about it.

FUNDS ARE THE EASIEST WAY TO BUY EQUITIES AND BONDS

Buying individual assets is really only for sophisticated investors. But luckily if you're new to investing there's is a much easier way to access the stock market – funds. Funds are segregated pools of money into which private investors (like you) funnel money to be invested. They are less risky than sticking all your money into one share or bond, because they typically hold up to 50 at a time and therefore minimise your chances of losing money because it's highly unlikely 50 companies will go bust at once!

There are two types of fund that put your money to work in different ways:

- Actively managed
- Passively managed

ACTIVE FUNDS

By investing in an actively managed fund you are handing over your money to a professional investor (aka a fund manager) to invest in assets on your behalf. They spend their days picking a portfolio of investments they think will beat their benchmark indices (a list of the companies in the sector or region they are investing in) and suit your investment needs, and for this they will cream off a percentage of your money to take as payment – normally between 1 and 2 per cent.

PASSIVE FUNDS

Passively managed funds are a bit different. You hand over your money and it is invested on assets on your behalf, but this time the manager uses a set list of the biggest companies listed on a country's stock exchange. These lists are called indices – and an example of one is the FTSE 100 index, which you have probably heard of already. A passive fund manager's job is to invest your money as closely in line with this index as possible. And because a lot of the work is done by computers, these funds tend to be a lot cheaper than actively managed funds, although the average returns you get on them don't tend to be as big as active funds, because active funds' job is to beat the benchmarks they follow (although they don't always!).

Active and passive funds have different money-making advantages and many financial advisers recommend you have a bit of both in your portfolio. You can read about their pros and cons here.

There are funds listed on the London Stock Exchange that invest your money in virtually every type of investable asset that exists in the world. There are literally tens of thousands of funds with hundreds of different investment themes – although finding good ones can be a daunting task. Investors Chronicle's Top 100 Funds list is a good place to start looking as it creams off the best of breeds so you don't have to waste time sifting through a mob of poor performers to find a fund that's got a good chance of making you money.

HOW SAFE WILL MY MONEY BE?

Investing is exhilarating because it can grow your money amazingly fast. But as fast as the prices of some assets can shoot through the roof, others can fall through the floor. Unlike savings, there are no guarantees when you buy investments – your money is at the mercy of the peaks and troughs of the stock market and deciding how you want to invest is all about weighing up risks and rewards.

Some assets are considered much riskier than others as the heat chart on the right shows. But one of the most important rules of investing is the riskiest assets are also the ones that can bring the best rewards – or in other words – they can make you the most money. One of the most important things you need to do is work out how much risk are you prepared to take on your investments. An easy way to do this is by using a risk calculator that asks you a series of questions to determine your risk appetite, and then suggests a portfolio that suits you. But these tools are quite general and don't always get it right, so it's best that you do your own research as well.

This sounds scary but historically financial markets as a whole have only ever gone up over time,so you're more likely to make gains than losses if you stay invested for long enough.

And if you invest through a financial services firm or a fund house and it does badly you will face tough losses, but if it stops trading or defaults on payments all together, you won't lose everything. This is because the Financial Services Compensation Scheme can compensate the first £50,000 you lose in a financial services firm if it goes bust.

BUILDING A PORTFOLIO

Unlike saving, where it's better to have your money in just one or two accounts, putting all your eggs in one basket when investing really is too risky to warrant consideration. Investing in a range of different types of assets is a good idea because if one goes pear-shaped, at least you have a bunch of others (that are hopefully doing better) to fall back on. We call this diversification and it decreases the likelihood of you losing large amounts of money. A balanced portfolio is what you need to aim for. This will

How risky (volatile) different sectors of the market are

contain between five and 20 different funds (more than 20 is hard to keep track of and will work out expensive because of charges).

MODEL PORTFOLIOS

Deciding which funds you want to buy can be daunting – especially if you're new to investing. So with the help of some experts I've created some portfolios that are designed especially for twentysomething investors to grow your money – so you can buy that car, or that first house, much quicker than if you stuffed your money in the bank.

I've put together two active and two passive portfolios – for 10 and 30-year time horizons – to suit your needs. Remember the active funds are more expensive, but have more potential for money building than the cheaper, passive funds – but you can mix and match as you like. In fact, it is advisable to have a mixture of active and passive funds in your portfolio.

