The Maverick Investor

LESSON NINE

by

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

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The Maverick Investor's Home Study Course

PART NINE

INVESTING OVERSEAS

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Welcome back o the last but one lesson. You have done really well to stay with the course – this marks you out as someone who is serious about making money from alternative investments.

Many alternative investors invest overseas as part of their investment strategy, especially when UK stock markets, property and investment opportunities are not doing as well as they'd like. Somewhere in the world, right now, is experiencing double-digit growth. If you can hitch a ride on their prosperity, you can do really well.

You can invest overseas in various ways. These three are the most popular:

- **Unit Trusts**
- **Investment Trusts**
- **Investing Via Intermediaries**

These will be considered in this part of your course. Also in this unit you will find sections on:

- **Choosing and Using an IFA**
- **Summary**
- **Further Reading**
- **Check Your Understanding**

Buying into unit trusts and investment trusts that, in turn, invest overseas but are managed in the UK is the safest way. Your investments are covered by UK financial legislation. A popular alternative is to buy through a UK intermediary such as an independent financial adviser or broker with experience of investing overseas. Again, this is far safer than simply investing direct in foreign investments, not least because you are covered by UK laws.

Investing in Unit Trusts

A unit trust is a product that's known as a **collective investment** – in essence, it collects money from all sorts of investors large and small and then invests it en-masse in other investments.

The name of the trust usually reveals where it invests most of the funds ('most' meaning up to around 80%, typically). The names 'UK Equities' and 'Far East Tiger Fund', as examples, show where the bulk of the money in these trusts go. Many investments are made in company shares (in the UK, the Far East or wherever), although they can be made in anything that looks likely to be a good investment.

You buy into a unit trust by purchasing 'units' in it – a fancy name for parts of it, really. The size of the unit trust will depend upon how much is invested in it. If lots of money is put in, more units are created, and the trust gets larger. If lots of money is withdrawn, units are bought back by the trust, and it gets smaller. A larger unit trust may be more successful, at least at attracting investors. It doesn't necessarily mean it is more profitable though. Think of the Premiership football manager who's given millions to spend on players – it's no guarantee of success!

So, what about the rewards and risks of investing via a unit trust? The potential rewards come in two ways. You can profit by buying when the price of units is low and selling when the unit trust becomes more successful and the price of the units is high! You can also profit on an ongoing basis, as you will be entitled to a share of any distributions made by the trust each year – these distributions are broadly comparable to the dividends that are received by shareholders in a company.

Clearly, the precise rewards and risks of any particular investment will depend on many factors, not least the individual product provider, the unit trust in question, the experience of whoever is managing it, and the areas of investment. The product provider sets the buying and selling prices of the units. The unit trust may invest in 'safe' or 'speculative' investments, sectors and markets, and it may be run by a hands-on, experienced manager – or not! We'll look at how to choose the right unit trust in a moment.

It's worth focusing before that on the various benefits and drawbacks that generally come with investing in unit trusts. Benefit-wise, you can spread a relatively small sum far and wide, across different investments, sectors and countries. That gives you that all-important diversification that we've seen is such a big plus for investors. A unit trust also offers a way of investing safely in areas, sectors and countries that you are not fully familiar with - although it is still sensible to build as much know-how as you can even if your money is in the hands of a fully-experienced manager.

Spreading your money usually helps to reduce your investment risks, of course. The unit trust manager, armed with lots of investors' money in the pot, can also invest on a much larger scale than any individual investor so they can negotiate reduced fees and charges on the investments. They too, of course, are diversifying their investments which again helps to reduce risks.
There are drawbacks, just as there are with any investments. Not surprisingly, a management fee is charged on your investment in the unit trust. This is usually about 1.5% but it can be higher – **watch for this as it can bite hard into your potential profits.** When it comes to profiting, you are not going to be able to do that until the trust has increased significantly in value. That's true of any investment but there's a particular catch with unit trusts. **You have to sell units back to the product provider, rather than on the open market.**

And - here's that catch - the product provider sets the prices, whereas the prices of most other investments is market-driven. The difference (or spread) between selling and buying prices can be large as well. In worst-case scenarios, a unit trust can also fall quickly in value. If many investors want to sell up at the same time, the units will be bought back but the product provider may not have new buyers for them. It then needs to draw on its resources to settle up. This can lead to the value of the trust falling, with knock-on effects then coming into play, with more investors selling, more resources being used up, and so on downwards.

So, how do successful alternative investors make their choice to maximise those benefits, minimise those drawbacks - and invest successfully? Here's a step-by-step guide you can follow which should leave you with a shortlist which you can then research further, discuss with an independent financial adviser and so on.

Start by going into your local newsagents, and buy one of the latest glossy financial magazines published each month – you'll see titles such as ***Money Magazine*** and ***What Investment?*** on the shelves. Flick through these and buy one that contains statistics, charts and performance details of unit trusts over recent months and years. If the magazine also gives lots of advice and commentary on unit trusts, all the better! Before investing, you'll want to 'papertrade' just as you've done for other alternative investments, and the more you can read, the more tips you can find, and the more advice you can get, the better prepared you'll be when you start investing hard cash somewhere down the line.

With those charts in front of you, it's easy to begin that shortlisting process. Decide which investment categories you want to go for. You will see that unit trusts are classified into different categories – 'UK General', 'UK Smaller Companies', and so on. These pretty much tell you where the trusts invest. 'UK General' shows that most of the money will spread around generally in UK company shares. 'UK Smaller Companies' indicates that the majority of the money will go into smaller, riskier but possibly more rewarding, companies.

By and large, the unit trust's name will also tell you where it invests – if in doubt, ask the product provider for promotional materials (the magazine should provide contact details for you). If you're looking to invest overseas, you can cross out all of the categories except those that focus on these investments! That gives you a quickly shortened shortlist straightaway.

You can shortlist further in various ways. As with all investments of any kind, you need to think about your own personal and financial circumstances and how well these and the investments suit each other. If you can't or don't want to invest the minimum amount required by a product provider, you can take the unit trust straight out of the shortlist! Consider whether you want to invest a lump sum, regular monthly sums, or a mixture of the two. Start by deciding what you can afford and/or want to invest on a lump sum and/or regular basis.

You can then check the unit trusts on your remaining list and see whether they have any criteria covering minimum and maximum investments. Naturally, if you only intend to invest a little each month, you may have to delete certain unit trusts if they set minimum figures that are higher than your proposed limits.

Lump Sum or Regular Saving?

As an aside, there are other factors to take into account when it comes to deciding whether to invest on a lump sum and/or small and regular basis. Much will depend on what you and whoever you are taking advice from think will happen in the marketplace, the sector and, most significantly, to the unit trust.

Let’s take a (fictitious) unit trust investing in Japan as an example. It invests its money equally in the index of top 20 companies in the Japanese stock market. If one of those companies drops out of the top 20, money will be moved from that company to the one that replaced it. In effect, it’s what is called a **tracker fund**. If the value of that stock market index goes up, so too will the value of the unit trust. If the value of the index goes down, so too will the value of the trust. So, if you put in a lump sum when the index is at a low, you have a better chance of making money than when is at a high. As the index rises, so too will your investment, and vice versa if it falls.

Clearly, if you feel that the index will go up in the near future, you’ll be more inclined to put in a lump sum. If you are not sure, you may prefer to do what many savvy investors do and drip-feed money in month-on-month. Do this, and you will benefit from what is known as **pound-cost averaging**.

Let’s look at an example where, for simplicity’s sake, the price of a unit in that Japan unit trust is currently 100 pence. So, a £100 investment this month will buy 100 units for you. If the price next month is still 100 pence, you will buy a further 100 units and have a total of 200 units for £200. Now, let’s imagine that the index goes down and the price of a unit in a trust that’s tracking it falls down to 50 pence (unlikely, but this is just for example). Your £100 investment will have halved to £50. But your next £100 investment will get you 200 units. So when the price of the units go back up in due course to 100 pence, as they almost certainly will one day, you will have 300 units for £200 instead of 200 units!

