The Maverick Investor

LESSON ONE

by

Matt Dawson

How to Make Lesser Known Investment Opportunities Work to Build Your Personal Nest Egg!

V080701

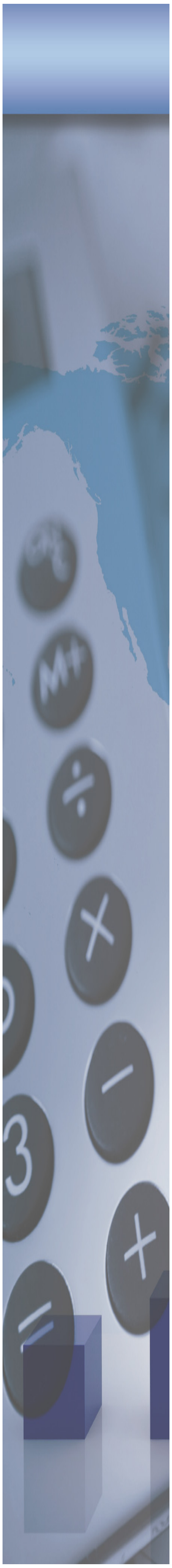
The Maverick Investor's Home Study Course

PART ONE

THE WORLD OF ALTERNATIVE INVESTMENTS

CONTENTS

Page:



Welcome to the World of Alternative Investments!

A big 'thank you' for making your first good alternative investment decision – buying this course!

Most people stay with safe and simple to understand investments. Stocks and shares, maybe some property (usually their own home) and a pension fund managed by some junior in the city. That's all fine and probably one should have the bulk of one's investment in safe, but boring investments like these.

But maybe you should consider playing with a portion of your money by investing in something a little more unusual? The risks are likely to be higher (which is why you should only invest a small portion of your savings) but the returns can also far be, far higher than anything you can get in cityworld.

In this course I aim to walk you through a few of the possibilities – some of which you may never have considered. Obviously I cannot go into huge detail in dozens of areas (there are almost unlimited investment possibilities, e.g. pre-1700 buttons!) but I do want to whet your appetite and get you thinking of some possibilities which might suite you.

The alternative investment industry offers something for every investor; new or experienced, big or small, cautious or speculative. It is hugely diverse in its range and includes everything from antiques and collectables through all sorts of property (from houses to holiday let homes) to penny shares, options and futures. This first part of your course really gives you a broad overview of various alternative investments and shows you how to profit from them. This part will cover:

- **Introducing Alternative Investments**
- **Assessing Yourself**
- **Developing Your Alternative Investment Strategy**
- **Where To Go For Help And Advice**
- **Summary**
- **Further Reading**
- **Homework Questions**

The beauty of alternative investing is that you can invest in something you know about and really enjoy – perhaps you collect china and want to turn your hobby into an alternative investment opportunity. You can! Maybe you love cars. There are alternative investments for you here as well! With many of these investments, it is often also remarkably easy to take just a little know-how and go on to become a successful investor. This course gives you that know-how.

Introducing Alternative Investments

To begin with, you may find it helpful to have a quick overview of the main alternative investments that are out there waiting for you in the marketplace. It will give you some idea of what's available. Coming up in your course, you'll find all sorts of alternative investments and these have been categorised under the following headings.

- **Antiques & Collectables**
- **Hobbies & Interests**
- **Motoring**
- **Property**
- **Other Property Investments**
- **Penny Shares**
- **Options & Shares**
- **Overseas Investments**
- **Miscellaneous Investments**

At this opening stage, you'll probably want to get a flavour of the breadth and depth of what is available, along with some idea of the possible rewards and risks, whether they are short or long-term investments, suited to big or small investors, and so on. From there, you can go on to assess your personal circumstances, develop your alternative investment strategy and get further help and advice before investing.

Antiques & Collectables

Antiques and collectables are fast becoming increasingly popular and profitable alternative investments. There is a huge range to choose from – anything from 17th century historical letters through china and first edition Harry Potter books to whatever interests you. You can invest a little or a lot as suits you! Some antiques and collectables regularly see year-on-year returns in double-figures - usually those that are high quality, low supply and high demand items. There are some risks – you might pick something that doesn't meet those three criteria!

Many alternative investors buy into something they love – whether that's Chippendale chairs or Laurel and Hardy memorabilia – so that they get pleasure from it even if it doesn't increase in value as much as they'd hoped. Antiques and collectables can be short or long-term investments. Some alternative investors will buy and sell quickly to take advantage of events such as anniversaries when interest and demand rise – e.g. the 40^{th} anniversary of Elvis Presley's death, or whatever. Other alternative investors will hold on if the (low) supply and (high) demand mix looks as though it will move in their favour and push up prices in the coming months or years.

Hobbies & Interests

One of the joys of alternative investing is that you can almost always invest in something that you personally love. That's terrific in itself – but it also helps to boost your chances of profiting. If you love something, you'll probably know lots about it and will enjoy researching it. This all helps to increase the likelihood of investing wisely. Your hobbies and interests might include photography, music, wine, books, movies, celebrities, television and/or autographs – and these are all covered in the third part of your alternative investing course. You can invest on a small-scale – paying perhaps a tenner for an autograph – or on a larger scale; putting thousands of pounds into a wine cellar!

In many respects, the secrets of success are much the same as investing in antiques and collectables – if you invest in high quality, low supply and high demand items, you should see prices rise over time. Again, double figure returns are not unusual if you have picked wisely. If you can see anything coming up that will trigger interest in your alternative investments – the death of a celebrity usually sees related memorabilia rocket temporarily in price – then you may want to go for short-term profits. Or you may prefer to invest for the long-term. World Cup 1966 memorabilia, for example, should keep rising at least until England next win the World Cup (which could be a while...)

Motoring

Anything to do with cars is often of great interest, and especially to many men. And the good news is that there are alternative investments to be found in this field, both on a short-term or long-term basis. Classic cars often represent a more substantial investment than you'd expect to put into antiques, collectables and the like. But they can generate equally substantial returns over time; as you'll see in the fourth part of your course, returns of more than 20 per cent a year are not unknown. Some car enthusiasts have profited more by buying a wreck and restoring it to classic status.