Now let's talk about some of the themes in these portfolios. The 10-year portfolios need to be less risky than the 30-year portfolios, because the latter gives you a longer period in which to take bigger risks. An investor with a 30-year timescale is able to take on more risk than someone with a 10-year time horizon and these example portfolios allow you to do exactly this.

Smaller companies are a great investment idea for young investors. In the 30-year portfolios a lot of the big risks come from smaller companies funds, because small companies are much more unpredictable than larger ones. One day they could be doing fine, the next they could have gone bust or exploded into the next Facebook or Twitter, for example. The 10-year portfolio doesn't include a specific smaller companies fund, but some of the funds it does include have a portion of their money invested in smaller companies so you still get a bit of exposure.

And all the portfolios invest your money in emerging markets (a high-risk, high-growth sector that has a lot of potential for young investors to make money) through using the Aberdeen Asia Pacific fund or the iShares Emerging Markets Minimum Volatility, which funnels your money mainly into Asia and Australasian companies.

The 10-year portfolios include funds that have a bigger emphasis on preserving your money, rather than on growing it, such as the Jupiter Strategic Bond and Artemis Income. Shorter-term investors need to think about preserving their money more than longer-term investors.

The 30-year portfolios are more aggressive at growing money and will give you more exposure to equities (the most risky type of asset), particularly in African markets – the most risky economy in the world, but with the most growth potential. The active portfolio simply swaps CF JM Finn Global Op-

Active portfolio for someone in their 20s with a 10-year timescale

10%	Aberdeen Asia Pacific
20%	Artemis Income
20%	Artemis Strategic Assets
10%	AXA Framlington UK Select Opportunities
10%	Lindsell Train Global Equity
10%	Jupiter Strategic Bond
20%	Troy Trojan

Passive portfolio for someone in their 20s with a 10-year timescale

30%	HSBC FTSE 100 Tracker (ISIN: GB00B80QFR50)
30%	HSBC American Index Fund (ISIN: GB0000470418)
20%	iShares MSCI Europe ex-UK (IEUX)
10%	iShares MSCI Japan Monthly GBP Hedged (IJPH)
10%	iShares Emerging Markets Minimum Volatility (EMMV)

Active portfolio for someone in their 20s with a 30-year timescale

10%	Aberdeen Asia Pacific
10%	AXA Framlington UK Select Opportunities
20%	CF JM Finn Global Opportunities
20%	Lindsell Train Global Equity
10%	Rathbones Global Opportunities
20%	Standard Life Inv Global Smaller Companies

Passive portfolio for someone in their 20s with a 30-year timescale

20%	HSBC FTSE 100 Tracker (ISIN: GB00B80QFR50)
20%	HSBC American Index Fund (ISIN: GB0000470418)
20%	iShares MSCI Europe ex-UK (IEUX)
10%	iShares MSCI Japan Monthly GBP Hedged (IJPH)
10%	iShares Emerging Markets Minimum Volatility (EMMV)
10%	iShares Markit iBoxx £ Corporate Bond 1-5 (IS15)
10%	ETFS Physical Gold ISIN JE00B1VS3770

An investor with a 30-year timescale is able to take on more risk than someone with a 10-year time horizon portunities fund for the Troy Trojan to do this, and the passive one invests in a corporate bond fund and a gold ETF.

WHERE DO I BUY INVESTMENTS?

When it comes to websites that sell investments (we call them investment platforms) you're spoilt for choice. It's cheaper to buy investments through these than it is to buy them directly from an investment house as they usually charge initial fees you can avoid with investment platforms.

SOME POPULAR INVESTMENT PLATFORMS TO CHECK OUT:

- Alliance Trust Savings
- Barclays Stockbrokers
- Bestinvest
- Chartwell
- Clubfinance
- Interactive Investor
- Hargreaves Lansdown
- Selftrade
- ShareCentre
- TD Waterhouse

PROTECT YOUR PROFITS FROM THE TAXMAN

There are two protective wrappers you can use to prevent the taxman biting a chunk out of the money you make on your investments.

The first one is a stocks and shares Isa. Into a stocks and shares Isa you can pop stocks and shares (as the name suggests!) funds, government bonds and corporate bonds. You can invest up to £11,520 in the current tax year into one of these protective wrappers. If you have investments and you haven't used up your Isa limit for the year, you should get one as it could save you a lot of money. You might find this guide on how to pick an Isa helpful if you are looking for one.