Income or Capital?

Now - back to that shortlisting! You should think about what you want from your unit trust investments as this will help you to shortlist further still. Most unit trusts will offer what can best be described as ‘income’ or ‘growth’. In short, they’ll either pay out income on a quarterly (or other, drip-drip) basis or they will go for capital growth so that you can sell up at a profit sometime down the line. Much depends on you – if you can put in a lump sum and then need regular income to perhaps supplement your household earnings, you may go for income.

If you are building towards a lump sum payout on, say, your retirement, you may go for capital growth. Clearly, if you are drip-feeding in money each month, you are going to have to go for growth rather than income at least at the outset as there won't be enough in the pot to pay out for a while! Some unit trusts do offer both income and growth but, as you'd expect, it's a bit of each rather than a lot of both! Again, the name of the trust usually tells you what it offers (UK Growth Fund, UK High Income Fund etc.) if not, ask. Once you've chosen income or growth, you can delete or retain trusts as appropriate.

Active or Passive Management?

As we have seen, unit trusts can be categorised in several ways – most often, based on *where* they invest; UK Smaller Companies, Japan & Far East and so on. Another way of categorising them relates to how they are managed by the product provider. They can either be what's known as actively-invested or passively-invested (or actively-managed, passively-managed, or similar), and this can be another way of shortlisting for you.

An actively-invested trust is one where a manager - hopefully, hugely experienced in the field (!) – takes a hands-on role in choosing, monitoring, buying and selling investments. A passively-invested trust is one that is managed on a hands-off basis. Criteria are set – invest equally in the top 20 companies in the index, for example – and are then followed closely. The fund manager may review and amend criteria at intervals but the unit trust is effectively managed at a distance according to that pre-set framework.

In theory, the actively-invested trust should do better than a passively-invested one because of the manager's close and ongoing involvement. It is fair to state that it will usually react more quickly to a changing marketplace. Even so, **surveys suggest that there can actually be little difference between the results of actively-invested and passively-invested trusts** (so far as so many different trusts can be compared easily). You will pay more – via a higher management fee – for an actively-invested trust and this will cut into any extra profits that it may generate.

A passively-invested trust is normally cheaper in terms of costs, and overall will usually produce broadly comparable results at the end of the day. The downside is that it does not always react that fast in a changing marketplace. Whether you shortlist on this basis or not, it is sensible to look at unit trusts in this way, and to think about (and research) the managers involved with them – the better their track record, the more likely they are to continue with that success in the coming years.

You should now have a short-ish shortlist of possible unit trusts to invest in. Even so, you may well have started with 1500 unit trusts and could still have a three-figure number left to choose from. You'll want to whittle this down quickly at this stage.

What you need to do is to look for those unit trusts that have done well year-in and year-out. Past performance – good or bad – isn't necessarily going to be repeated in the future; after all, managers may have changed to give just one variable factor as an example. But, all else being equal, it is likely to be comparable. In football terms, Manchester United, Arsenal and Chelsea are better bets for success on an ongoing basis over the next few years than Colchester, Darlington and Carlisle! So, you are looking for a trust that has been at or around the top of the charts for several years now (and then need to read around and it to make sure that the secrets of its success – fund manager, range of investments etc – will continue much as they are now).

Most of the performance tables that you'll be looking at will be ranked and/or the top performers will be highlighted in bold – either way, it makes your final shortlisting that much easier to do!

How to Pick a Winning Unit Trust

Start with the five-year figures, and delete all of those unit trusts that aren't in bold. Now do the same with the three-year figures. Compare what's left, and delete those unit trusts that don't feature in both charts. Next go through the one-year figures, deleting all of those unit trusts that aren't in bold. Compare what's left with the survivors from the five- and three-year sets of figures, deleting those unit trusts that don't appear in both lists. Ignore those figures for one-month and six-months – those unit trusts at the top of the charts may be enjoying only temporary, short-lived success. Similarly, ignore those for more than five years – everything is more likely to have changed since then.

What's left? **Unit trusts that are winners!** You can now move on and talk these through with an independent financial adviser, monitor them in the press, and keep trawling the media for news. Do that research, soaking up knowledge, and deciding which one is right for you.

If you cannot choose between two unit trusts, pick the one with the lowest charges. Check with the product provider what the initial, set-up charges are to buy in. Clarify the ongoing management charges.

Also check on any exit charges that may be incurred if you sell up within a set period of time. Bear in mind that the higher the charges, the more they'll bite into your investments, and the lower your return! Where next? To W.H. Smith to pick up some glossy financial magazines so you can start your selection process!

Buying Into Investment Trusts

Many new investors assume that unit trusts and investment trusts are one and the same – not so! A unit trust is an investment product and you buy into it via units. An investment trust is **a company that invests in a range of other companies, products and so on.** You buy into it via shares and then receive dividends, perhaps once or twice a year. You then sell those shares as and when you want to, hopefully for a good profit.

Unit trusts and investment trusts are both termed as ‘collective investments’ – the difference being that with a unit trust you are investing in a product that invests in lots of other investments and with an investment trust you are investing in a company that invests in lots of investments!

Rewards and risks? In terms of rewards, you can profit from buying shares at a low price and selling them at a high price which you should be able to do if the investment trust does well, and prices rise accordingly. You can also profit from any dividends that are paid out each year.

As with a unit trust investment, the exact rewards and returns really depend on many factors, including the investment trust itself and how well it is run, the investments it makes and whether these are safe or speculative in nature and what is happening out there in the marketplace. In many respects, you should view an investment trust as you would a company when investing in shares. The dividends represent income. If the company invests wisely and well, you will get capital growth as share values rise. If it does less well, share values will fall.

Benefits and drawbacks? An investment trust is a good way to invest small-ish sums, perhaps to test the market and to build know-how and expertise. It also allows you to diversify, by putting a little bit here, there and everywhere, into different types of investments, sectors and countries.

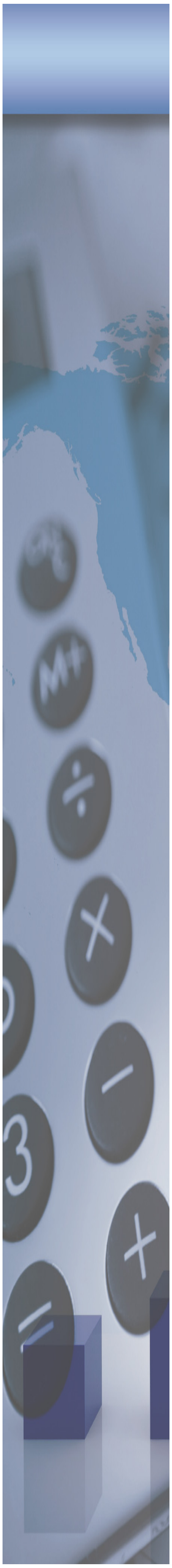
Your money, if invested wisely, should be in the hands of an experienced investment team in that sector or country. By investing larger sums than you could afford to do on an individual basis, the investment trust should be able to secure better deals, not least by negotiating lower fees and charges.

There are disadvantages that you need to consider alongside of your personal and financial circumstances. In particular, it can be argued that, because the investment trust is a company (rather than a product like a unit trust), any poor performance can have a double negative impact on its share prices. Share prices can be hit once by the poor performance of its assets and hit twice by the fact that more people will then want to sell than to buy (and increased supply and reduced demand leads to falling prices). If the current share price doesn't truly reflect the value of the assets, this is known as 'trading at a discount' and many investors consider this to be a good time to buy (as they will be 'buying low' to 'sell high' later).

