Learn to invest

HSBC Premier Financial Advice terminology explained.

Today we're going to be looking at some words or phrases you may hear during your conversation with your adviser.

What is an investment?

An investment can be a number of things. Most commonly, it is in the form of equities or shares that are traded on the stock market. It could take the form of cash kept in savings or ISAs, physical assets like property or things like government debt or corporate bonds.

A single investment could also be a range of all of these in what's commonly called a wrapper or vehicle where an investment firm or manager actively manages the whole portfolio and you buy into the portfolio with your own investment money.

Risk or volatility

All investments come with some form of risk. A term you'll hear is the 'risk and reward balance'. What this means is that to seek higher rewards, you're likely to take a higher level of risk. Conversely, lower risk investments will tend to have less potential for high gains.

Volatility relates to the degree of upward and downward movement that any type of investment experiences. When you choose to take out an investment, there's a possibility that the value of your investment goes down and you might get back less than you put in.

What's important is to understand your personal capacity for loss, that is, could I afford to lose this money should the worst happen?

Once you understand your capacity for loss and volatility, it can help you and your adviser make the right choices for you and your money. This is called your attitude to risk.

Charges

When you choose to invest or take out protection, there are usually fees to be paid to the company who manages the investment or protection product. This is to cover the cost of providing the professional advice you receive, and the cost of managing the product.

Sometimes these are paid at the time of entering an agreement, they could be taken on a regular basis, as a deduction from your investment returns or premiums, or could be something like an annual charge.

Depending on the product, it will depend on the type of charges and when they are to be paid. Your adviser will always explain these to you upfront before you commit to anything.

Investing for income or growth

As part of understanding your investment goals, you may know if you'd like an investment to pay you a regular sum, known as an income, or if you'd prefer to let the investment try and grow until it reaches a certain level or after a period of time.

Some investment products allow an element of both, but you should consider carefully what you'd like to get out of any investment. And of course, in all instances, you should remember that investments can go down in value as well as up.

Pound cost averaging

One of the biggest dilemmas that investors face is market timing. Pound cost averaging is a concept that involves investing on a regular basis and averages the cost of buying an investment.

Investing at regular intervals can often increase the chances that more shares are purchased when share prices are low and fewer are purchased when process are high. This will often mean that an investor will be better off in falling markets and worse off in rising markets.

Pound cost averaging makes for a smoother ride and can be a good way to start small and build up a lump sum for the future.

I hope this video has been helpful and cleared up any confusion you might have had about some of the words and phrases you've come across. But if you do have any questions, you can ask your adviser who will be more than happy to explain further – or have a look at our online jargon-busting dictionary.

Tax benefits depend on individual circumstances and tax rules may change in the future. Most investments should be considered as medium-to-long-term commitments, meaning you should be prepared to hold them for at least five years. The value of investments can fall as well as rise and you may not get back what you invest.