Personalised number plates are another option which has proven to be very profitable in recent years; with investments starting at just a few hundred pounds. These can sometimes turn into thousands of pounds if the right choices are made. Car and related memorabilia – or 'automobilia' – have seen some significant price rises lately too, with profits of more than 30per cent to be found in some investments as diverse as old AA signs and metal advertising plates for garages. Some of these have been uncovered for under a fiver in some cases and have been worth hundreds of pounds. Pick wisely – as you'll see later in your course – and you can maximise your chances of profits and minimise the risks involved**.**

Property

Property is an often-overlooked alternative investment - even though it should be the most obvious one as almost everyone rents or is buying a property! Over the long term, property has provided the best returns of just about any investment you can name. In some years, prices have risen substantially. 2002, for example, saw across-the-board rises of around 20 percent! Of course, there are the risks of buying the wrong property in the wrong place at the wrong time. And, in most cases, property does require a substantial investment, although many alternative investors profit by borrowing and getting someone else (a tenant) to cover their borrowings!

The key to achieving these rewards is to buy a property that meets two criteria – one that will increase most in value over time and one that will also be easy to rent out. This means you have to buy a tenant-friendly property in an up-and-coming hotspot! What many alternative investors do is to buy a property to let, using the rent to cover their mortgage and other costs (and hopefully to leave a little left over for some monthly profits). They then hold on to the property for the long-term, selling up once the mortgage is paid off (by their tenants!) and banking the proceeds of the property sale.

Other Property Investments

The main principles of profiting from property – buying a property that's easy to let in a price-rising area – can be applied equally well to all sorts of other property investments. Off-plan – buying property at the planning stage – can offer substantial, double-figure percentage profits in the short-term of perhaps 12 to 18 months. DIY enthusiasts can profit along similar lines by buying a property wreck and renovating it for a fast turnaround sale. Holiday lets – buying a property in a fast-rising holiday hotspot - can offer short-term profits from income and long-term profits from capital appreciation.

For those who want to start investing on a smaller scale, you could look at garages. Find one in a short-supply, high demand area and you could earn a better return than from most other property investments! Land is often overlooked as a possible investment, probably because many would-be investors don't know what to do with it. Self-building your own property could see 30 per cent profits in a year or less. Masts – for mobile phones – can generate thousands of pounds in profit every year. Forestry is another up-and-coming money maker with double figure returns expected in some years. All of these other property investments are covered in the sixth part of your course.

Penny Shares

Penny shares are worth considering if you are a speculative alternative investor and don't want to invest huge sums of money. Penny shares don't cost a penny each these days though unfortunately! The phrase is really used to describe low-priced shares of about £1 each. They're cheap because they are mainly in small, new and often innovative companies. They're also very volatile, often rising and falling quickly on gossip and speculation. If the company strikes gold, uncovers that cure for illness and disease or whatever, you could make a lot of money. But you could just as easily see the company disappear and end up losing everything and so they are fairly risky investments.

It is important to remember that penny shares - all penny shares - are high-risk, potentially high-reward investments. The high-risk is always there. The high-reward isn't, but is a possibility. Some, more experienced, alternative investors buy into these investments to add some range to their portfolio. They also invest just as often for the thrill of the chase. These are exciting investments, best suited to those alternative investors who can afford to take chances and even lose money in a worst-case scenario. They are often viewed as short-term investments although some investors do tuck away some penny shares to see what happens years down the line.

Options & Futures

Options and futures are two, broadly similar ways of profiting from a variety of financial markets and these are often used as part of an alternative investment strategy. With options, you can buy an option to buy or sell a set number of something, typically shares, at a fixed price within a certain time. If prices rise or fall in your favour (so that it would be profitable to buy or sell at that agreed fixed price) you will take up that option. If not, you let your option lapse and will simply be out of pocket for the cost of taking up the option.

With futures, you are committed to buying or selling something, usually shares, at a set price at an agreed future date. Clearly, this is riskier than an option as you are committed to that purchase or sale. Much depends on what happens in the market. You could make a lot, or lose a lot. This is a highly geared investment – the risks are high but so are the potential rewards. E.g. you can invest £500 and lose the lot – or make £2,500 in a single week.

Most options and futures are relatively short-term (perhaps three to 12 months, typically). They appeal to many, more experienced, alternative investors who know their particular market well and are prepared to speculate on it. More cautious investors will describe these as more of a gamble than an investment.

Overseas Investments

When UK stock markets and investment opportunities are in the doldrums, many alternative investors look overseas for money-making opportunities. They do this in a variety of ways. They can buy into a unit trust, investment trust or other collective investment that's managed in the UK (so it is covered by UK legislation) but invested overseas (where there may be more investment potential). Generally, these should provide steady and relatively safe returns, although it obviously depends on what and where these investments are made!

Alternative investors can also invest directly in overseas investment products whether by going through a UK broker with overseas experience and contacts, or via an overseas broker in the particular country.

Rewards, generally, will be comparable to what you might expect from similar products in the UK. The risks of investing directly overseas are often higher though. Other countries' legislation is designed to protect home-based investors mainly – if something goes wrong, there is often little or no comeback for foreign investors (which is how you will be viewed).

Miscellaneous Investments

Of course, the range of alternative investments that are really available to you is almost limitless. You can mix and match and put together an alternative investment portfolio that suits you precisely. For example, you could have one buy-to-let flat, a cellar full of investment grade wine and a collection of Beatles autographs!

In addition to the alternative investments mentioned so far (and covered in more depth later in your course), there are others that may appeal to you too. If you're a small investor who's happy to go for high reward, high-risk, for example, you might choose to spread bet; an integral part of some alternative investors' portfolios and not dissimilar to options.

Bigger investors looking for something safer and steadier might choose to invest in commercial property – an often overlooked but profitable investment for many. There are property bonds too – where experienced fund managers will invest your money in a range of property developments.