Likewise, of course, a particularly good performance can have a double positive impact on share prices with more would-be buyers than sellers. Hence, the shares may be 'trading at a premium'. Many investors believe this is an unwise time to buy as prices are more likely to fall back in line with the value of the assets (and they would thus be 'buying high' and 'selling low' later at a loss).

Picking The Right Investment Trust

So, how do you pick the right investment trust for you? The selection process is much the same as it is for choosing the best unit trust. Read around the



subject in financial magazines, get a feel for what's happening by monitoring the media, talk to your independent financial adviser, and study the tables and charts given in the financial magazines.

You'll see that there are more than 300 investment trusts! As you did with unit trusts, you will want to whittle this list down to perhaps a handful or so. You can then investigate these further, getting the literature, monitoring specific investment trusts via the media, assessing them with your IFA, comparing them to your particular circumstances and so forth until you have made your final choice. The 'whittling down' process involves asking various questions about yourself and the investment trusts available.

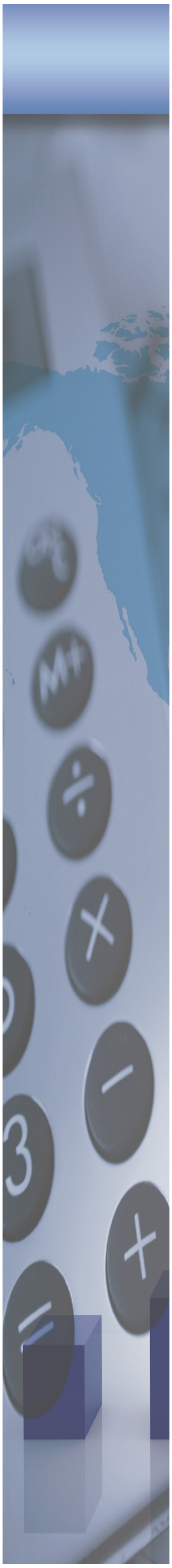
Your first question should be, "What type of investment trust is right for me?" This is really going to come down mainly to where you want to invest and your personal and financial circumstances. You can choose from anything from relatively safe investment trusts investing in the UK through to those that are more speculative and invest in the Far East, for example.

If you are thinking of investing overseas, you may want to 'spice up' your investment portfolio with something speculative in nature. A word of warning here though for when you trawl through the charts. With unit trusts, the names usually tell you where the money is invested – that's not always the case with investment trusts. If in doubt, leave it in the shortlist, and then send for documentation about where investments are made, and in what type of products.

The majority of investment trusts seek to give you either income or capital growth, although a proportion of them will also aim to deliver a little of each. You need to decide what it is you want from an investment trust – perhaps income, to supplement your earnings for a period of time, or growth so that you can take a large capital sum at some point in the future, possibly on the birth of a child, on retirement, or whatever.

You should be able to make this decision relatively easily, and then shortlist further by looking at which investment trusts do and do no match your criteria. It is worth mentioning again here that if you go for something that seeks to deliver both income and capital growth, you will not get as much income as you would if you went for an out-and-out income-generating trust. Similarly, you will not get as much capital growth as you would by picking a straightforward growth investment trust. The investment trust has got to give a bit of each, rather than more of one or the other.

Your "What type of investment trust is right for me?" question should have cut your original list down significantly. The capital versus income decision will have cut that remaining list in half – so you should now have a relatively short list to work through. Some alternative investors shortlist further by focusing more closely on capital or income and setting specific targets which they want to achieve – they can then compare and contrast these with the investment trusts and what is being achieved and/or promised by those remaining on the list.



A word of caution here though – not surprisingly, the more you expect and the higher you set your targets, the easier it is to shortlist. At the same time though, the higher your targets, the harder it is for perfectly-good investment trusts to be considered. Those that expect to achieve higher-returns *may* do so – but never forget that rewards and risks go hand-in hand. Higher risks may be predicted, but higher risks aren't too far behind.

Most investment trusts will welcome your money, but there may be minimum and maximum limits regarding both lump sum and monthly payments. You should have some idea of what you want to invest on a lump sum basis, thinking as you did for unit trusts about such issues as which way the market is moving (listen to your advisers, monitor the media etc) and pound-cost averaging (you may wish to drip-feed into a volatile market). If you have figures in mind, you can the check through the remaining trusts on your list to see if these fit in with their minimum and maximum amounts. You can then shortlist accordingly.

You will then be left with probably no more than a handful of investment trusts to choose from. Just as you did with unit trusts, you should go through the charts to pick out those that have been at or close to the charts year-in and year out. Of course, there is no guarantee that history will repeat itself in the future. But if the same key players and investment team have been in place for one, three and five years and look set to continue, you have every reason to be optimistic about the future performance.

As with unit trusts, do not focus on very short-term performances which may be flash-in-the-pan, got-lucky results. Likewise, do not consider performance tables from 10 years ago – a very different place to what it is today. If you can't choose between one or two trusts, have a look at the likely costs, and consider the small print too.

Investing Via Intermediaries

Many new alternative investors start investing overseas by putting money into collective investments such as unit trusts and investment trusts which invest in Europe, the US and beyond. As these collective investments start to perform well, it is tempting to consider investing more money overseas.

You can really do this in two ways – by putting more money into collective investments and/or by investing directly. If you want to invest directly, you can buy into investments in just the same way as you would do in the UK. Alternatively, you can go through an intermediary, typically an independent financial adviser or broker over here with experience of buying and selling successfully over there. The following are questions you should ask your potential intermediary:

"Are You Regulated?"

When assessing an intermediary, your first question – whether they are in the UK or overseas – must be "Who regulates you and the advice you give to your clients?". In the UK, Personal Investment Authority (PIA) or the Securities and Futures Authority Limited (SFA). You can call for confirmation. Overseas, you should ask for the name and contact details of the regulatory body. Bona-fide intermediaries will provide this information.

You should then approach these bodies for explanatory literature on their role, intermediaries' responsibilities, the standards you should expect and what to do if anything goes wrong. You should find these regulatory bodies are helpful. Obviously, if the intermediary is not regulated, the body is unhelpful and/or you seem to have little or no protection, you would be wise to look elsewhere.

“What Are Your Areas of Expertise?”

All intermediaries specialise, whether they are in the UK or overseas. The simplest way to see if they have the expertise you want is to ask this question. If you say something like, 'Can you advise me on "whatever"', you'll find that some less scrupulous intermediaries will say 'yes' to get your business whether they have that expertise or not!

It's also worth checking on their general and specialist qualifications to make sure they have these in their areas of expertise; these will often be shown on business cards, letterheads, web sites and so on. You can check UK ones with the regulatory body. Try to do the same with the overseas' ones. Ideally, they will have been gained by examination rather than simply purchasing them.

“What Services do You Provide?”

Whether a UK-based or overseas' intermediary, you should check on the services that are on offer. You may want to simply do the deal through them, and that's it. If that's what you want to do, fine (as long as you know what you are doing). Generally, it is a good idea to have some sort of ongoing feedback from them. This can be in the form of general advice (market trends and developments etc.) or specialist advice (when to buy and sell etc). Increasing numbers of intermediaries provide this via newsletters, web sites and e-mail alert services. It's worth asking for back copies of publications and looking at archive sections of web sites to see if previous advice seems sensible in the light of what has subsequently happened. Lots of intermediaries give poor advice, so see what they've said before!

“What are your fees?”

Any initial consultation should come free-of-charge, although most intermediaries will (understandably) be reluctant to give too much specific advice away at this stage. You will hopefully have already decided in your own mind whether you are seeking to pay by fee or by commission (as covered earlier in the course). Generally, paying by fee increases your chances of genuinely independent advice as commission paid to intermediaries by product providers can vary substantially and could influence recommendations.

Of course, the fee you pay - £200 to one, £300 to another, as examples - is normally less important than the quality of the advice. Most investors are happy to pay a bit more to one intermediary if their advice generates higher returns than another who charges slightly less. Nonetheless, it is a question that should be asked. Ideally, intermediaries will offer you a fee or commission choice. Be wary of those overseas' intermediaries who demand a high, up-front fee.

