

The Ups & Downs

With markets in turmoil, is there any value to be gained by investing in equities?

Rules of equity investing

- 1. Don't put all your money in to just one stock sector. Spread the risk**
- 2. Don't follow the herd**
- 3. Be prepared to quit while you are ahead**
- 4. Don't double your investment in a falling stock**
- 5. Always think long-term, at least five years**
- 6. Always take professional advice**
- 7. If appropriate, diversify across sectors, company size and countries**

So what is an equity?

Simply, an equity represents a share or part ownership of a company. If there are 100 shares issued and you have one share, you own 1% of the company.

The management of a company, whether it is a FTSE 100 blue-chip, or a small, start up enterprise listed on the FTSE Small-Caps index, will strive to grow the company's profits and its value each year.

The shareholders' portion of the profits, if any, are sometimes paid out in the form of regular income through dividend payments (subject to income tax). Investors also hope for a return on their capital. The return is any extra cash they could get after capital gains tax has been deducted, when they sell their shares. Remember that the value of the return and the dividend payouts will depend on the value of the markets at the time; also, not all companies pay regular dividends.

Any reduction in equity value can depend on many factors. It could be that the company management is failing to achieve its aims, or that the company is not performing as well

as intended. Or, it could be that it is losing value just because the markets are being driven down by sentiment.

For example, the problems in the banking and financial services sector recently have caused panic-selling, which has then driven markets down around the world – but this does not mean that all companies are not worth investing in.

By exploring a company's background, such as whether it has sufficient cash flow, a good product line, strong management with a clear vision, a global reach or robust distribution models; an equity fund manager may be able to see where the bargains could be found. Sometimes, a falling share price that is sentiment-driven, rather than driven by an intrinsic fault in the company sector itself, may be a buying opportunity for fund managers and investors who could buy at low valuation and invest for the long-term, for at least five years to try to achieve a good return.

Beware of vogue fads

Timing is vital; you don't want to buy at the top of a market cycle and sell at the bottom when share prices have reached a low. This is a classic mistake that some equity investors can make. When everyone is leaping in and share prices are rocketing sky-high, beware of jumping onto the bandwagon. History dictates that it could take you over a cliff.

Have a long-term strategy

In this age of instant coffee and instant cash, people think that long-term investing is about 12 months. But, for a fund manager, "long-term" means at least five

years. For a pension fund manager, it could mean 20 years. What is your long-term equity strategy?

You may need a return of, say, 25% over five years to help pay for a wedding. Suppose you reach that target early, would it be advisable to redeem that investment? Can you afford to risk losing that 25% gain? People overlook the importance of getting the day of investment and the day of redemption right. The more flexibility you have as to when to invest and when to redeem, the better.

How to invest?

You can invest directly in equities, individually or within a "basket" of particular shares through specialist vehicles, such as exchange-traded funds. You could invest in any index through a tracker fund. You could also invest in large, medium or small-caps, UK or overseas equities or a combination of the best of these through an actively managed fund of shares picked by an expert manager. Remember to always take advice first.

Levels and bases of, and reliefs from, taxation are subject to change.

The value of your investments and any income derived from them can go down as well as up. Past performance is not a guide to future returns. When you invest, you should always think for the medium-to-long-term, which is at least a five-year time horizon.