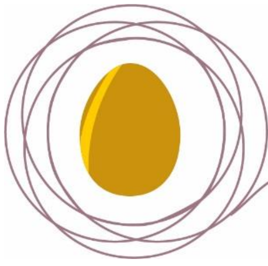


ISLE OF MAN
INVESTMENT MATTERS
Safeguard your future

Investing for Smart Investors

Planning to invest?

Ask yourself some simple questions

Do you know what your future needs and goals are?	
How will you finance your future needs and goals?	
Do you know what your attitude to risk and tolerance for loss are?	
Do you understand that all investments carry risks?	
Do you understand the power of compound interest?	
Do you understand the benefits of long-term, regular and diversified investments?	
Do you need financial advice?	

Signing up for an investment?
Ask these additional questions

Are you dealing with a regulated firm?	
Have you researched the product?	
Do you know the impact fees will have on the investment?	
Does the investment meet your future needs and goals?	
Is this a "get rich quick" or "can't lose" scheme?	
Are your investments (and risks) diversified?	
Do you need to take financial advice?	

How do you plan for and invest according to your future needs and goals?

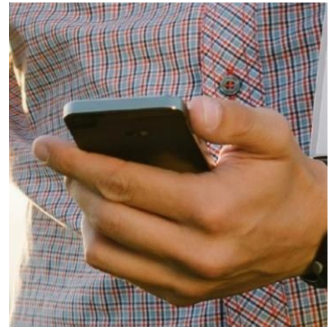
Investing for your future means putting enough aside on a regular basis. You can also invest lump sums when you have them.

If you don't know what your future goals are, what they will cost and when you will need the money, how can you invest for them? It is very hard to be motivated to save for something if you don't know what that something is.

6 Key Steps to Investing

1. **Your goals** Set specific and realistic goals. For example, instead of saying you want to have enough money to retire comfortably, think about how much money you'll need in retirement ...
2. **Know your investing personality** – What is your attitude to risk? Are you slow and steady or do you like to take a chance? How comfortable are you in investing in things that might fail? Can you tolerate losing money for the chance of higher gains (i.e. what is your capacity for loss)?
3. **Create your plan**
   - Take your realistic goals
   - Work out how much you need to put aside each month to achieve your goals. If that amount isn't realistic then adjust your goals
   - Work out **your investment strategy** (based on your investing personality)
4. **Choose your investment mix** – remember it is important to diversify your investments
5. **Track your progress**
6. **Update** your goals and plan as necessary

Why do all investments carry risks?



When you invest, your money is ultimately used to finance a business, for example:-

- If you buy company shares, you buy a part of the company. In return you share in the company's profits and benefit from any increase in value of the shares. Your risk is that the company doesn't do as well as you hope and there are no profits and the value of shares fall when you need to sell them.
- If you buy debentures or company bonds you loan a company money for a fixed interest rate. Your risk is that the company does not do as well as you hope and is unable to repay your loan or to pay the interest.
- If you invest in a collective investment scheme, your investment will be shared across companies and this diversification means that you may be less affected if one company underperforms.

The Risk/Reward Ratio The relationship between risk and return is not straightforward. As a rule of thumb:

Higher risk means a greater chance the investment will underperform or fail.

Higher reward means a bigger return if the investment succeeds.

Different companies and sectors have different risk profiles and different risk/reward ratios. A new company developing new technology will have a higher risk of failure than an established company with a track record of good returns. However, if the new company does well it is likely that the rate of return will be higher than for an established company.

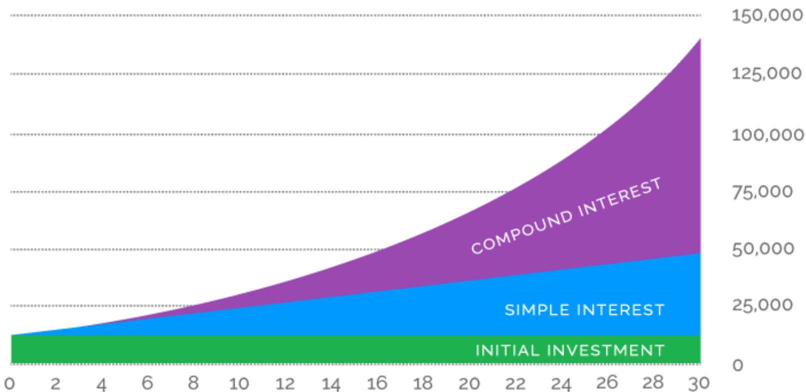
You should invest according to your risk profile and tolerance for loss and carefully select investments that fit your needs.

