Investing case study

Mandy is a 22 year old university graduate. She studied Accounting at university and has managed to secure a job at Aldi as a graduate store manager. Mandy will start on a very good salary of £42,000 and calculates she will have a disposable income after all deductions of approximately £800 per month. She recently inherited £5,000 and is keen to invest this money into shares and other financial products. Whilst she studied in the business faculty she has very little awareness of how to invest in the stock market. As she is quite young, she has a reasonable tolerance for risk and she is prepared to invest for the long term as she would like to have a comfortable nest-egg to retire on. Mandy has a very active social life and a demanding job so she has very little time to research the stock market. She vaguely remembers a personal finance lecture when she was at school that discussed an idea called 'compounding' and it seemed to make sense to her.

Mandy is keen to build up her nest-egg over time and has committed to save £100 per month. She intends to put £50 into the stock market and the rest into a mixture of a savings account and premium bonds.

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ERASMUS+ KA2 STRATEGIC PARTNERSHIP IN SCHOOL EDUCATION

PFP Erasmus+
Module 3: Investing

Questions

Q1: What is a share?

Q2: How would you advise advise Mandy about what type of investments to purchase with her lump sum?

Q3: Mandy should always try to make her investments as tax efficient as possible. How can she achieve this?

Q4: If Mandy buys shares and other products, what investment costs may she encounter?

Q5: What does 'compounding' involve?

Q6: If Mandy invests £5,000 at the age of 22 and retires at 65 (assuming dividend yields of 6% and no growth in her initial investment value) what would the investment be worth at age 65?

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Answers

Q1: What is a share?
A share represents ownership of a small fraction of a company. If a company is worth £50 million and there are 25 million shares then each share is worth £2.

Q2: How would you advise advise Mandy about what type of investments to purchase with her lump sum?
Due to Mandy's lack of experience she may be best buying some funds. These could be investment or unit trusts or perhaps ETF's.

Q3: Mandy should always try to make her investments as tax efficient as possible. How can she achieve this?
She should always use an ISA (Individual Savings Account). This is a legal tax shelter so she will not pay tax on assets within this wrapper.

Q4: If Mandy buys shares and other products, what investment costs may she encounter?
Mandy is likely to face the following costs:
Share dealing fee ranging from a fixed £10 per transaction to £1% of the traded amount
Stamp duty of 0.5% is payable on most investments
Mandy should also be aware that the 'share spread' will mean the initial value of her investment is worth slightly less than the purchase price.

Q5: What does 'compounding' involve?
Compounding involves re-investing dividends into the shares that generated the return. This is often an automated process on most accounts but will require the investor to ask for this feature or find it under the account settings.

Q6: If Mandy invests £5,000 at the age of 22 and retires at 65 (assuming dividend yields of 6% and no growth in her initial investment value) what would the investment be worth at age 65?
If Mandy invests £5,000 (and makes no other investment contributions) at the age of 22 and retires at 67 (assuming dividend yields of 6% and no growth in her initial investment value) calculate or estimate what the investment will be worth when she retires?
£73,899.72 (use a compounding calculator)

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