



Your guide to
key financial
issues of
today

This month: **December
2011**

Helping you maximise the effectiveness
of your financial planning

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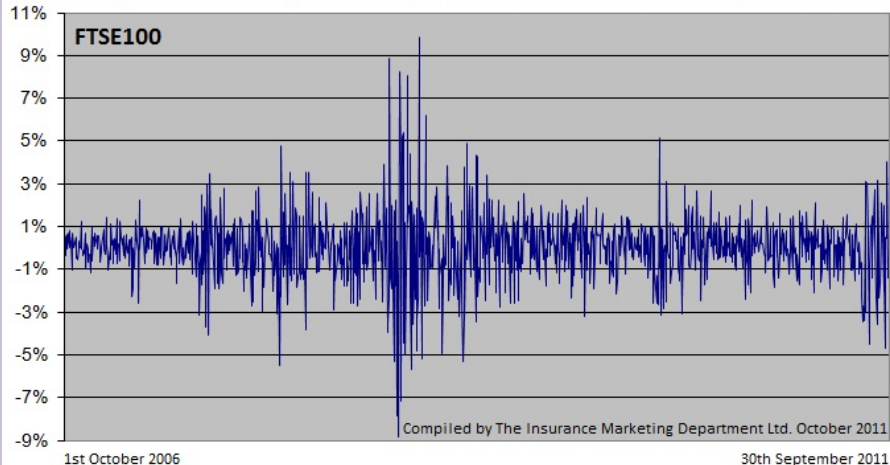
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Market volatility is a fact of life

One of the questions most frequently asked at the moment is whether market volatility is something that investors should worry about. The simple answer is that we have seen far greater one-day market movements in recent years and that there is nothing to fear from them.

Percentage difference on previous day - 1st October 2006 to 30th September 2011



In reality, markets are less volatile now than in late 2008

Short term volatility is not something that should concern most investors for several reasons, not least of which is that losses and gains are only on paper until the assets need to be realised in order to access the capital. For most people that is likely to be no more than an inconvenience – having to wait a little longer than hoped for, to get the best return. Only those with a fixed date on which money has to be accessed (such as an impending retirement date) are likely to be affected and they can manage the situation by moving money gradually into less volatile assets such as gilts (on which annuities are based).

Pound-cost averaging

There is even some potential benefit from fluctuating asset values, for those making regular investments. The reason for this is that more shares (or units in a collective investment) are purchased by a given regular sum of money invested, when prices are lower, than when they are higher. So if prices suddenly drop when money is due to be invested, the pension contribution or ISA investment will purchase more units in the fund. When it comes to sell, the investor will therefore have more to be realised at a hopefully higher price than had he or she invested everything on 'day one'.

This does not mean that lump sum investments are inferior to regular ones; simply that there are potential benefits from each approach. What really matters is that there is a clear investment strategy that reflects objectives and risk tolerance and that sufficient asset class diversity is present to avoid the 'all the eggs in one basket' syndrome.

Making it work in practice



We were asked by a client how he should invest £40,000 he had recently inherited, so that he could access some of the cash if necessary, but also aim for reasonably good growth.

We suggested that he and his wife both invested the maximum in an Equity ISA immediately, putting the balance into a cash account until next April. At that stage they would start feeding the balance of their cash into the ISA, each month, but taking advantage of the ability to invest part of the ISA on a cash basis, thus retaining maximum flexibility and access.

The initial investment would benefit from growth on the entire £21,360, while the balance (£18,640 plus any interest accrued) could be fed into the ISA within the 2012/13 allowance, gradually, to benefit from pound-cost averaging.

If you would like us to help you solve financial problems, or to assist with financial planning, contact us on 01494 442 700 or e-mail: info@bpinvestment.com