This content is for guidance and educational purposes only and is generic in nature. Salary Finance does not offer regulated financial advice and you should seek independent financial advice on your personal situation.

Season 2. Building personal wealth

Episode 5.

Choosing the right investments for you

Hi there. Jason here. In this Money Insight we're going to look at a really useful six-point checklist to help you choose the right investments for each of your financial life goals. And the great thing about this powerful checklist is that it will last you a lifetime. These checks will help you assess any investment that anyone could ever put to you in the future. And will help you avoid the common money mistakes that other people make.

Now, at a high level as we said in the previous Insight, there are three things you can adjust to improve any financial plan. You can downgrade your goals, save more towards them, or make smarter investment choices, or any combination of these things. And it's this third option – making smarter investment choices – that we'll focus on here. But before we get into this, I just want to be clear on three points: First, this is just an outline of the checks you'll need to make. So, we'll look at the details behind this checklist later in the series. Second, it's important that you make all six of the checks on any investment you're considering, and before you jump into it. And third, these checks are not in any priority order. A good financial plan matches the right features of investments to what matters to you on each of your financial life goals. That's what makes your financial plan unique to you. So, with those points in mind, let's run through these checks now.

Now, this first check is about understanding how much (if anything) you can put into the investment you're looking at. For example, if you hope to build wealth through buy to let property, you'll need a good amount of money up front to cover your mortgage deposit and your buying and other set-up costs before you can get started on that. On the other hand, you can normally start saving into tax advantaged savings plans like ISAs and Pensions for modest amounts each month. There are limits on how much you can pay in to various types of investment and on who can pay into these things. So you need to check these limits, and good, UK regulated investment and pension providers can help you with that.

The next question to ask is whether you'll get any free money with the investment you're considering. Obviously, you'll enjoy a lot of free money from your employer paying into your pension plan. And on some of those special ISA products the government adds a 25% free bonus too. You should also ask your employer if they have share save scheme offering a free discount on the price of shares you buy through that. Or, if they offer other savings options with free money available. Whatever form they take free money boosters are a big factor to consider.

Now, the taxation of investments is an enormous subject and we're only going to scratch the surface of it here. But you can start to get a good handle on the tax side of investing with these four questions: First, will you get tax relief when you put your money into this investment? With pensions, for example, the answer is yes, whereas with ordinary ISAs the answer is no. That said, those special ISAs effectively boost your savings in the same way as basic rate tax relief on pensions. Second, how is your money taxed whilst you leave it invested? And for both Pensions and ISAs the answer is, broadly, tax free. Third, is your money tax free when you take it out of your investment? For ISAs the answer is yes. For pensions the answer is partly yes and, with careful planning, you might be able to minimise the tax you pay on the rest. And finally, on tax. If your estate is big enough for this to be a problem, does this investment do anything to help your family reduce the potential inheritance tax on your estate after you're gone? Currently the answer to this question for ISAs is no, but for Pensions is yes. In short, when it comes to tax, there are four areas to consider and you can, using government approved ISAs and Pensions, reduce the tax you pay in most of those areas and dramatically improve your investment returns. So, be sure to ask these tax questions about any investment you look at.

Check four is about how easily you can access your money if you need to. Of course, once you've built a good emergency fund, you shouldn't need short-term access to your longer-term investments. But you may want to keep some of your investments accessible in case of a significant change in your life. And there are two elements to accessibility that you'll need to consider. First, you need to understand how your chosen investment pots might restrict your access to your money. So, for example, with pensions you won't normally have access to your money until 10 years before your state pension age. Second, you need to consider how easy it is to sell the assets you're buying? It may be obvious that a directly owned property could be difficult to sell for the price you expect if property prices are crashing at that time.

But even property funds that you could hold inside your ISA or Pension might lock your money up for some considerable time during a financial crisis. So, once again, accessibility is an essential check that you will want to make. When it comes to risk and reward, there are some fundamental questions that you need to ask about the security of your money – and the company looking after it. And we'll come back to these later in this season.

But you'll also want to check that you can choose the investment funds you need for the best chance of achieving your specific life goals. For example, with your pension savings as we've described before, you may want to choose Stockmarket based funds for their real long-term growth potential to help you cut the cost of that goal. Whilst for a shorter-term goal – like building a deposit to buy a home – a cash deposit-based ISA (ideally with those free bonuses) might be perfectly fine for you. In other words, your choice of investment fund should depend on the specific goal you're aiming at. And this capacity for risk is something else we'll come back to later in this season.

Finally, on this risk and reward question – and especially if you're considering direct property investment – you really will need to understand the concept of "gearing", which can either be a great friend to you or a very nasty enemy, depending on how property prices move whilst you're in that market. And last but not least in our six-point checklist, you need to keep a very close eye on what you're being charged, both on your investments and for any advice that surrounds them. Now, whilst there can be many layers of charges to watch out for, you really just want to know the total amount by which they'll drag down the return on your money over time. And, the good news is that you can find this number easily enough in the pre-sales notes that you'll receive on any UK regulated investment or pension products. However, it can be a lot trickier to work out the total effect of charges on other investments because you'll need to add up charges for both buying into your investment, and its ongoing administration and management, which with property can add up to a lot. Plus, any charges for professional advice which will typically comprise an upfront fee and ongoing fees on top.

Of course, checking investment and advice charges will not be the most exciting thing you'll ever do in life, but if you get this right it might save you hundreds or even thousands of pounds in charges over time. So, it really is worth the effort to get this check right or paying for some help if you need it. And you might want to get a second or third opinion on this too. That's because financial advice costs vary a lot, and this is one area where you can't be sure that you'll get better advice or service simply by paying a higher price. Sadly, there are still some advisers who rely on you not to make this check. The good news on company pensions is that charges are typically very low when compared to buying individual investment plans for yourself. But I suggest you check the charges anyway, and check online to see if they're reasonable for the size of pension scheme you're in.

Okay, so these are the big six checks you need to make on any investment you consider for any financial life goal. And if you make these checks you will make smarter investment choices. Choices that are better suited to your personal circumstances and your personal objectives, And provided that there's a nice long time until your financial goals arrive, you may be pleasantly surprised at how little you'll need to save to achieve your goals. However, if you find that the costs of reaching your goals are beyond your current reach, you may have to consider delaying or reducing the size of some of them. The alternative is to find ways to increase your income, so you can afford to save more to achieve the goals you want. And your investment in making yourself more valuable in your current (and future) work is the best investment you can ever make.

Getting a financial plan on track and keeping it there is not easy. But you'll find it's a lot easier if you use the processes I've outlined here to review your plan each year, or after a significant change in your life circumstances. The key is to start with a good plan and take action on it, and then adjust it, as necessary, to reach your goals over time. You can download a one-page summary of this six-step process from the resources section of the Salary Finance website.

In the following money Insights, we'll look more closely at some ideas we've outlined so far in this series. We'll start by looking at how you can decide on how much investment risk might be right for you for each of your financial goals. I look forward to seeing you back here when you're ready for that. All the very best.

End