"What Investments do You Recommend?"

The key question! You should expect any bona-fide intermediary - home or abroad - to ask you about your personal and financial circumstances. That's the only way that they can tell whether they are recommending suitable products. Be very wary if they do not ask you! Ask them why they are recommending this investment to you - their response should match your situation. You also want to know why this investment is better than the other ones. (Is it because it has 7% rather than 3% commission?). **Make sure you believe in what they are saying.**

Do not be afraid to ask what their commission is on different investments, especially those recommended to you. Don't just sign on the dotted line - dig a little deeper to find out about the investment. Too many investors just look at the likely returns. What are the terms and conditions of withdrawing early, for example? The intermediary will tell you about the rewards. Do they also spell out the risks? A bona-fide one will.

How to Buy Overseas Investments

One of the first questions asked by an investor who is thinking of buying into overseas' investment opportunities is, 'How do you do it?'

As with the UK, you can often either go direct to the product provider or you can go through an intermediary such as a broker who is either based in the UK or the relevant overseas' country. If you're investing overseas for the first time, you'll almost certainly want to do it through an intermediary, at least to begin with.

Most investors are looking for some preliminary guidance and advice from someone who can show them what to do - and there is nothing wrong with that at all. Indeed, it's the sensible thing to do usually. As with the intermediary you may have been using for your home-based investments, an intermediary who is well experienced in overseas' investments can save you time, effort and money. They should be able to recommend the right products for you, accessing a long list of available investments to identify the ones that most suit your personal and financial circumstances. What you have to decide initially is whether you want to use a UK or overseas' intermediary.

You can invest overseas via a UK intermediary. There are numerous pluses. These often seem quite minor in theory but are actually very significant in practice. The intermediary will speak English - an important point for many UK investors. You need to be able to converse easily; beyond 'Good morning' and 'I am well, thank you'. They will also be nearby so communications should be much easier and cheaper. Having to contact an overseas' broker at 1.00am in the morning may seem glamorous first time around, but its appeal will soon wear off!

Most significant, the intermediary should be covered by UK financial legislation. Going via an overseas' intermediary can leave you exposed to incompetence and wrongdoings. Remember, overseas' financial legislation is designed to protect home-based investors, not foreigners (which is what you are over there). And UK-based financial legislation doesn't extend to overseas' intermediaries.

The minuses are that the local IFA who you've been happy to deal with for UK investments may not be familiar with overseas' investments. The IFA who advised you very well on that ISA probably isn't the person to advise you on USA shares, for example. Even if they have some general knowledge (probably no more than you have from reading around), they may not have traded overseas before.

You will almost certainly have to trawl around for a new UK intermediary with either overseas' offices or associates. Shopping around for another intermediary - and using an existing one for UK investments, and another one for overseas' trading - can be a chore. You'll also find that minimum trading limits for overseas' deals can be prohibitively high as are the intermediary's fees.

The advantages of an overseas' intermediary are that they should be more familiar with their home-based investments (or at least should know more than your local IFA does). Be wary though. The fact that a USA broker will do business with you doesn't make him or her an expert on all things USA any more than a UK IFA will be able to advise you expertly on everything from endowment policies through to shares over here.

As always, intermediaries specialise. Other advantages are that they are on-the-spot and are more likely to keep you up-to-date on developments, and more quickly than someone over here. Minimum trading limits and fees are likely to be less than UK intermediaries will charge you.

The downside - as indicated - can involve language and communication barriers and the lack of financial legislation covering your transactions through them.

The most sensible approach is to find someone via word-of-mouth recommendation. Make sure that the person making the recommendation is broadly similar to you and seeks similar investments. If not, they may be recommending someone who is terrific at tipping, say, Mexican shares whereas you want USA shares!

Alternatively, you can approach UK intermediaries that you've been dealing with to see if they are active overseas or can recommend contacts to you.

Most will be able to point you in the right direction if they can't help you themselves.

As always, you will then want to see that your prospective intermediary has the know-how and experience to recommend the right investments for you. You will also want to feel comfortable with them and have confidence in their advice. You may find it helpful to ask these questions before making a choice.

A Word of Warning

Once you start looking overseas and begin researching markets, companies and products and your contact details go into circulation, you will soon start to receive so-called investment opportunities from overseas' organisations.

As a rule of thumb, you should view such on-spec approaches in the same way that you would judge an e-mail, phone call, fax or letter out of the blue from any UK organisation offering a money-making scheme - with scepticism! The first - and often last – question you should ask is 'Why are they offering such a great deal to a complete stranger?'. The answer, almost inevitably, is that <u>it is a con</u>.

The best example of this - and it's typical of so many of these cons - can be seen in a recent scam that took place in the UK. Letters were sent out full of words and phrases like 'Protect Your Investments', 'Gold Coins', 'Limited Offer' and 'Act Today'. The thrust of these letters is that many UK investors are receiving low returns from bank and building society accounts.

These con-artists offered gold coins as an alternative, high-return, low-risk investment (alarm bells should be ringing already). Investors were offered the opportunity to buy a gold coin for themselves for £50. The letter was full of charts showing how that £50 gold coin could turn into a £9,887 investment over the years. Once the first coin was bought, investors could buy more coins to sell to family and friends. This con has several, easy-to-recognise features that you can spot in other dodgy offers.

- The promise of **large returns for little time, effort, money** etc. - remember the low-returns, low-risks and high-returns, high risks mix. <u>Other combinations don't exist</u>! **You don't get high-returns and low-risks.**

- Payment of a fee (i.e. the purchase of the first gold coin) to join the scheme - an up-front fee is a common feature. Often the con-artists simply disappear with it straightaway.

- High-priced products - the gold coins were actually worth around £10! If you talk to advisers etc, you'll get a better idea of what's good value and what isn't.

- Unsubstantiated claims - a genuine £50 gold coin could eventually make £9,887 (many, many years down the line) but it will take an awful lot longer when it starts off at £10. As with any investment, you should be looking for verification, and ideally from an independent third party. Con artists won't provide independent verification and will not let you to talk to fellow investors either.

- High-pressure sales tactics - bona-fide opportunities don't involve signing up today or else!

The fact is that many con-artists base themselves overseas so that they are out of reach of UK financial legislation. They're also beyond the reach of unhappy UK investors who've parted with their money. A disgruntled investor can go down to London to bang on the door of an organisation - but they're far less likely to fly to Madrid to track down someone using a postal box in a village 30 miles from Madrid – particularly if they are gangsters!

You should evaluate every overseas' investment opportunity in the same way as you'd assess a UK one. But if the offer comes to you and/or shows any of the signs of a scam, turn it down immediately. As a bottom line test of any offer, ask yourself the question, 'Is it too good to be true?'. If the answer is 'yes', 'maybe' or even 'mmm, possibly', walk away. The answer is, 'It is!'

By and large, the types of overseas' investments available are not significantly different from those on offer in the UK. As you would expect, for example, there are bank accounts in Europe, the US and beyond. Like their UK counterparts, they are low-risk, low-reward products, assuming that you put your money into an account with a reputable bank, of course.

Similarly, you can invest in shares in companies. Some could be described as relatively safe and steady, others are more risky depending on whether the company is a start-up or well-established, and so on (just as it would be over here). All sorts of other investment products are available too, with broadly similar characteristics, pros and cons as comparable products in the UK.

Advantage of Investing Overseas

This then is a key - but often overlooked - advantage to investing overseas. If you're an experienced UK investor, you do already have considerable knowledge about different types of products (more than you might think). You have a broad, across-the-range know-how of all sorts of investments.

You may be unfamiliar with the particular markets and products available abroad, but **you are familiar with the basic principles of choosing the right account for you**, know how to pick shares wisely and so on. You can apply the principles you've learned so far - how to spot a company doing well or badly, as examples - to any investments you are considering from overseas. You have the framework for success in place already.

