

News from Louis Letourneau.

First published in [Gay Times](#), September 2006

To secure your financial future, says [Louis Letourneau](#), it may be best to back a stayer than the 50/1 bet in the 3.30pm at Kempton

One word that's kept recurring in my [recent articles](#) is 'risk'. And so it should; this is the most important issue to consider when advising on [pensions](#) and other [investments](#). A person's investments should ideally match their attitude to risk. Some people are so cautious that their instinct is to keep all their money under the mattress, while others would put the lot on an outsider in the 3.30pm at Kempton. Most people, happily, fall somewhere in between.

When investing, you need to consider your attitude to risk very carefully. How would you feel if you invested some money in an ISA and it fell in value by 20% a few weeks later? What's your initial response to that? What does your instinct tell you? Would you think: 'Gosh, the market's fallen – this is a good time to invest some more'? If you would, then you're the sort of highly speculative client that I am always having to rein in – your instinct is to invest every penny in Indian and Chinese equity funds.

Or would a sharp drop in the value of your investments make you so anxious that you'd want to cash them all in so that you wouldn't have to worry about them in the future? If that sounds like you, you should never invest in equities. You're better sticking with cash, fixed interest and some commercial property, which I described in [last month's article](#).

Alternatively, would your response to a fall of 20% or so be 'Well, that's what stockmarkets do, go up and down in the short term, but they produce growth in the long term – you just have to ride out the bumps'. That sort of attitude is typical of a 'balanced' investor – your ideal portfolio is likely to contain a high proportion of equities to generate growth, but also fixed interest and commercial property to give stability.

What I'm getting at is that an investment is never going to work for you and you're never going to be happy with your portfolio if it doesn't reflect your instinctive attitude to risk. Of course, this can be modified slightly. If you're 22 and starting to pay into a pension scheme, then no matter how cautious you are, you should put most of your monthly contribution into equities. That money could be invested for anywhere between 33 and 53 years, which is plenty of time to ride the ups and downs of the stockmarket. When you get closer to retirement, the money can be moved into safer funds, including cash funds. Conversely, if you're retiring in two years' time and are putting a lump sum into your pension today, then notwithstanding the fact that you consider yourself a bit of a gambler, I wouldn't recommend that you take a punt on a fund that invests in start-up Japanese dotcoms – stay safe in cash, is my best advice.

Likewise, you can afford to be a tad more adventurous with money which is being contributed monthly (and can be redirected into more sheltered funds if the market takes a stormy turn) than with large lump sum contributions. Putting £200 a month into your pension is one thing – the £200,000 that Aunt Agatha left you is quite another. Where your funds have originated from, how quickly you might want the money and whether or not they could be replaced if lost are all issues to be considered.

A phenomenon that gets investment experts very excited is called 'pound cost averaging', and it applies to monthly payments made into any investment-based arrangement. This refers to buying more units when prices are low and then gaining by cashing in when the price has risen. Watch the movement of the tide, not the individual waves.

All too often, when we talk about risk, we concentrate on the risks of investing in the stockmarket. Don't forget that there are risks with other investments too. The property market can crash – I'm sure many of you will remember the early 90s when many homeowners were left with negative equity. The commercial property market also has its ups and downs. Fixed interest investments fluctuate with interest rates. Even cash has its own risk – if there is a period of high inflation, as has happened in the past, cash kept under the mattress will lose value, as it will not keep its buying power.

If investing money leaves you 'bewitched, bothered and bewildered' a good financial adviser will help you understand and assess your attitude to risk. Don't be scared by money – as always, get some [independent advice](#).

Louis Letourneau, MA is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people living with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.

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