Endowment policies have come in for a hammering in recent years – and not always fairly. Second-hand policies – traded endowment policies or TEPS – can generate some safe and steady returns and are suited to both big and small investors, and short-term and even long term. You'll find out more about these and other alternative investments in the tenth part of your course.

Assessing Yourself

If you are to invest successfully in alternative investments, it is sensible to start by assessing yourself. Alternative investments that are well suited to one person may be less suitable for others. Your initial self-assessment will help to clarify matters for you. Think about:

- **Your Personal Circumstances**
- **Your Finances**
- **Your Investment Plans**

Once you have worked through this assessment, you should have a much clearer idea of those alternative investments that might be right for you. From there, you can move on to develop an alternative investment strategy that matches your particular situation and the alternative investments out there in the marketplace.

Your Personal Circumstances

What you invest in (and how and when) will depend largely upon your personal situation – not least, your age, income, lifestyle, ambitions and what you want to achieve from your investments. This is what you need to be thinking about now. What sort of rewards are you looking for? What level of risks are you willing to accept? Be aware that rewards and risks are linked – if rewards are potentially higher, so too are the risks; and vice versa. Are you a big investor or a small investor? Much depends on your other commitments and your levels of disposable income. Do you want to invest in the short-term or the long-term?

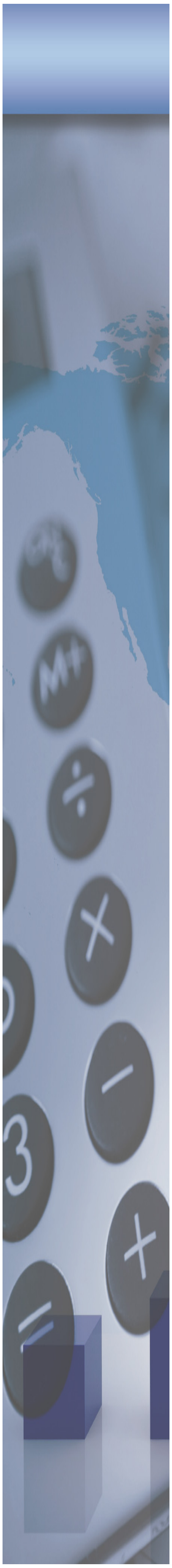
Much will depend on your age, and how close you are to retirement (or whenever it is that you want to generate a substantial return from your investment activities). It may help you to step back and just see yourself as a would-be alternative investor. It will certainly help if you make a note of what you are looking for – rewards, risks, and so on.

If you're a single person in your late teens or 20's, you may have a limited income but relatively few financial commitments, especially if you are still based at home or are sharing accommodation with several friends. This is actually a great time to start investing – you may have fairly high levels of disposable income, can be fairly adventurous with your investments and, best of all, have 30, 40 or 50 years to build up a massive investment pot! Many investors do not start putting money aside until they are in their 40's or even their 50's – and that means they have much less time to build that pot, which forces them to take unnecessary risks to achieve what they need on retirement.

Moving into their late 20's to mid 30's, most people enter into long-term relationships, jobs and careers, have children and often start earning more substantial sums. It may not feel like that though as financial commitments tend to increase too, with mortgages, life insurance and all the other outgoings that come with a family.

There may be little left over for investing and what there is may need to be invested safely rather than speculatively. Many people have already made at least one massive investment already though – their home! Progressing into their late 30's and 40's, most people are climbing the career ladder, achieving the success they crave and starting to generate more disposable income as they move towards their late 40's. It's at this point that many people start investing seriously, and in a range of investments from the safe and steady through to the more speculative.

In their 50's, many people will be in a strong financial position – in well-paid work, with children having left home, and mortgages being paid off. Retirement is on the horizon and investing may become a priority in order to build up a retirement pot. It is at this stage that many investors can develop a wide portfolio of investments from property through to penny shares.



Hopefully, those people in their 60’s, 70’s and beyond will be living a life of comfort, maybe even luxury if they have been investing wisely from when they were younger! If not, it is not too late to start investing and to generate some returns which will help improve their lifestyles at this time. Wherever you are on this ‘ladder of life’, you should be able to recognise yourself and to work out what it is you want from alternative investing.

Your Finances

Whenever you’re planning to invest and however much you intend to put in, you need to look closely at your financial situation first. This really needs to be done thoroughly, not least to ensure that you can afford to make any planned lump sum payments and to maintain any monthly payments you want to make into any investment schemes. There are three, easy-to-complete forms you can draw up for yourself here – a balance sheet, a profit budget and a cash flow forecast. Filling these in should give you a full and complete picture of where you are financially.

Sorry if this seems like a chore. I’d like to say that investment is fun and easy, but actually, when you think about it, ensuring you have a comfortable old age is a rather serious business and I’d like you to treat it so. Too many people are heading for a very poor retirement – don’t be one of them.

Your ‘balance sheet’ simply lists your assets down the left side of a page, with your liabilities on the other. It enables you to obtain an immediate overall impression of your financial position at this particular moment in time – the difference between what you’ve got, and what you owe. You can see what you’ve got, what you owe, where it’s come from and where it’s going to. **Ideally, your assets will exceed your liabilities**, and you will able to see what you have left to invest on a lump sum basis.

You should also be able to see where money isn’t being used as well as it might be – surplus funds being held on deposit account may be better employed in alternative investments, for example. If you have high-interest charging liabilities such as credit card and store card balances, you should aim to clear these before putting your money into investments producing a lower rate of return.

Putting a balance sheet together is quick and easy to do – and the benefits are substantial. Take a sheet of A4 paper, make a note of today’s date somewhere at the top of it, then draw a line straight down the middle. To the left, write ‘Assets’ in capital letters.

Your assets might include; your home (or, more accurately, the equity; the difference between the value and your mortgage); an endowment policy; any cash; any savings and existing investments; your pension; any other assets such as jewellery or cars. Make a list of everything you can think of. You can add up all of your assets to obtain a total.