There are other advantages - and again, these are often not considered as fully as they should be. **Diversification is an integral part of successful investing.** If you have all your investments in UK products, putting some of your investment money in overseas' products enables you to spread your risks. If UK company shares take a downturn you would not then be fully exposed to this as you would have shares in other stock markets around the world, for example. Another advantage is an unexpected one. 'Fun' is a word that is not often associated with investing, although many investors do enjoy it.

Overseas' investments do fall into this category. Many investors - especially older ones who are higher up the lifestyle ladder with fewer commitments than those lower down - are looking to enjoy investing, with what might be described as 'a flutter' on one or two more unusual investments. And why not, if it suits their circumstances?

You do need to think about the cons though - and decide how you can eliminate, minimise or ultimately live with them. The obvious disadvantage is that you don't know the specific market, the specific companies, the specific products on offer, etc. It has almost certainly taken you some time to get to know the UK investment industry.

You now need to do the same all over again with the US, Europe or wherever. For many investors, that is enough to stop them progressing. You can minimise this drawback significantly though by researching in exactly the same way you have done with the UK market; reading the financial press, studying magazines covering overseas' markets, talking to your advisors and so on. It is fair to say that the advent of the Internet and improved communications have shrunk the financial world in size nowadays. There is (almost) as much material available about overseas markets, companies and products as there is about the UK ones.

As a general rule, it is advisable to invest in overseas companies that can be followed regularly and easily - whether that's because they are covered in the UK financial press, produce materials in English, have an accessible web site or whatever. This does limit your choice, and may result in you missing out on one or two good opportunities. But the trade-off is that you can build know-how and confidence.

Without being able to monitor and keep in touch with what is going on, your risks of losing money escalate significantly. If you look overseas, you really do want to eliminate as much of the 'hassle factor' as possible. If you purchase shares in a Far Eastern company that's not mentioned regularly in the UK press, doesn't produce company documents in English and so on, then the hassle factor is so high that it's almost certainly not worth the investment and potential profits involved.

There are other drawbacks, including these. You may not be able to buy certain investment products; if you are a 'foreigner' to that country; your intermediary is not recognised; or your order is too small. Investing overseas is also likely to be more costly. Your buying and selling costs are going to be higher - talk to a UK intermediary such as a broker, and you'll generally find that they will charge as much as double their usual commission for transacting overseas than in the UK.

Also, the minimum transaction level can be higher. No more single shares so you can go and put a tricky question to the chairman of your local football club! Again, check with the intermediary. Some payouts on overseas' investments will be made with tax deducted. As you are a foreigner, you may not be able to reclaim this. Check before investing. You need to take account of these extra costs before trading and should budget them into your calculations. This is a key consideration, if you are a smaller investor, and you should think it over carefully.

Choosing and Using an Independent Financial Advisor

For many investors, an independent financial adviser (or a similarly qualified adviser) is used regularly as a key source of advice when investing in substantial and long-term investments such as endowment policies and pension plans. This is especially so when they begin investing for the first time and are often looking for some initial guidance. Many people need a shoulder to lean on when they start investing, and there is nothing wrong with that. Not only do IFAs normally have the experience and expertise to advise you accordingly, they can also save you the time and effort of researching the hundreds and thousands of products on the market. But you need to make sure that you're using the right IFA for you, and this really involves a three-stage process.

- Key Questions for Your IFA
- Paying by Fee or by Commission - It's Usually Your Choice!
- Questions to Ask about Recommended Investments

The right IFA is someone who not only has experience and expertise but who also inspires trust and confidence. You need to feel comfortable with them. They can often be found by word-of-mouth recommendation, so talk to your family, friends and work colleagues to see if they can recommend someone.

Alternatively, remember that you can source IFAs from your local Yellow Pages. Or you can get in touch with IFA Promotions (IFAP). IFAP will give you the names and contact details of three IFAs in your area. Approach all three and see what they have to say. Most will give you a free 30-minute meeting to assess them.

Key Questions For Your IFA

Your first concern must be to check that this IFA has the all-important know-how to advise you successfully. No matter how inspiring they are and how much you get along with them personally, they need to be able to give you sound financial and investment advice that's appropriate to your individual circumstances. During your initial meeting, you should introduce these questions into your conversation at appropriate intervals; preferably without making it sound too much like an interrogation!

1. Which body regulates you?

Check that the IFA is registered with a regulatory body - either the Personal

Investment Authority (PIA) or the Securities and Futures Authority Limited (SFA). Of course, if you are dealing with a well-known and established IFA with several outlets, you can be fairly confident that they are registered, even without checking letterheads, business cards and asking questions. But some IFAs work from home and this informality may make you feel slightly unsure of them. If need be, you can simply call the PIA or the SFA for confirmation of the adviser's registration. This is of key importance. These bodies have compensation schemes in place in case you are given misleading or inappropriate advice by members. But note that you cannot claim compensation simply because your investments don't perform as well as you had hoped! (We wish!)

2. What qualifications do you have?

The IFA's business card and/or business stationery should note their main qualifications, although you can ask for these along with an explanation of what they refer to. The key here is to distinguish between those qualifications that can be bought by an IFA and those that are earned by passing an examination. Clearly, those that have been achieved by sitting an examination paper (or several papers) are more re-assuring for you.

3. What specialist qualifications do you have?

As with any industry, the number of specialist qualifications that can be achieved is a substantial one. Not surprisingly, you will want to see that your chosen IFA has advanced qualifications (achieved by examination) in those specialist areas that they are advising you about.

4. What are your main areas of expertise?

Many IFAs - and particularly those working on their own, perhaps from home - will offer advice on all types of investments; but not all of them are truly qualified (either by examination or by experience) to do so. Most tend to specialise predominantly in certain fields such as pensions, for example. A good and genuine IFA will pass you on to someone else if you ask for advice on a topic outside their sphere of know-how, such as traded endowment policies or forestry as examples.

Some investors say it's worth testing them with a question or two about a specialist investment, especially if you've already picked up the answers by reading around the subject in newsletters and magazines! If they can't answer it, they should say so - and recommend someone to you who can. If you go to a larger firm of IFAs with several offices, you're more likely to be able to obtain across-the-board advice from IFAs with individual areas of expertise.

5. What ongoing services do you offer?

If you take investment advice from an IFA, it should not end as soon as you've signed on the dotted line. Ideally, the IFA will play an active and ongoing role in your investing (assuming you want them to do so). Some IFAs will offer you a free annual financial healthcheck, whilst others will keep you up-to-date on new products, and even alert you to upcoming, financial opportunities and threats.

Although their motive for doing this is to encourage you to continue to use them for investment advice etc, these services are of use to you nonetheless, and you are under no obligation to invest in more products through them should you choose not to do so. An increasing number of IFAs now offer regular, free-of-charge newsletters for their clients which is a good way of keeping you informed of what's happening in the marketplace.

Once these five questions have been asked, and you’re satisfied with the answers, always then look for one final characteristic in an independent financial adviser. **It's wise to go for an IFA who is likely to be around for as long as you're investing.** This way, you can build a relationship with them and they'll have a better idea of your investment wants and needs.

As a rule of thumb, don't go for an independent financial adviser who is just starting out on their career or who is close to retirement as they may soon move on and you'll have to start over again, building a relationship with someone else. Go for someone of a similar age and broadly comparable circumstances to you as they'll then have a better idea of where you should be going with your investments. As an example, if you're a divorced woman with two children, look for a female adviser with a similar set of circumstances who can identify with and advise you accordingly!

Paying By Fee or Commission - It’s usually Your Choice

Although many IFAs offer an initial, 30-minute fact-finding interview without charge, you will subsequently have to pay for their advice. This is usually done in one of two ways - by fee or by commission. If paying by fee, the IFA offers you advice and suggests a range of products suited to your needs and you pay a fee for this, typically from about £50 an hour upwards (and the bigger and more prestigious the IFA, the higher the fee; £100 or more is not uncommon).