What is the power of compound interest?

An annual interest rate is the percentage amount that your money or investment (the “initial investment”) earns over a year.

You can take the interest each year (e.g. taking an income) and leave the principal amount – this means that the next year you will earn the new annual interest rate for that year on the initial investment only. This interest is not compounded and is referred to as simple interest.

Compound interest applies when you do not withdraw the interest. This means that the interest rate is applied to the initial investment plus the interest already accumulated. Over a period of time this can lead to significant gains on the original amount invested.



The diagram above is based on 15,000 at 7.5% per annum return over 30 years and is for illustrative purposes only. NB deposit rates are typically lower than this. Compounding also applies to investment returns.

Why is diversification important?

Diversification means spreading your risk across different types of investments to increase your odds of investment success.

Diversification is important because markets can be unpredictable and the future is uncertain. By diversifying your portfolio, you reduce the effect of one or more assets underperforming or failing.

Another way of looking at it is to consider a shopkeeper. If they only sold apples and all of the apple harvests failed they would go out of business. But if they sold a wide range of fruit and vegetables, or other products, their customers would have other things to buy.

In a diversified portfolio, different types of investment will react differently to the same market or economic event. For instance:

- When the economy is growing, shares tend to outperform bonds.
- When the economy slows down, bonds often keep their value better than shares.
- By holding both shares and bonds, you reduce the chances of your portfolio taking a big hit when markets swing one way or the other.

This philosophy works across different sectors of the economy and different international markets. When investing, by having a range of investments, you're better protected against the risks that could hit any single one of them.

Remember….. Don't put all your eggs in one basket!!

How do you check that a financial services firm is regulated?

From investments and pensions, to bank accounts, savings, loans, and insurance, virtually every adult in the Isle of Man is a consumer of financial services. The Isle of Man Financial Services Authority ("the Authority") regulates financial services firms on the Island.

One of our statutory objectives is to secure an appropriate degree of protection for consumers dealing with firms carrying on regulated financial services activity. The Authority's **Consumer Matters leaflet** gives more information about how we do this.

Checking the Authority's Register

The Authority's Register of Regulated Firms can be found at: **https://www.iomfsa.im/register-search/**.

There is also a list of Isle of Man Financial Advisers which can be found at: **https://www.iomfsa.im/media/2421/isle-of-man-financial-advisers.pdf**.

If a firm is "Registered" with us for Anti-Money Laundering purposes, this does not mean they are a regulated financial services firm.

If you think someone is seeking to offer you financial products or services without a suitable licence, or outside the terms of their licence, please contact us at **info@iomfsa.im**.

Firms operating outside the Isle of Man

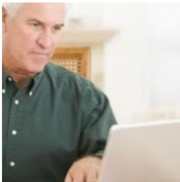
If you are dealing with a firm operating outside the Isle of Man you should check if they are regulated. For example, if the firm is a UK firm you can check the UK Financial Services Register at: **https://www.fca.org.uk/firms/financial-services-register**.

How to research products

To research a product you need to look at what you want and what you need:

- What does the product do?
- Is the product what you need?
- Look at your investment needs – does the product meet them?
- What would happen if you need to take funds early or later?
- Read all of the product information and key features of the product. Don't forget the small print!!
- Are there other similar products available?
- Are they better for you?
- Do you understand the risks in the product and product charges?

If you don't understand the product, don't sign up – ask for more information or get advice.



How do you assess fees?