You can now fill in the right side of that A4 sheet of paper. Put 'Liabilities' in capital letters to the top right of it. Your liabilities might include; your mortgage (if you've included the current value of your home as an asset); any loans and overdrafts; any outstanding credit card balances; any outstanding hire purchase debts; any outstanding store card balances; any other liabilities such as borrowings from family and friends. List every thing you can think of. Add up all of your liabilities to obtain a total.

Deduct your total liabilities from your total assets and you can see exactly what you are worth as of now! I hope you are not too depressed!
Here is an example which I'm sure will clarify things:

ASSETS	**VALUE**		**LIABLITIES**	**AMOUNT**
House Value	£295,000.00		Mortgage	£187,000.00
Car	£3,900.00		Car HP	£1,800.00
Furniture	£4,000.00		VISA	£2,600.00
Caravan	£9,500.00		Loan #1	£2,000.00
Savings at bank	£400.00		Loan #2	£3,000.00
ISA	£8,000.00		Loan #3	£1,000.00
TESSA (paid up)	£12,000.00			
Shares	£6,000.00			
Other savings	£3,500.00			
Kitchen equip	£1,900.00			
Hi Fi etc	£1,500.00			
Piano	£3,000.00			
Misc other items	£2,000.00			
TOTAL ASSETS	£350,700.00		TOTAL LIABILITIES	£197,400.00
NET WORTH	**£153,300.00**			

You can see from the above table that everything you own adds up to £350,700.00 and everything you owe adds up to £197,400.00 and so if you were to sell everything and settle-up today, you would be left with the difference; i.e. £350,700.00 less £197,400.00 which my calculator says is £153,300.00.

Tips and Tactics

There are various tips and tactics to consider with regard to your balance sheet. **Use it to gain an overall view rather than focusing too much on the nitty-gritty details.** You don't have to work out the interest that's due on your deposit account right down to the last penny. Re-do your balance sheet at set intervals, typically every three months. You can then see how your situation is developing and improving through your alternative investments.

When drafting balance sheets, you need to follow two guidelines - 'be honest' and 'be consistent'.

It's tempting to 'overlook' various debts. Store cards and catalogue accounts are good examples here. Because they're often spread over a year or two with low monthly repayments, it's easy to 'forget' them. But they're still debts and, particularly in the case of store cards, they are expensive ones. Be consistent too – each time you do a balance sheet, include the same assets and liabilities as last time, and calculate them in the same way.

Creating Your Profit Budget

A 'profit budget' shows what you have coming in and going out over, typically, a six month period. Are you one of those people who have 'too much month left over at the end of the money'? Or do you have a surplus (albeit a small one) at the end of each month?

Here's an example of a monthly outgoings side of the profit budget (the income is usually very easy).

ITEM (monthly, remember)	**AMOUNT**
Mortgage	£1,632.43
Car expenses	£254.00
Gas	£45.00
Elec	£32.00
Phone	£63.00
Council Tax	£165.00
Water	£49.00
Food	£400.00
Misc	£120.00
Spending money	£360.00
Caravan site fees	£67.00
Caravan insurance etc	£34.00
Life Insurances	£100.00
Cat	£25.00
Madame Stern's Massage Parlour	£100.00
Loan repay	£100.00
TOTAL	**£3,546.43**

This budget serves various purposes. It helps you to take charge of your finances so you can see what's coming in and going out and whether you've enough coming in to cover everything and still leave enough over for investment purposes on a month-to-month basis. You can also use it to identify where you might be able to improve your incomings and reduce your outgoings.

It is often amazing how much money is spent on relatively trivial items over a month and, added together, over a six-month period. Money spent on that extra newspaper, pint of beer or pack of cigarettes, a bar of chocolate, a sandwich - it could be set aside and earning money for you in an alternative investment.

A profit budget is easy to compile.

Take a sheet of A4 paper and turn it on its side (so it's short in height and broad in width). Down the left of the page, you should draw a column that's about one-eighth of the width of the page (because you're going to put in another seven columns in a minute). Down that first, left-side column, you now need to list headings for all of your incomings and outgoings.

Under incomings you might typically have headings for your salary, any bonuses you are expecting and any other income you might be receiving during this period such as share dividends, Building Society interest and so forth. You can then include a 'total' heading. Under outgoings you might have all sorts of headings – for your mortgage, loans, overdrafts and other debts, insurances, household expenses, utility bills, leisure expenses, motor and travel costs, savings schemes, tax, and other outgoings that don't fit in easily elsewhere such as birthday gifts and haircuts. You can then have another 'total' heading at the end, followed by 'Profit/Loss'.

Across the top of the page, you can now draw columns for each of the next six months (headed, for example, 'January', 'February' and so on). Put another column at the far right, headed 'Totals'. You now have your page divided up as a profit budget and can start filling it out. You will find it useful if you can sub-divide the monthly columns for January, February and so on in two, heading one 'Estimates' and the other 'Actuals'.

What you can then do is to fill in the Estimates columns now and then fill in the Actuals columns in six months so you can see how accurate you were at estimating!

Tips and Tactics

The tips and tactics for a profit budget are much the same as for a balance sheet. The most important tip I can give you is to actually DO this and not just flip these pages and read about it. I cannot emphasise this strongly enough.

Other tips are: use it to form a clear impression of your overall finances; don't get too bogged down with the nitty-gritty details; re-do your profit budget regularly to keep control and check how your finances are developing; be honest with yourself and consistent in applying your figures.