Any commission that might otherwise have been paid to the IFA by the product provider can then be re-invested into the product. When paying by commission, no fee is paid by you and the IFA receives a commission by the provider of any products that you decide to invest in through them. Typically, this commission could range from 3% to 7%.

As you can usually choose whether to pay by fee or by commission, you should consider their respective advantages and disadvantages before deciding which one is right for your personal circumstances. There is no, universally-applicable 'right' or 'wrong' choice. It depends on the individual investor.

Paying by fee offers one key advantage - you can feel confident that you're receiving genuinely independent advice. That's because the IFA will get the same fee from you, regardless of the products that they have recommended. It is often argued that some IFAs who are paid by commission are more likely to suggest products that offer more commission to them.

Common sense suggests that this is at least a possibility with one or two independent financial advisers, if not more. If one product provider offers a 3% commission and another offers 7%, then there will always be the suspicion that the higher-commission product is being recommended because it is more lucrative for the IFA. Remember, all money paid out in commissions is money not then available for your investment vehicle!

The main disadvantage to a fee payment is that you have to put your hand in your pocket and put hard cash - your own £10 and £20 notes - on the table now (or at least write out a cheque for the advice shortly after it has been given). This is not always easy to do unless you are cash-rich.
You may be a first-time homebuyer, or have just been through a divorce, or may be in the process of being made redundant. It's very simple to suggest paying £500 in a flat fee - but not always so easy to do it if that £500 is budgeted as part of a deposit on your first house purchase, or you want to keep it in your bank account for emergency purposes.

Paying by commission has the key benefit that you don't have to pay directly out of your own money. You pick your product, buy it, and the product provider makes a payment to the IFA. And some people argue that this is always the most sensible approach.

They say that it's not going to really cost you anything because even if you cut out the IFA and went direct to the product provider yourself, they would not give that commission to you. And it is true that product providers will not give IFAs' commission to members of the public.

The downside of commission payments is that you can never really be truly sure that you are receiving impartial advice from the IFA. In 1999, for example, Scottish Mutual offered IFAs a 7% commission on one of their bonds which was about 2% more than their competitors provided for similar products.

Recommendations soared. And - as alarming for those investors who invested in this product - the company cut the annual bonus by 0.25% to help pay for this commission and this meant less money for investors in the long-run. Bear in mind too that any commission effectively comes out of your investment money and means that your investment pot will not be as big as it might be.

If you can afford it, pay for independent financial advice on a fee rather than a commission basis. A flat fee with commission re-invested in the product tends to be less expensive than paying by commission.

As an example, if you set up a personal pension with a fee-based adviser such as Chartwell Investment Management of Bath, Avon. And there are many other, similar fee-based advisers around - you'd normally pay a flat fee of £595. If you paid by commission, it would be around £1,000 - and remember that this commission comes out of your investment money and eventual investment pot.

Paying by fee also means you can be more certain that you are getting genuinely independent advice. Unfortunately, the varying commissions available make it hard for any investor to be absolutely sure that any IFA is truly impartial. For example, let's say you're coming up to retirement with a residual personal pension fund worth £350,000.

An adviser may suggest what's known as a conventional annuity purchase, generating commission of about £3,500. Or they could recommend what's called pension income withdrawal which would create annual commissions throughout the contract and earnings of up to £21,000. Even though the pension income withdrawal route really may be better for your circumstances, you cannot ever be 100% sure that it is because of that level of commission is just SO tempting for the IFA.

If you can't afford to pay a fee at the moment (and many investors cannot), at least ask the IFA to give some of their commission to you - either in the form of a cashback payment or by rebating it (putting it back) into your investment. Most will agree if they think you would otherwise take your custom elsewhere. You should get the biggest cashbacks or rebates by investing through larger independent financial advisers, typically those with several offices.

These IFAs do more business with product providers so they're able to negotiate higher commissions from them, thus providing more money for cashbacks or to rebate back into the product. Don't waste your time buying products direct from the provider - many product providers will not deal directly with investors, and those that do will not give the commission to you either directly or via the product.

7 Key Questions to Ask About Recommended Investments

It is essential that - even with a trusted IFA or other adviser - you ask questions about any products that are being recommended to you. Never simply buy into the investment as many naive investors do, assuming that your adviser must be tipping the very best investment that's just right for you. Bear in mind those 7% commissions, that some advisers are better than others and that even the very advisers have bad days and make mistakes.

Don't let them make mistakes with your money! A healthy dose of common sense combined with a dash of scepticism is always advisable before investing in anything. So, when an IFA says this is the right product for you, turn around and ask these questions:

1. Why is this the right product for me?

Your adviser should really have asked you questions about your personal and financial circumstances and your investment aims before offering any advice and recommending any products to you. If they have not done this (or have done it in a perfunctory manner), then you should be seriously questioning their ability to recommend anything to you at all.

If they've not talked through your finances, then they cannot possibly know enough to understand what type of investment and product are most likely to be suited to you. As an extreme example, if you owe £20,000 on credit cards and are paying about 20% interest on this overall debt, then it is clearly inappropriate to be investing in unit trusts and investment trusts that might pay you 10%! Assuming that they've discussed your financial scenario with you on an in-depth basis, expect them to give clear and concise reasons explaining why this type of investment is ideal for you with specific references to your particular circumstances. And they should also say why this product is the best of its type for you, again referring to your personal situation.

2. Why is this product better for me than other ones?

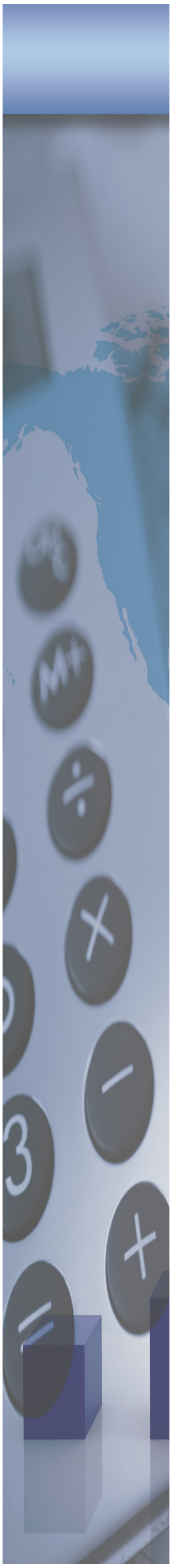
Here, you are looking to the adviser to show that they have considered a range of different types of investment and products for you before settling on this specific product. Ideally, you want to find out why they have eliminated other investments in favour of this one.

You should be looking to them to run through (however briefly) the pros and cons of different types of investment so far as they relate to your circumstances. They should then explain to you the advantages and disadvantages of other products within that investment category and why they are not as good for you as the one they are tipping. This need not be an in-depth assessment - but you should be able to understand what they are saying and feel that you agree with it. The bottom line is that you want to see that they've given some thought to the product and how it relates to you and your particular needs.

3. What's your commission on this product?

This question is vital if the adviser is being paid on a commission basis. Even if the figure given (in pounds and pennies) sounds reasonable to you, it is worth putting this into context by asking how this commission compares alongside of the commission available from other, broadly comparable products. Commission of £500, 3% or whatever may sound very acceptable -- but if other products of this nature are paying an average of £200 and 1.5%, then this marked difference needs to be taken into consideration.

You do need to overcome any embarrassment about asking questions of this kind; 'what's your commission?' is a perfectly reasonable question and (assuming the adviser has nothing to feel awkward about) this information should be readily forthcoming. Don't forget - this is your money that's being invested so you are entitled to know!



