How to start investing basics

Here I have documented the basic path to start investing. It doesn't matter what age you are or the position in life, I created this document as a simple check list and a small description of each stage to help you understand whether you are ready to invest. Though I've gone over the basics I would suggest much more reading and learning to get the best knowledge of all products on offer, especially when it comes to investing itself.

When investing it comes with risks, you can loose your capital and only invest money you can afford to invest.

1. Start building an emergency fund
2. Set your investment goals
3. Contribute to a workplace pension
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1. Start building an emergency fund

First things first, always try to begin with building up an emergency fund before anything else. You'll ensure that you are covered if any unexpected expenses arise, like having to repair your car or loss of a job, but you'll also develop a habit of regularly contributing into a fund.

How much should you save?

It is suggested that you should have between 3 and 6 months of expenses in a emergency fund. But is also suggested that having more will help you emotionally knowing there is money to fall back upon if things go sideways.

A good way to build up an emergency fund on a small wage is to set small goals, say £100-£500 to start and get into the habit of saving regularly.

2. Set your investment goals

Once you have started contributing towards your emergency fund, start thinking about the goals you want to work towards by investing.

The accounts you use for short term goals, like travel or buying a car, will differ from the accounts you open for your long term retirement goals. Most importantly is that in your 20's is starting a habit of saving.

When setting goals it comes down to looking at all the experiences you want to have over your lifetime. For some people they want to travel every year or they want to purchase a new car every couple years and they also want to retire at 65. It all comes down to creating the investment plan to make sure all those things are possible.

Committing to a specific amount you'll save each month and increase that with any extra income you gain over the years is what's going to have the biggest impact early in your savings and investing career.

Once you've outlined a set of goals and established a plan, you're ready to look into specific accounts.

3. Contribute to a workplace pension

When you first start a job they now enrol you onto a pension plan called a work place pension. This is a brilliant scheme when thinking about retirement, you will put 5% of your pay check and your employer matches 3% (this is the minimum). You will be receiving money for nothing and it gets taken out your pay check before you receive it.

This is the best way of creating a pension ready for retirement and I would suggest maxing this out match wise before creating any other kind of retirement account.

Contact you're HR for the workplace and make sure you know how much you're contributing or enrol if you're not already.

*If you're self employed I would recommend looking into a SIPP (self investment personal pension) as a retirement fund option. A SIPP is available for everyone.

4. Find a broker which fits your needs

When looking for the right broker for yourself, you have to look at what the broker can offer you in terms of how many securities they can offer and what kinds of fees they charge.

There are many brokers and all of them offer different services and charge different fees. Some of the fees to look out for are fees for management or fees for trading/placing a deal.

Ill give two examples of brokers, each charge and offer different services:

Hargreaves Lansdown which charges £12.50 per trade and a management fee of 0.45% per year but has a large array of material and info on stocks.

Trading212 is an execution only broker where there are no fees for trades but they also offer no information on the stocks - have to go else where to make an informed decision whether it's a good investment.

If you have little money to invest an execution broker will normally save you more on fees than a broker which offers a lot when it comes to service.

Always look for a broker which is authorised and regulated by the FCA (Financial Conduct Authority) and has FSCS protection, this means your account is protected up to £85,000.

5. Open an investment isa

After setting up the emergency fund, enrolled in the workplace pension and selecting the broker which matches your needs, next is opening an investment isa. This will be called a Stocks and Shares ISA.

Creating the investment account in a ISA is a must as its a tax efficient account, this allows you to place up to £20,000 in an isa. It is possible to split your isa allowance between several different isa 'wrapper', including cash and stocks and shares.

Stocks and shares Isas offer the possibility of higher returns than cash Isas, but comes with more risk.

6. Keep short term savings somewhere accessible

When your in your 20's there is no better time to start saving and investing. When you start investing at such a young age you run into something which is called compound interest.

Investing can be very rewarding but with being so young you also have a lot of short term goals as in saving for a deposit or a car. Money which is going to be used for these short term purchase should not be held in a stocks and shares Isa as the value can go down (This is the risk with investing).

What I suggest is creating a cash Isa and saving the money into it. A cash Isa is the kind of account where the value goes up with every deposit you make and interest paid, compared to a S&S Isa where you are using your skills to try and increase capital.

S&S Isa is a long term savings account for example of retirement, where cash Isa is for short term goals as an example a new car.

Never risk money you cannot afford to loose in a stocks and shares Isa.

7. How to start your investment career

Once taken all the steps above you are ready to start investing. Down the road of investing there are lots of ways to go about investing, lots of styles but also lots of ways to loose money.

The aim of investing is to create wealth and not loose wealth and when it comes to investing your biggest asset is your knowledge.

For beginners one of the best ways is to set an amount you will invest each month and stick to it like the saving habit you created with the emergency fund. Whilst investing monthly, invest into a asset called a tracker fund. These are funds which track a certain index for example S&P 500 or FTSE 100. These kind of funds or ETFs have a low fee and track a general market. Whilst investing into these kind of assets, take the time to learn more about investing and learn new investing strategies.

To note when investing you have to keep in mind about taxes and understand about each investment.

Dividends

In the tax year 2019-2020 there is a dividend allowance which is set to £2,000 (the same level as in the 2018-19 tax year), this means you can earn £2,000 in dividend before paying tax.
For earning above the allowance, the dividend will be taxed at 7.5% for basic rate taxpayers.
Higher and additional rate taxpayers pay 32.5% and 38.1%.

Any investments kept in a stocks and shares Isa will avoid tax on dividends all together.

Capital gains

Any capital gains you make from investments in a stocks and shares isa are tax-free.
However, everyone in the UK has a annual capital gains allowance.
The capital gains allowance for 2019-2020 was year is £12,000.
Stocks and shares Isas will only offer capital gains tax benefit if you realise gains excess of this allowance in a single tax year. And keep in mind that capital gains are only payable when you sell your share for profit, not if they simply increase in value.