Your investment journey

Learn about risk and making the most of your investments

Start your investment journey

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Understanding investment risk

In investing, **risk** refers to the possibility of an investment falling in value.

As a rule, investments that have a higher level of risk usually have the potential to deliver a higher rate of return. But you'll probably have a bumpy ride along the way, riding the ups and downs of the market to get that higher return. There are no guarantees.

Depending on your circumstances, you might be prepared to put up with a few bumps. Or you might decide that you want a smoother ride and you're happy with a lower, but steadier, return. In that case, an investment with a lower level of risk might be more suitable for you.

Whether you decide to be a risk taker or prefer to play it safe, the approach you take is a very personal decision – and could change over time with your circumstances.

Whatever approach you choose, there will always be some level of risk. Investing by its very nature is risky, and the value of your investments can always go down as well as up, meaning that you could get back less than you put in.

Managing investment risk

Whenever you invest, you accept there's a risk your investments may fall. But there are a few things you can do that could help minimise it:

Take your time

All investments go up and down over time. But generally, the longer you invest, the more chance your investments have to ride the ups and downs of the market — and the best chance you'll have of making a return on your money. That's why investing for the long term (at least five years) is a good idea.

Don't keep all your eggs in one basket

Make sure you're investing your money in lots of different things, like shares, property and bonds, for example. Diversification is the technical term. With diversification, if some of your investments are doing badly, potential losses may be balanced out by other assets performing well.

Spread your investments over time

Investing small amounts on a regular basis, rather than a lump sum up front, could help to spread your risk. This is known as pound-cost averaging. Buying shares in small amounts over a period of time means sometimes they will be expensive, and sometimes cheaper – so you get an average cost over time.

Making the most of your investments

There's no guaranteed way to get a better outcome for your investments, but there are a few things you can do to try to maximise your potential returns.

Make the most of your ISA allowance

The ISA allowance for the 2021/22 tax year is £20,000. That's up to £20,000 you can put away without paying Income Tax or Capital Gains Tax. If you don't use your full allowance this tax year, it's gone – no rolling over into the new tax year. So the sooner you can start investing in an ISA, the better.

Diversify

Spread your money across as many different investments as possible so that if one goes down, another one may remain stable or even go up.

You can aim for diversification by investing in a range of sectors, geographical locations and assets, like shares, property and bonds.

Stay in it for the long haul

Investing certainly isn't a get-rich-quick scheme. To make the most out of your investments, you'll need to leave them alone. Hold onto them for at least five years, preferably more, regardless of market ups and downs. The benefit of investing over the long term is that you'll be better placed to weather those dips in the market, while money invested for a short time won't have as long to recover from any drops in value.

Make changes if you need to

While it's a good idea to invest for the long term, there's no reason you can't change exactly what you're investing in. How risky you want to be may change as you approach retirement, for example, as you want more guarantee that you're going to have a pot of money to see you through your golden years. So you could switch your portfolio so it's invested in less volatile assets.

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