4. What are the main terms and conditions associated with this product?

It is amazing how many new investors check the small print only *after* they have bought into an investment product. And yet it is this small print that contains all of the nitty-gritty details of the deal. A classic example here involves income protection insurance policies. As we will see in Module 3, it is sensible to get your financial affairs in good order before making investments of any kind, and arranging various insurance policies to protect yourself and your family in case of illness and death is a key part of this. An income protection policy is designed to pay out sums in the event of redundancy and/or illness preventing you from working. Many of these policies sound marvellous in theory, and lots of investors set these up as part of their overall finance and investment package. Yet some of these policies come with so many restrictive terms and conditions that they **rarely pay out fast or fully**, and are rendered **almost useless in practice.** If the investors had studied the small print of these policies thoroughly in advance, they would have subsequently saved themselves substantial sums and considerable heartache too.

5. What are the possible risks involved with this product?

Every investment product comes with some sort of risk and reward mix, and you need to know what the potential risks are for this particular product. As we have seen, the risks associated with, say, deposit accounts are so small as to be non-existent (although the trade-off is that your potential rewards are correspondingly smaller). At the other extreme, investments such as penny shares are high-risk and it is quite conceivable that **you could lose everything you invest in these** (although the trade-off is that your possible rewards are that much higher).

You need to have some idea of what risks are involved in any investment you make, and may want to follow through with various other related questions such as 'Can I lose money?', 'If so, how much?', ‘What could go wrong with this investment?', 'What would happen if...?' and 'What's the worst-case scenario for this investment going wrong?'.

6. What are the possible rewards of investing in this product?

Similarly, you want to see what your adviser says about the possible rewards of investing in this particular product. If the IFA has said that the risks are low, then you should also expect to be told that the rewards are likely to be equally low too. Alternatively, if you are being told that the rewards are potentially high, you should expect the IFA to confirm that the risks of losing some or even all of your investment are high as well. That's how it works in practice - low risk and low returns or high risks and high returns. Any adviser who tells you otherwise is either incompetent or untrustworthy, or a bit of both.

You need to be clear about the possible rewards and any potential downside to the deal. Again, you can follow up with various, related questions such as

'What's the least I could make from this investment?', 'What the most I could make from this investment?' and 'What do you expect to happen with this investment?'

7. What happens if I stop paying and/or want to cash in early?

One of the key principles of successful investing - as we'll see throughout the later modules - is that you should invest only when you can see your way to fulfilling the contract and investing to the very end of the term. If you can't, don't invest in them! A good example and a word of warning here is a 25-year endowment policy - in extreme cases, dropping out after 24 years could mean that up to 27% of the payout due at the end of the 25-year term would be lost. Imagine that - thousands and thousands and thousands of pounds thrown away.

Of course, sadly you cannot always predict what is going to happen in the future, and few people want to live their lives on the basis that they may get divorced, grow ill and die, even though these events are statistically 'possible', 'probable' and 'certain' respectively (and as such should be taken account of a little, a lot and always respectively). So you need to check out the flexibility of the investment product and feel comfortable with what you can and cannot do once you've signed up.

Bottom Line Advice

These seven questions - and indeed the questions and other advice given earlier in this unit, are all ideal for checking out and identifying a good IFA for you. But to be a successful investor, you will ultimately need to take responsibility for your own investing strategy rather than relying on an IFA.

You should not automatically use an IFA as a substitute for your own common sense and investing savvy. Use an IFA to start with (if you wish) to help you invest wisely, and continue using them (should you want to do so) as a sounding board for your own thoughts and ideas. But it is *your* thoughts and ideas - developing from your own investment goals, personal and financial circumstances and attitude to risk and reward - that should form the basis of your investment plans.

Buying shares is much simpler than many first-time investors imagine - in fact, it is remarkably simple. Many banks and building societies now offer a basic, execution-only style service for buying (and selling) shares in leading companies. All you do is walk in, ask to be directed to the right person, say what you want to buy (or sell), have your money ready, and the person on the other side of the desk will do everything that needs to be done on their computer screen.

You then pay your money - typically, 1% of the transaction's value, subject to a minimum £10 fee or so - and walk out ten minutes later with your various bits of paper, having effectively done the deal. For most smaller investors, this is the easiest course of action - all you have to do is shop around by going from one bank to another to find the cheapest deal and to see who is most efficient. Many banks and building societies now offer telephone and on-line execution services too.

As an alternative, you can go to a broker who will normally deal with you over the telephone or the Internet. To get a broker, you should normally be looking to invest a minimum of about £1000 for an execution-only trade, upwards of £10,000 for an advisory account and about £50,000 for a discretionary account.

These are only guideline figures though and you may uncover a broker who will take on investors with smaller sums to invest if you shop around (although some may expect you to invest larger amounts!). You can obtain a directory of brokers from the professional body, the Association of Private Client Investment Managers and Stockbrokers. Choosing the right broker for you really involves asking yourself three questions - and then seeing which brokers match your answers:

1. What Services Do I Want From My Broker

Brokers offer three main services for their clients. An 'execution only' service involves you instructing the broker to buy or sell shares of your choice. Essentially, it's the same as a bank or building society's, no-frills service. An 'advisory' service means that the broker will offer you advice on which shares to buy and sell. Note that this level of service includes an execution service for you as well. A 'discretionary service' involves the broker taking charge of choosing and then buying and selling shares for you, although this will normally be within guidelines that you have laid down in advance. Typically, you will set maximum spending limits based on what you can afford to spend, and may stipulate that you want to invest in, say, ethical investments only. It's your choice.

You have to decide for yourself which service suits your needs. If you know what shares you want to buy - as recommended by your chosen tipster or uncovered by your own research - then an execution-only service is all that you really need (either via a broker or a usually less costly bank or building society performing the same basic function). It is the cheapest option.

If you want to be guided over your investments - or simply want a second opinion - then the slightly more costly advisory service may be better for you, especially in the early days when you are still inexperienced. The discretionary service is one that tends to be used mostly by those investors with relatively substantial sums to invest; £50,000 or more. If you have this sort of money, then you may wish to consider discretionary services.

2. What Are The Services Going to Cost Me?

There are two main charges in particular which need to be considered by all investors who are thinking of buying and selling shares. Start by checking the minimum trading charge. This is normally about £10 to £20, although it can be substantially higher. You should take this into account when buying and selling, especially if you are going to trade relatively small amounts on an execution-only basis.

Too many investors disregard it. For example, one investor bought shares totalling £100, sold at £150 and claimed to have made a £50 profit. He didn't because he paid a minimum fee of £15 to buy and another minimum fee of £15 to sell - so he had £20 left after deducting trading costs. Quite a difference!

Next, check the commission that's due to be paid. This will normally be levied on a sliding scale based on a percentage of the value of the purchase or sale. On an execution-only basis, you might pay 1% of the transaction value subject to that minimum fee of, say, £10. If you bought £250's worth of shares, you would pay that £10 minimum fee (as the 1% would only be £2.50). If you spent £5,000, the fee would be £50 (1% of the transaction value). Sometimes, the commission will be less for trades in excess of a certain sum, typically £5,000.

If you went for the advisory services option, you might pay 1.5% on the first £5,000's worth of transaction, with 0.5% on any amount above that. Again, this might be subject to a minimum fee of, say, £25. For discretionary services, you would normally pay an annual fee based upon the amount of capital that the broker is investing on your behalf. The fee will typically be about 0.75%.

Do not assume that these are the only charges - ask, as there may be others, and you need to know about them in advance rather than after they have been charged unexpectedly to you. Stamp duty of 0.5% is currently charged on what you buy, but not on what you are selling. If you trade more than £5,000's worth of shares, you have to pay a levy of £1 - a PTM levy - which funds the City's Panel on Takeovers and Mergers (PTM).

There may also be a compliance charge levied by your broker to cover part of the costs of meeting the industry's rules and regulations. And you may also have to pay extra for trading in overseas investments. Take account too of the 'spread' between your buying and selling prices. Typically, this might be about 1.5% for large companies or higher for those lesser-known companies with shares that aren't traded all that regularly.