Your Investment Plans

You need to decide for yourself what your investment plans are – whether it's to make an extra couple of thousand pounds each year in income, or to build up the equivalent of a pension pot on retirement. Whatever your plans, the best advice that I can give is to 'start investing as early as possible'. Clearly,

the sooner you start investing, the longer you will have to build towards your pot for whenever and whatever you're going to use it for.
As soon as you have surplus funds available, it is a good idea to start putting some into investments. The sooner you start, the more you are likely to accumulate. **If you start early, you'll also be under less pressure to generate returns quickly – so you won't be forced into investing large sums later on and to perhaps take unnecessary and speculative risks to try to meet your investment targets.**

It is also worth stressing the importance of prioritising your finances so that investing is put in its proper place. It's sensible to use your balance sheet and profit budget to see what lump sums you have available (if any) and whether you have surplus income available each month. Clearly, if you don't have any lump sums or income surpluses at this stage, then you should perhaps concentrate instead on generating these before thinking about investing. The real obvious bottom line is this – **you can't take advantage of investment opportunities if you don't have any money to invest!**

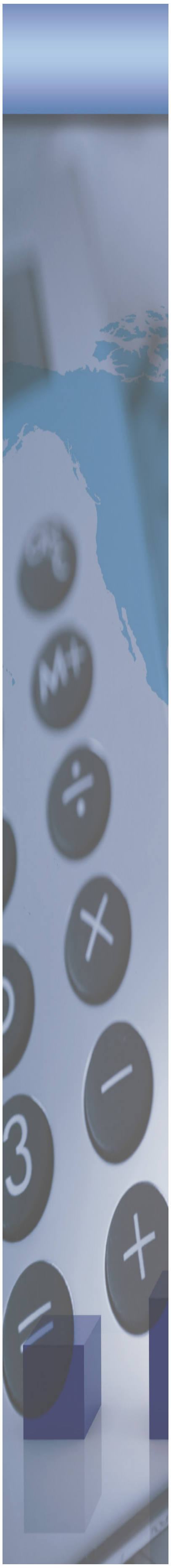
Equally, if you do have lump sums and/or income surpluses, it is sensible to look at what you owe before investing because paying off debt can often be your best 'investment'.

As an obvious example, if you are paying 20%+ in interest on store card balances, it would generally be wiser to clear those first before investing in something that might generate 10%. Think too about your lifestyle priorities – if you are in your 20's with few responsibilities and commitments you may have alternative investing high on your agenda. If you have a family, a mortgage and so on, it may be less important to you.

You should also take account of changing circumstances and priorities. Let's say you've a long-term goal of generating a specific lump sum in 10 years time to fund your retirement. You know where you are now financially (from your balance sheet). You know where you want to be and when. This course will help you see what alternative investments are available to you and so you can plan your investments accordingly.

If you've time, you may want to invest in safer, long-term investments such as property.

If you need to act quickly and are prepared to take some risks, you might go for more speculative investments such as options and futures. But you should also think ahead and consider what might happen to you and how this might impact on your plans. What if you marry or divorce? Have children? Are made redundant? You do not, for example, want to commit to making monthly payments on an investment such as a traded endowment policy which you can't see your way to completing.



Developing Your Alternative Investment Strategy

Whatever your particular situation, it is sensible to draw up an alternative investment strategy before investing for the first time. The most successful alternative investors work to a set of guidelines that help them ensure they invest wisely and profitably at all times. **The first guideline is to 'start slowly',** getting to know what alternative investments are available and researching them before investing any hard-earned money.

As you work through this course, you'll uncover lots of money-making alternative investments and will have some clear ideas about which ones appeal to you. Follow through, approaching the organisations that are mentioned for further advice, reading the books listed at the end of each section and building that all-important knowledge. **You need that know-how to succeed.**

'Papertrading' is advisable, at least when you're starting off. All this means is that you do everything you'd do when investing, except handing over the cash! You then monitor what's happening to see how well you'd have done. For example, say you want to invest in property – you'll want to buy somewhere that will see rising house prices; a property hotspot! So, you identify a hotspot, and perhaps even a street or house and see what it's worth there now.

You then wait and see if the price rises as you'd expect! You can do the same with any other investments – that Royal Doulton china, the Laurel and Hardy autographs, or that forestry investment fund. Of course, you need to be careful – you don't want to sit and watch all those profits mount up and not take any for yourself! (Nor do you want to buy in late just as the market levels off or even drops back down again). So papertrade only to build experience and confidence. Once you've got these, get stuck in asap!

It's always a good idea to 'invest in what you know' or that you can at least research relatively easily. It makes it more likely that you'll be able to spot a worthwhile opportunity from amongst the range of investments available to you. Property is a good example again here. Say you rent (or have rented) a property. You'll know what you were looking for when you chose to live there – perhaps something in good condition, with parking spaces or a garage, and various amenities close at hand.

You could probably draw up a checklist of tenants’ needs right now if you wanted to! That sort of ready made know how will come in useful if you’re thinking of investing in a buy-to-let property. You’ll know what you need to buy to attract those all-important tenants. Now compare this with, say, a fund that invests in Far Eastern start-up businesses in the technology sector – if you know absolutely nothing about these, it’s hard to know where to start. At best, you’ll be relying on someone else’s judgment. Similarly, what do you know about Llama farming or wine from New Guinea or semi-precious gems? Probably not a lot so you are prey for the investment sharks out there who will hype their ‘opportunities to the moon and back.

‘Diversify your investments’ is a key guideline. Quite simply, if you put all of your money into one investment, you’re increasing your potential risks. It may do brilliantly well – far better than expected! Equally, it may do horribly badly – and wipe you out! Most alternative investors want to play relatively safe and do well, rather than run the risks involved with these extremes. So they tend to mix up their investments – from low-reward, low-risk through to high-reward, high-risk.

It is important to distinguish between different alternative investments **within the same category** (for example, buy-to-let, off-plan and renovations within ‘property’) and different **types of alternative investments** (property, penny shares, options and futures etc). You’ll find that most types of alternative investments perform in a similar fashion, going up and down at the same time. Take the property market. If you have, say, four properties dotted around the country, they’ll generally go up or down in value in line with the overall market. It is safer to have four investments in different categories.

The Pyramid Principle

Many alternative investors build a portfolio that resembles what might best be described as a pyramid. This is a simple idea, but one which ensures that you invest relatively safely. Imagine a pyramid comprising three layers – a big fat layer at the bottom, a middling-sized layer in the middle and a small pointy bit at the top. The bottom layer represents safe and steady, low-risk, low-reward investments. To invest safely, you’ll have most of your money in that layer.