And the second is called a self-invested personal pension (Sipp). You can put up to £40,000 a year in a Sipp and it will be safe from tax. This is especially good if you're a higher-rate taxpayer (earning over £41,451 in the tax year starting April 2013) because you would usually have to pay even more tax. Personal pensions offer the best tax breaks but cannot be accessed until you are 55, so you need to bear this in mind.

You can also hold your investments outside of a tax wrapper, where they will be subject to normal income tax.

IMPORTANT GUIDANCE FOR YOUNGER SAVERS

If you're in your 20s and are new to investing you might feel a bit bewildered and unsure about how to proceed. So here are some of the top tips investment experts have for you:

LEARN TO REINVEST PROFITS

The compounding of interest makes your money grow faster over time (explained in 'Why should I start saving young?') and this power also takes effect on your investments – but only if you reinvest your profits back into them. The more time you have, the better, and if you're a young investor you're likely to have lots of it.

When researching funds, look out for the letters 'inc' and 'acc' next to the names. 'Inc' means anything you make on the fund will be paid to you as regular income so you won't see the effects of compounding because your money isn't being reinvested. If you want compounding to take effect, opt for 'acc', which will automatically reinvest those bits of money so you get a bigger profit at the end – and this second option is worth jotting down if you want to get rich by the time you're 50.

YOU'VE GOT TIME TO TAKE BIGGER RISKS

You might be young but you have a trump card that gives you an edge over older investors. That trump card is time. Investments are volatile beasts that can fluctuate wildly in value – but the bigger the fluctuations – the higher their growth potential over time.

This means investors who can stay invested for the longest without selling them (people in their 20s, like you!) can afford to take the most risks.

Take a look at how much the biggest companies in Argentina have grown compared with the biggest companies in the UK (the FTSE 100) over the past 30 years (see charts above). Because Argentina is a much less developed economy than the UK, it has been growing much faster. This is because the UK already did most of its growing during the industrial revolution – which was a long time ago! So the Argentinian companies grew faster, but look at what happens if you look at how they behave over one year. The Argentinian companies peak and trough more violently which would make them a nightmare to invest in over the short term. The UK companies are much steadier, meaning you could invest over shorter periods and still lose money but you'd be less likely to than if you invested in Argentina.

START OFF WITH FUNDS

Shares are exciting but are only really a good idea for sophisticated investors. But if you're investing for the first time you're best off starting with a selection of funds with exposures to a variety of different types of assets.

THINK ABOUT REGULAR INVESTING

Markets peak and trough all the time, but a lot of investors get scared of buying assets in markets that have fallen, and this is often a mistake. Investing in markets that have fallen through the floor may feel counter-intuitive but it is a way of making huge returns, because fallen markets have more potential to rise again than ones that are already peaking. And by not doing it you could be missing out. Regular investing involves drip-feeding smaller amounts of money on a regular basis into your investments, rather than one big lump sum on a random day. It's a also an easy way to invest as you can set up a direct debit from your current account at the beginning of the month so you don't even have to think about it.

CAN YOU AFFORD TO INVEST?

Financial experts reckon you should have three to six month's salary saved in a cash account before you sink your teeth into the stock market. This is because investing is riskier than cash and could lose you money – so you shouldn't invest anything you really can't afford to lose.

In terms of individual investments, it's not really worth putting a few quid here and there. Investing is not free – there are a lot of charges associated with setting them up, ongoing fees and sometimes it costs to sell investments too. You really need about £500 to £1,000 minimum per investment to make them a good buy. And you should have a minimum of five funds in a balanced portfolio.

CHARGES CAN EAT UP YOUR INVESTMENT

Some investments are better value than others. But costs are one thing you can control as an investor. Watch out for expensive charges because they can damage your returns – especially if you've only got a modest amount of money invested and are investing over long periods. Comparing the charges of similar funds in a sector before you buy is a smart move. And Investors Chronicle would question actively managed funds with annual management charges of above 2 per cent, and passive funds that charge more than 0.8 per cent a year.

DON'T INVEST UNLESS YOU UNDERSTAND THE INVESTMENT

If you're looking at the brochure for a fund and it may as well be written in gibberish, do not proceed. Investing in assets you don't understand is dangerous because a large number of them are likely to lose you money, and you don't help your chances if you're none the wiser about identifying obvious lemons. Swot up before you even think about parting with your cash.

young MONEY
Next in the Young Money series:
How to never run out of money.

> Watch out for expensive charges because they can damage your returns – especially if you've only got a modest amount of money invested