All investment products have charges which pay the companies and professionals involved. These should be clearly disclosed. Often charges are at each layer of an investment. E.g.:

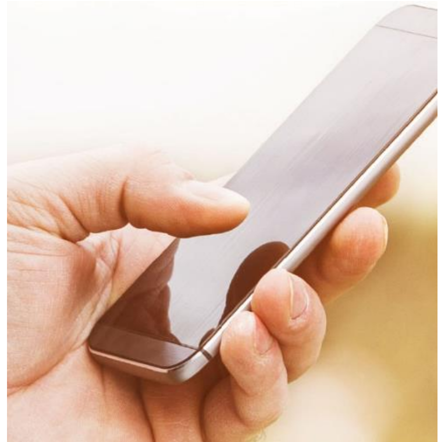
A Financial Adviser will be paid a fee or a commission.

A product company will normally be paid a percentage of the value of your investment when you invest and on an ongoing basis. The fees are often included in the value of your investment and may not be visible on every valuation you receive. There may also be dealing fees and other ad hoc fees.

Those managing underlying investments are normally paid a percentage of the value of the investment.

Is there a Total Expense Ratio or TER in the product literature? If so this is a good indication of costs in the investment. Please note your Advisers fee may not be included in a product TER.

How do you spot a "get rich quick" scheme?



The term "get rich quick" has been used to describe shady investments since at least the early 20th century. A get rich quick scheme will promise you high rates of return. Most schemes create an impression that participants can obtain this high rate of return with little risk, and with little skill, effort, or time.

The general rule of investing is:

If it sounds too good to be true, it is too good to be true!!

Look out for:

- ☒ Approaches out of the blue from people or firms you do not know
- ☒ Promises of large returns and low risk
- ☒ Pressure to buy there and then and limited time offers
- ☒ Celebrity endorsements and social media hype
- ☒ Investments where it is unclear what you are investing in or how the product works
- ☒ Promises of free gifts
- ☒ Requests for unnecessary personal information and account/credit card details from unsecured websites
- ☒ Bad publicity about the firm, product or persons you are dealing with
- ☒ Poor spelling and grammar in promotional materials, emails and other correspondence

Ask yourself, if this opportunity is really that good why are they approaching me?

What are the benefits of long-term, regular, diversified investments?

Three key benefits of diversifying your investments:

1. **Reduce your risk of loss** – if one investment performs poorly, others may perform better, reducing potential losses to your portfolio
2. **Preserve your capital** – not all investors need growth; some who are close to retirement need to de-risk and preserve capital
3. **Generate returns** – investments don't always perform as expected, diversifying means you're not relying on one source for income and growth

Key benefits of long term regular investing:

1. **Investing becomes a habit** - regular investing means your investment is built into your budget
2. **It takes emotion out of the equation** - regular investing means you don't have to make a decision about whether to buy today or next year
3. **History shows you'll almost always be right** - long term investors are more likely to make money. Investments rise and fall; prices can't fall below £0 but may rise significantly. Choose carefully and hold your winners for the long run
4. **Compounding works to your advantage** - long term investing allows you to take advantage of compounding (the ability to reinvest profits to generate even greater profit potential)
5. **It's easier to smooth performance** Holding your winners over the long run can moderate the effect of investments that underperform
6. **Your investment risk drops** – long term investing reduces investment risk from lost opportunities. Staying invested reduces your risk of missing out on gains

What can you do if you are unhappy about an investment product?

Complain to the regulated firm in the first instance

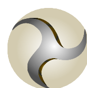
- Tell them you are making a complaint and how you would like it to be resolved. We suggest that you put the complaint in writing and keep a copy.
- If you are not satisfied with their response, you may be able to complain to the relevant Ombudsman Scheme (if there is one).

Complain to the relevant Ombudsman Scheme

- Ombudsman schemes can consider complaints if you are dissatisfied with a firm's response to your complaint and and you have suffered a loss or financial disadvantage.
- Details on the Isle of Man Financial Services Ombudsman Scheme can be found at : https://www.gov.im/about-the-government/statutory-boards/isle-of-man-office-of-fair-trading/financial-services-ombudsman-scheme/

Other options

- You can use the small claims procedure which can make awards up to £10,000 (https://www.courts.im/court-procedures/claims/small-claims-procedure/claimant-small-claims/) or make a full court application.
- The Authority has no power to arbitrate in complaints, or to compel a regulated firm to pay compensation to an individual complainant. The Authority can investigate regulatory concerns in relation to a regulated firm. In such cases findings cannot be disclosed to you as the complainant.



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