The middle layer represents slightly more rewarding and more risky investments. You will have less of your money in here. The top layer represents potentially high-reward but high-risk investments in here. You may have relatively little money in here – or perhaps nothing until you can afford to speculate on penny shares, options, and the like. How much you put in each layer is up to you, and depends on your approach to investing, rewards and risks. Many investors opt for something like a 60%, 30%, 10% split, although this may change with developing circumstances.

Generally, ‘invest for the long-term’ is another guideline followed (most of the time) by successful alternative investors. If you are trying to make money fast, you are automatically making it harder for yourself – you need to gamble on fast-turning investments such as penny shares. You will often need to put in more money than you'd like to which adds further to the risk.

You may also want to move in and out of different investments quickly, which takes time and often adds to the costs involved too. If you can invest for the long-term, you boost your chances of success. Property often has lots of little ups and downs, but long-term the overall trend is clearly upwards. Most investments increase in value given enough time. The more time you have, the easier you'll make it on yourself. Everyone makes mistakes, even the canniest investors on occasions. If you're trying to profit in six months and make a mistake, you'll probably have to write off your profits (and even accept losses). Give it five years and you can survive and learn from any errors.

Successful alternative investors understand and, equally as important, accept the reward-risk relationship. This relationship remains the same whether you're investing in a Charlie Chaplin autograph or penny shares in a gold mining company in the deepest, darkest jungle.

High reward and high risk go together.

So too do low reward and low risk. If you want to invest in, say, penny shares, the potential rewards (compared to the investment) are very high. But the risks are too.

If you want to put your money in the local bank, the risks are very low (in practice, they're pretty much non-existent). So too are the rewards – as you'll know, you'll not get a lot from that high-street bank's deposit account. Please know this: **you do not, sadly, ever get high reward and low risk** – only an innocent or a con-artist will tell you otherwise. If you want to go for high rewards, you need to accept high risks. If you want low risks, you must accept low rewards.

There are no alternatives! Believe it!

Probably the best guideline of all is to 'stay cool'. If you have assessed the alternative investments available to you (as you're about to do in this course), have compared them to your own situation and invested wisely, you should do well. The people who lose money are those who panic at the first signs of anything remotely worrying. A newspaper headline suggests the property market may crash – panic!

A collector suggests your movie memorabilia isn't worth much (they would wouldn't they) - panic! A personalised number plate sale shows prices are dipping - panic!

The alternative investment industry is a fluid one that ebbs and flows. If you have made the right choices in the first place, you should wait for the tide to move back to you, as it will inevitably do.

Where to go For Help And Advice

If you're going to become an alternative investor, you'll soon see that there are plenty of sources of help and advice; some good, some bad and some indifferent. When considering a source, start by asking yourself one simple question – "Why should I listen to their advice?" Ideally, you need to be sure you're listening to an expert, someone who's been around a while, knows what they are talking about and will give good, independent advice.

There are many 'experts' out there and you'll come across many as you start investigating areas of particular interest – someone who's collected china for 30 years may be one. The man who runs a long-established movie memorabilia business could be another. Estate agents, letting agents and so on could all be worth talking to as well. There are other, more general sources of help and advice too.

The press generally is a regular source of news and information. The national papers and many local papers offer plenty of material on a wide range of financial and investment issues. The Daily Mail and Daily Express have financial sections on Wednesdays and often feature property, shares and related issues. At the weekends, the Guardian has a good Jobs & Money section on Saturday, and the Sunday Times has a worth-reading Money section the following day.

There are plenty of glossy magazines in local newsagents that are worth reading too– industry-specific ones such as Antiques & Collectables and Collect It! through to finance and investment titles such as Money Management and Moneyfacts. The more background reading you can do, the better informed and prepared you'll be when it's time to invest. Go into your local newsagents, say you're interested in 'wine' 'self-build' or whatever and ask what magazines are available – you'll have lots to choose from.

The Internet is an increasingly popular source of advice. Not surprisingly, there are literally thousands of web sites offering free and subscription-only advice and tips, especially in the fields of penny shares, options and futures, and spread-betting. As a guide, those that are linked to well-known publications and/or have been trading a while on a subscription basis tend to be more reliable than those that are lesser-known, or newly published.

If a subscription-based web site has been trading for a while, it must be doing something right otherwise it wouldn't have any subscribers! The Daily Mail web site at www.thisismoney.com is worth visiting. It is free. The long-running, subscription-only share tipping site at www.t1ps.com is worth a look too. As with all tips etc, it is sensible to paper-trade before investing your hard-earned money.

Two other popular sources of on-line advice are message boards and chat rooms. Go to a search engine such as Google at www.google.com, enter the name of whatever you're interested in along with the word 'board' or 'chat' and you should generate many leads to trawl through. E.g. 'penny shares chat'. You can also try http://chat.yahoo.com, http://messages.yahoo.com and http://groups.yahoo.com.

You can read and leave messages on a message board or chat instantly to other on-line users in a chat room. The information and advice here can vary – much depends on the 'what's in it for them?' motive. Information on many boards and in many rooms can be valuable – people interested in antiques, collectables, various hobbies and interests, cars and so on are sometimes less likely to be driven by a money-motive. Those contributing with regard to shares, futures, options and other investments of this kind may be driven by ulterior motives. People often 'talk up' volatile investments which they have taken a stake in, the object being (of course) to get the price to rise so that they can sell out and make a killing!

Depending on what you're investing in, you may be dealing with various 'product providers' – anything from an auction house for antiques and collectables through an estate agent for property to a fund manager for various overseas investments. Of course, the product provider (for want of a better, all-purpose name) is going to be biased – they want you to buy that collection of pottery, the house or the fund or whatever! But that doesn't mean that they (and indeed rival product providers) can't give you some information that you can use.

Talk to them, see what they have to say, listen to their comments and sift through them for any potential bias. Naturally, their advice will often be slanted to suit them and may not be as 100 per cent independent as you'd like, but all information is worth having. It's a little more to add to your pot of know-how.