You should always take account of the costs of investing in your decision-making, not least because these vary from one broker to another. As a general rule, the higher your costs, the less money you will have left at the end in the form of profits. Some brokers will argue that they charge more because they provide better services, and that is something that you may wish to take into consideration.

Also, if one broker charges slightly more than another but gives better advice so that you invest more successfully and profit more, then this may be worthwhile as well. You may have to pay out more in costs but if you get that - and some more - back in the form of profits, then that extra payout may be financially sound.

3. Do I Have Confidence in This Broker?

If you're using a broker on an advisory or a discretionary basis, then you need to feel confident that their advice and tips are sound and - especially if you are entrusting (large) sums of money to them - that they are trustworthy. It is a good idea to use any initial discussions to raise the same sort of questions that you might put to an Independent Financial Adviser (IFA). Typically, these questions might include - Which is your regulatory body? What qualifications do you have? What specialist qualifications do you have? What are your main areas of expertise? What ongoing services do you offer?

Choosing a Broker

Pick a broker by personal recommendation - it's by far the safest way to uncover the right one for you. But - if you are going for advisory or discretionary services - make sure that the person who's making the recommendation is broadly similar to you; not least in terms of their personal and financial circumstances, and (in particular) their investment goals. Say they are married with three young children - they may only have a little extra money to invest; and only in relatively safe and steady shares.

If you are newly retired with some spare funds and want to have some speculative fun with shares, you may be looking for something a little more exciting. The broker who's great at tipping safe and steady shares may not be quite as good at spotting the speculative shares that you want to purchase!

For the majority of investors, execution-only services are all that's needed to invest successfully in shares - there is plenty of investment advice available from different sources so you've no real need to pay extra. And if you're canny, you'll get some free-of-charge pointers from execution-only brokers anyway.

Generally, you'll buy and sell shares over the telephone or by e-mail these days and will be dealing with any one of a number of brokers within a particular firm. The secret is to spot someone who seems very friendly to you. In future, ask for them by name so that you start to build up a one-on-one relationship. You'll then find that they are more likely to give you snippets of advice if you ask them questions. For example, if one of your shares suddenly rises by 70 pence for no apparent reason, your friendly broker may indicate the cause.

You'll also find that your broker's computer screen will contain lots of technical information that may be useful to you. Ask, and the broker may tell you, especially if you are a regular. The bottom line is that they won't want to risk offending you and losing your custom.

A word of caution about 'no commission' deals! You'll see these advertised from time to time. As with anything else in life, something that's 'free' usually comes with some sort of obvious or sometimes not-so-obvious catch. And so it is with 'no commission' deals. Instead of charging commission, the share dealer will normally have a greater spread between their bid price and their offer price - that's where they recoup their money (and probably make a bit extra on it too). So you'll be hooked in by the 'free' offer of no-commission, but the trade-off is that you will be buying at a higher price and selling at a lower one. And - I'd bet you a pound to a penny - you'll end up more out-of-pocket than if you paid a basic commission in the first place!

Summary

1. Investing overseas is popular with many alternative investors from the UK. Using the same basic investment principles as you do here, you can invest in broadly similar products just as successfully. It is a good way of diversifying your investment portfolio. Many alternative investors find overseas investing fun. They view it as exciting, and a bit of a flutter. The main disadvantage is that the markets in other countries can be unfamiliar. Many new investors work their way round this by investing through an experienced intermediary, at least to start off with.

2. You can invest via a UK intermediary, such as an independent financial adviser (IFA), or through an overseas intermediary. There are pros and cons to each route. A key concern is whether you are covered by UK financial protection legislation - most investors want to be. This means you need to invest via a UK independent financial adviser in most instances. Many investors look for a UK IFA with links to other advisers in those overseas markets and countries that interest you most of all.

3. Word-of-mouth recommendation is the most common way of selecting an IFA - but Aunt Betty’s adviser for ISAs may not know much about Far East investments! It is better to use Yellow Pages and then shortlist by asking lots of questions. You will want to ask questions about the IFA. Do they specialist qualifications that have been obtained by examination, for example? You will want to choose how to pay - probably by flat fee with rebated commission. You will want to ask questions about any investments recommended to you. What is their commission on this investment, for example, and how does it compare to similar investments?

4. Unit trusts are collective investments - they take money from lots of investors and invest it en-masse! The name of the trust usually reveals where it invests most of the money. You should pick a winning unit trust by; choosing your investment category; deciding whether you want to invest on a lump-sum or drip-feed basis; choosing between income and growth; selecting between an actively- or a passively-invested trust; studying the performance tables and going for a unit trust that’s consistently near the top of the charts, year-in and year-out. If there is little to choose between two unit trusts, go for the one with the lower charges.

5. Investment trusts are collective investments too. The main difference between unit trusts and investment trusts is that unit trusts are products and investment trusts are companies. The names of investment trusts are not always revealing! You need to ask what they invest in. Your selection criteria

will be similar to those for unit trusts. Decide where you want to invest. Consider if you want to put in a lump sum or regular payments - or both! Check which trusts give you capital growth, income or a little of each. Study the performance tables between one and five year - shorter and longer than that are less relevant!

Further Reading

There are various books available that will help you to build your knowledge and understanding of investing overseas. These ones are all especially good and will give you an excellent introduction to this alternative investment area…

How to Make Money Investing Abroad by Nancy Dunnan and Douglas Schaff (0062701126, Harper Collins)

Investing in the New Europe by Eric Uhlfelder (1576600289, Bloomberg Press)

Investing in Latin America by Michael Molinki (1576600653, Bloomberg Press)

The 100 Best Stocks to Own in America by Gene Walden (0793144361, Dearborn Trade Publishing)

Getting Started in Unit and Investment Trusts by Robert C. Cole (0471968447, John Wiley and Sons)

Check Your Understanding

Before going on to read the next and final part of your course, please stop for a moment and work your way through the following questions. By answering them correctly, you will check your knowledge of this ninth part of the course. You can refer back to the relevant section if you are unsure of a particular answer!

Investing Overseas

1. Can you list three main advantages of investing overseas?

2. What are the disadvantages of investing overseas?

3. How can you minimise or even eliminate these disadvantages so far as possible?

Investing In Unit Trusts

1. What is a unit trust?

2. How can you tell where a unit trust invests most of the money?

3. Why is a big unit trust not necessarily a successful unit trust?

4. What are the potential rewards of investing in a unit trust?

5. And what are the risks involved?

6. What are the possible benefits of investing in this way?

7. And what are the drawbacks?

8. How should you pick a unit trust to invest in - list five or six steps!

9. What is pound-cost averaging, and how can it help you?

10. What is the difference between an actively- and passively-invested trust?

Buying Into Investment Trusts

1. What is an investment trust?

2. What is the main difference between a unit trust and an investment trust?

3. Can you think of any similarities between them?

4. What are the would-be rewards of investing in these collective investments?

5. And what are the risks?

6. Can you state two benefits of investing in this way?

7. And two possible drawbacks?

8. How should you choose an investment trust - list five questions you should be asking before investing!

Investing Via Intermediaries

1. What are the pros of using a UK intermediary?

2. And what are the possible cons of going down this route?

3. What are the pluses involved with using an overseas intermediary?

4. And what are the potential minuses of going down this alternative route?

5. What is generally regarded as the best option by alternative investors investing overseas?

Choosing and Using an IFA

1. How can you source IFAs?

2. What questions should you ask to shortlist and make your choice?

3. What are the two main ways of paying for an IFA's advice?

4. What are the pros and cons of each of these?

5. Which is the best way to pay an IFA, so far as you are concerned?

6. What questions should you be asking about any investments recommended by your IFA?

Have you checked the summary?

Have you ordered your books for further reading?

Have you answered all of these questions to your satisfaction?

You're ready to move to the final part of your course now!