GROWING FUTURE ASSETS
INVESTMENT COMPETITION

WHAT is INVESTMENT MANAGEMENT?

INTRODUCTION TO INVESTMENT MANAGEMENT

If you've watched TV and films, you'd be forgiven for thinking that investment is all about shouting "Buy!" and "Sell!" in big glass buildings whilst wearing sharp suits and shoulder pads.

It's actually much more about research, analysis, and careful stewarding of clients' money to achieve their financial goals.

Altogether, an awful lot quieter!

What is Investment Management?

Investment Managers invest their clients' money for the long term, to keep it safe and make it grow. They invest people's money to help them achieve their hopes and dreams for the future. It is about careful, long-term stewardship of money, not gambling or taking unreasonable risks.

Investment Management is part of the financial services sector that also includes banking and insurance. However, though people often mix them up, Investment Management is not the same as Investment Banking.

Investment Banking is more about helping big companies, and even governments, to raise money for expansion and improvement. They might also help companies to sell shares or negotiate mergers.

WATCH 'WHAT IS INVESTMENT MANAGEMENT 'ON YOUTUBE

What do Investment Managers do?

Investment Managers work with clients to work out what they want to achieve, how much risk they're prepared to take and what investments would be suitable.

Investment Managers are professionals, like lawyers and you pay them to use their expertise to manage your money. They charge a percentage to manage your money.

- Wealth managers work with clients directly and invest their money
- Asset managers invest in grouped funds like pension funds. They also run their own funds which people can buy into. These funds have different mixes of investments which people can invest in according to their goals and needs.

WATCH 'WHAT DO INVESTMENT MANAGERS DO?' ON YOUTUBE

Investment Management is often called the **'Buy Side'**: this means they buy assets, investing in things which they hope will increase in value

Investment Banking is on the **'Sell Side'**: they help to create, promote and sell assets to people who want to invest

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Whose money is invested?

Everyones! A lot of people think they don't have any investments, but they do. Every adult needs a pension and many have ISAs, or Individual Savings Accounts, that can be invested in stocks and shares.

An example of an investment you may have is a Child Trust Fund.

All babies born in the UK between 1 September 2002 and 2 January 2011 were given a Child Trust Fund by the government when they were born. At least £250 was put into a tax-free account and this could be either a savings account, or in an account invested in Stocks and Shares.

Why do people invest?

The main reason people use Investment Managers is to keep money safe and make it grow.

You could put the money in a savings account in the bank, but as interest rates can be low, Investment Managers try to get a better return and help clients make their money work harder.

Beat Inflation

Inflation is the increase in the price of something over time.

In July 2022 the UK rate of inflation reached 10%. That means something that cost £1 a year ago would cost £1.10 today.

If you have money in a savings account, you may only earn 3% per year. That means your money isn't keeping up with inflation. It is losing value and you will be able to buy less.

Investing money over the medium to long term can give you a better chance of beating inflation by investing in assets that grow at more than the rate of inflation.

However, you have to be very careful what you invest in to ensure you are happy with the risk!

The Power of Compound Interest

Compound interest basically means gaining interest on your interest!

If you have £1,000 savings and it earns 5% annual interest, in year one you'd earn £50 giving you a total of £1,050.

In year two though, you would earn interest on £1,050 which is £52.50 meaning your savings at the end of year two would be £1,102.50.

The magic of compound interest means that if you left your money in the account earning 5% a year for 30 years and never added another penny, you'd end up with £4321.94.

Investing or saving early gives you benefits in the long term!

Risk

Financial risk means you might not get the return you expected. You might even lose some of your original investment.

Some investments are low risk, like government Bonds - governments can usually be relied upon to pay you back!

Some investments are higher risk like investing in a new and untested business start up. It might be a great success, but it might go bust and you would lose all your money.

Investors need to carefully consider the level of risk they are prepared to take before investing.

Investment Managers' 'clients' could be:

- Individual people saving a nest egg for the future
- Pension Funds seeking to grow their savers' money for a secure retirement
- Charities ensuring donations can be used to support their work for years to come.

FIND OUT MORE ABOUT CHILD TRUST FUNDS

WATCH 'WHY DO PEOPLE INVEST?' ON YOUTUBE

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What do they invest in?

Investment Managers invest money into "assets", things they believe will grow in value over time.

Assets might include:

- Property
- Commodities - raw materials like copper or wheat
- Bonds - a sort of loan to governments or big companies which they repay with interest over a set period

Another main asset is **shares** in companies, also known as **stocks or equities**. Owning a share in a company means that you own a small part of that company. Shares are sold on Stock Markets - literally a market place for buying and selling shares. These days stock markets are more of a virtual market.

There are stock markets all over the world and companies are listed

- London Stock Exchange: LSE
- New York Stock Exchange: NYSE
- Euronext
- NASDAQ
- Tokyo Stock Exchange

How does that make money?

Some companies pay their shareholders an **annual dividend**, that's like a share of the company's profits.

You can also make money by selling your shares in the company when the share price goes up and make a profit that way.

The idea is to spot companies that will grow in the future, buy shares in them when they are relatively cheap and sell them in the future when the price has risen.

People who work in Investment Management companies spend a great deal of time and expertise researching companies across the world to work out which have the best ideas, products, services and opportunities to grow in the future.

They learn everything they can about the business to help them make the best decision:

- what the company does and how it makes money?
- how good is its business proposition?
- what is the size of the market and potential customers?
- financial information including sales and profit
- what are their competitors like?
- who are their management?
- how ethically do they run their business?
- what are the opportunities to expand?
- what does the future look like for the business?

They use all of this information to decide whether to invest in the company or not.

That is exactly what we are asking you to do in the competition!

Asset classes

Assets are put in to different classes with different 'risks'.

Government Bonds are low risk because coutries can be relied on to pay their debts. Shares in small, untested companies are higher risk because you can't guarantee if the company will be a success or failure.

People invest in higher risk assets as they believe there is the chance of a greater reward - that they will make more money. However, the 'risk' bit means there is also the chance they could lose some or all of their money.

WE CARE WHAT YOU THINK!

Young people are the investors of tomorrow. We **really** want to know what you think. Where are the future opportunities? What are the key issues we should be considering when investing?