For some investments such as property, penny shares, futures and options, traded endowment policies and property bonds, you may wish to consult an IFA or similar professional adviser. You can source a local IFA via your local Yellow Pages, although a word-of-mouth recommendation is usually best. An IFA should give you the best independent advice and recommend financial products most suited to your particular circumstances.

Many do, although recommendations for new products offering higher levels of commission usually rise whenever they are introduced which suggests this is not always the case. As always, question – why this product, why is it right for me, what else is available, why is this better than that, what's the commission on the respective products, and so on. Paying a flat fee rather than commission for advice can boost your chances of getting genuinely independent advice.

For alternative investments such as penny shares, you'll use a broker (as we'll see later in your course). You can do this on an execution-only basis. You decide what you want to buy and sell and instruct the broker who deals with it for a fee and/or a percentage of the trade. No advice is given by the broker – even if they think it's a daft trade, they'll still just go ahead and do it for you! As an alternative, you can pay for advisory services, or, going one step further, discretionary services, which is where the broker will manage your share investments for you.

Clearly, you get what you pay for. A word of caution though. Brokers can be classified in two ways – some act purely for their clients whilst others act as 'market makers', buying and selling shares for themselves as well. Some investors feel more comfortable dealing with those brokers who act only for clients rather than on their own behalf too.

Many investors will also take advice from an accountant and a solicitor, found either by looking in the local Yellow Pages or, far better, by personal recommendation. Apart from giving a personal professional opinion, they can ensure that you invest wisely (to minimise tax liabilities, for example) and safely (to draw up watertight contracts, as an example). An accountant and a solicitor should form part of every alternative investor's back-up team.

You're not looking for 'all-rounders'. It is far better that your accountant and the solicitor both have experience in your particular areas of potential interest. For example, the solicitor who drafted Aunty Betty's will may not have the necessary know-how to offer valued advice on investing overseas – so look for someone who does.

Most industries have some sort of trade or professional bodies, many of which act in a regulatory way. The investment industry has the Financial Services Authority (FSA) for example. Bodies like these are always worth contacting as they will often produce lots of literature, providing background information that's worth reading. You can also check to see if the person or organisation you are dealing with is a member and follows the body's code of conduct. You may also have some sort of protection if something goes wrong with your investment – although you can't get your money back if it simply doesn't perform as well as you had hoped!

And by the way, just be street-wise! If you're thinking of investing in an ostrich farm, just type 'ostrich farm scam' into Google and check to see if anything comes up. It's so easy these days.

The moment you tell family and friends that you're looking at alternative investments, some will become instant sources of advice! They will often start offering you tips and ideas if you become interested in something that they know about – or think they know about! You need to be able to tell the difference. Family and friends can actually be quite useful, especially if they are watching out for snippets of news and information that they might spot for you; an article in a newspaper, a report in a magazine and so on.

But it's wise not to take what they say as being 100% accurate and, even if it is, it does not mean that what they are suggesting is right for you. Their personal situation, finances and goals may be different from yours. Take penny shares as an example – high-reward potentially, but high-risk too. That might suit someone with few personal responsibilities and financial commitments, but may be less suitable for someone with a non-working partner, or with children, a high mortgage and little in the way of disposable income.

Of course, your best source of alternative investment help and advice is you! You'll probably already have some idea of areas of potential interest; property for example, and perhaps antiques and collectables. Maybe you'll be thinking of turning your hobby – photography, wine, celebrity-watching – into an alternative investment. The chances are you'll have some know-how already!

You're probably buying your own home. You may have a collection of china in your living room.

You might even have a cellar full of wine. You'll also enjoy reading around, talking to experts and so on about what you're planning to invest in. **If you enjoy something, you'll find it that much easier and quicker to soak up knowledge.** Remember when you were at school? You probably had a favourite and least-liked subject - say French and Maths (or vice versa). The chances are you found the one you liked easy, and the one you disliked difficult. It's same with alternative investments. Some people love antiques and hate penny shares – others quite the reverse!

Keep Your Head

"Invest in such-and-such and you'll double your money in a month!" How does that sound to you? Unbelievable? Good – it means your common sense is at work. You need to develop it - and listen to it! Of course, you *could* double your money in a month – you'll read stories of people uncovering hidden treasures at car boot sales and of canny investors picking a brilliant penny share. But it's more usual to make money steadily over a long time, rather than a lot in a short time.

And, not surprisingly, those press stories won't mention that whoever uncovered the hidden treasure has spent every Sunday for the past 27 years at car boot sales! Nor will they mention the thousands and thousands of pounds spent by the penny share investor to achieve one winner! When you're looking for, or are offered advice, remember to ask yourself "Why should I listen to their advice?" Then ask some more questions.

You should be questioning not only *what* they are saying but *why* they are saying it – what's in it for them? A classic example – as we'll see later in your course – involves penny shares. Some new investors avidly follow on-line message boards looking for hot tips from fellow investors. They then go and buy any shares tipped there. Nine times out of 10 these then plummet in value – as the person who recommended them owned shares in that company, knew it was time to get out, and wanted to encourage buyers! It's worth remembering that most people (and certainly professionals in this field) do not offer something for nothing.

If you want advice, you generally have to pay for it in some way. A web site may offer free tips but there is still a 'something for something' in there for them – these tips may be a taster to make you subscribe to a fuller service. Or they may be selling the e-mail addresses of everyone who checks in!

It's sensible to look beyond the 'what's in it for them?' angle. Take Independent Financial Advisors (IFAs) for example. You ask them for advice. They give it to you to the best of their know-how and ability. They give you advice that's suited to your personal circumstances. You pay them, either on a flat fee basis or via commission that's taken out of your investment. Fair enough – you get advice, they get money. Nothing wrong with that. But the commission that is available to an IFA for getting you to invest in a product can vary from about 3% to 7%.

There will be the temptation there for some IFAS to recommend a product that offers 7% commission so they can pocket a larger sum. (The difference between the commission at 3% and 7% on your £50,000 investment is £2,000 so it's very tempting for them). So, spot the 'what's in it for them?' angle, and then look beyond it to make sure they are giving you the best possible advice. Why this product, why not that one, and so on. And what's their commission on each of them!

Don't be shy of asking lots and lots of questions. Why is this product right for me? The best product on the market may not suit your particular circumstances. Perhaps a fund invests in countries, businesses or products that you object to. What's in the small print? This is where you'll find all of the little-spotted terms and conditions. If you decide to stop investing each month, for example, you may discover you'll be penalised in some way.

What are the possible rewards and risks? Make sure they sound believable and you're happy with the mix. If you want greater rewards, you have to accept greater risks. What happens if...? This is the best question that you can ask of any investment. Think of all the 'what if...?' scenarios that could happen and find out what would happen. What if I stopped paying? Wanted to pay more? Pay less? What if I wanted to pay at different times? **You need to know the answers!**

It is sensible to remember to 'papertrade' when you start taking advice. You can apply the idea of papertrading to your sources of help and advice to see how good they are. If these sources have been offering advice for some time, you may be able to check back over what they were recommending six months or a year ago. The press is easy to monitor. IFAs and brokers may have in-house newsletters that they circulate to clients. Web sites should have archive pages. You can then see how good they are at tipping etc. – or bad as the case may be.

A good source of help and advice will be quite open about their past recommendations, why they were made and so on. They will even explain their mistakes! Less upfront advisors will never make mention of any recommendations ever again, and will often destroy the evidence. If you cannot do a background check-up, do papertrade for a while until you feel confident that you are getting useful advice from your chosen sources.

Summary

1. Alternative investments really offer something for everyone. You can choose from antiques and collectables, hobbies and interests, motoring, property and other property-related investments such as renovations and holiday lets. There are also penny shares, options and futures, overseas investments and many other miscellaneous investments such as commercial property and second-hand endowment policies.

2. Before investing, it is sensible to assess your personal circumstances. You need to think about your age, income, lifestyle and ambitions and how well alternative investments are suited to you. You should consider your finances, drafting a balance sheet, profit budget and cash flow forecast to see what you can afford to invest and when. You should also decide on your investment plans, setting your goals, prioritising your finances, and taking account of changing circumstances.

3. Successful alternative investors work to a set of guidelines. Start slowly, building know-how first. Papertrade until you feel confident to invest hard cash. **Invest in what you know – it increases your chances of success.** Diversify your investments as it reduces the risks. Build an investment pyramid to suit your personal situation. Invest for the long-term – it gives your investments the best chance to grow. Understand the reward-risk relationship – you don’t get high-reward, low-risk investments!

4. You should seek help and advice from various sources. Most areas of interest will have experts; anything from antique collectors to property agents. You can also choose from the press, web sites, message boards and chat rooms. Product providers, IFAs, brokers and regulatory bodies are other sources that are worth knowing. You may want to listen to family and friends. You, your common sense and an accountant and solicitor are probably the best sources for you!

Further Reading

The Intelligent Investor by Benjamin Graham (0060555661, Harper Collins)

How To Get Out of Debt, Stay Out of Debt and Live Prosperously by Jerrold Mundis (0553283960, Bantam Books)

Warren Buffett: Master of the Market: The Nine Principles of Wise Investing and Other Secrets by Jay Steele (0380788861, Avon Books)

Ordinary People, Extraordinary Wealth: The 8 Secrets of How 5000 Ordinary Americans Became Successful Investors - and How You Can Too by Ric Edelman (0062736868, Harper Collins)

Check Your Understanding

You're almost ready to move on to the second part of your course. But, before you do, it's a good idea just to stop and answer these questions. You can check what you've covered so far and make sure you really are ready to get stuck into the rest of your course. Not sure of an answer? Go back over what you've covered so far to uncover the answer you need.

1. List nine alternative investments.

2. Which of these could be classed as short-term investments and which might be considered long-term?

3. Classify the alternative investments you've listed as either low-reward, low-risk and high-reward, high-risk.

4. Which of these would be best suited to smaller investors and which might be better suited to larger investors?

5. Which ones appeal to you?

6. If antiques and collectables appeal to you, which ones do you know something about?

7. What are your hobbies and interests?

8. State three types of motoring investments that are worth considering.

9. What are the two key criteria for profiting from property?

10. List three other property investments.

11. What is a penny share?

12. What is the difference between options and futures?

13. State two ways of investing overseas.

14. List three other miscellaneous alternative investments.

Assessing Yourself

1. Describe yourself in terms of your age, income, lifestyle and ambitions.

2. What sort of rewards are you looking for?

3. What sort of risks are you prepared to accept?

4. Does your reward-risk relationship work in practice?

5. Are you a short- or long-term alternative investor?

6. Are you a small or large alternative investor?

7. What is a balance sheet?

8. Have you drawn one up?

9. What is a profit budget?

10. Have you put one together?

12. What sort of lump sum do you have to invest?

13. How much do you have to invest each month?

14. What are your investment plans?

15. Have you prioritised your finances?

16. Are you paying out more in debts than you'd receive in returns from alternative investments?

17. Have you taken account of future circumstances?

Developing Your Alternative Investment Strategy

1. List eight guidelines for a successful alternative investment strategy.

2. What is papertrading?

3. What alternative investments do you already know about?

4. Why diversify?

5. What is an investment pyramid?

6. What does your pyramid look like?

7. How does the reward-risk relationship work?

Where to go For Help And Advice

1. What is the first question you should ask yourself about any source of help and advice?

2. List 10 sources of help and advice for alternative investments.

3. How good are message boards and chat rooms?

4. What is the main problem involved with paying an IFA by commission?

5. How do brokers differ, and which should you choose?

6. What other questions should you ask yourself when taking alternative investment advice from anyone?

7. Which sources of help and advice seem right for you?

Have you checked the summary?

Have you got some of the books listed in the further reading section?

Have you answered all of these questions to your satisfaction?

Have you taken on board that this is a serious business, not an armchair, paper-flipping exercise?

Yes? You're now ready to go to part 2 of the course!