Some basic guidelines to help you maximise the potential return from your money.

When you have taken all the time and effort to set money aside, you want to be sure those savings are working as hard as they can for you. This guide lays out some of the main points you might want to consider when planning what to do with those savings – and some general rules you might want to follow to keep them on track to meet your goals.

Build a firm base

The general rule of thumb is that before you do anything else, you should build up an amount equal to between three and six months' salary and place it in a deposit account. This should be easily accessible so that you can get hold of what you need should an emergency arise.

There are two benefits to having an amount set aside in this way. First, you can feel assured that, should the worst happen – you need to undertake significant repairs to your house or car or you lose your job – there is a fund readily available to help you financially whilst you deal with the other issues.

Second, this frees you up to make the right decisions about any additional savings. If you invest in the stock market, for example, the value of that investment can go down as well as up. It is therefore no place for money which you might need to use in an emergency. Building funds on deposit means you can then begin to consider longer term investments without the worry that you might have to take money out of the market at the wrong time. (But more of that later...)

Holding money on deposit does not mean you have to compromise on return, however. Careful study of the best buy lists and interest rate surveys can help you maximise the interest rate you earn on this money. You can also spread your money between a number of accounts – some on immediate access; some on 30 days notice, some perhaps even on 90 days notice. Spreading your money between institutions also increases the guarantee coverage you receive from the Financial Services Compensation Scheme.

Diversify

As with your deposit account cushion, if you are averse to the idea of exposing your entire portfolio to the whims of the stock market you can build a further cushion into your investment by spreading money across different asset classes. There are not just equities but also property, gilts and corporate bonds to choose from.

In this way, when equities are suffering, one of your other choices might be doing better and can compensate for some of that loss. Even if they all have a bad day, they will not all do equally badly.

Buy low, sell high

This is a basic tenet of investing but, sadly, is a lot more difficult than it looks. Calling the top or bottom of markets has proved impossible to do with any consistency, even for experts – if it were easy, there would be many more Warren Buffets around. So we would not recommend that you try and turn your hand to market timing.

However, it is possible to avoid doing the exact opposite – ie: buy high and sell low. This has been the undoing of many investors over the years, yet some of the signs to help you avoid it are relatively easy to spot.

For example, if a lot of people are talking about a sector which has recently increased significantly, particularly if they are saying you will miss out unless you get in now, then chances are that any potential gains are already accounted for in the price. Getting in now might make you a little money as the sector peaks, but the downside could be harsh – and imminent. As the technology bubble demonstrated very well, you should ignore 'hype', particularly if all your neighbours, friends and relatives are talking about it as well.

Conversely, if a sector has fallen a long way, it might be time to invest. Hype works just as much on the downside as it does on the up. Markets are very prone to herd behaviour - the art is to spot it and make sure you do the opposite. Baron Rothschild once advised investors to buy when there was 'blood on the streets', ie: when everyone is only talking about the downside - and historically, times of maximum pessimism have been amongst the best times to buy.

Do note, however, that market downturns do not happen without reason. The result is always that good companies and bad are all pulled down together – as markets are doing at the moment. However, to do well, you need to be able to spot which companies are the good ones and which are the bad – and also be aware that things can get worse before they get better. If you are unsure or inexperienced, opt for a collective investment such as a unit trust or OEIC. In this way, if one chosen company does turn out to be a bad investment, not all your money has to go with it.

Save monthly

Not all of us have the time to research markets in pursuit of the good and bad times. However, there is a way to benefit from the swings and roundabouts of the stock market without even thinking about it. If you stagger your investment, you benefit from what is called 'pound/cost averaging' ie: the ability to buy shares at a range of different prices as the market moves up and down over time. A monthly savings plan is a particularly efficient way to do this because it disciplines your budgeting and after a while, the money will disappear from your account without you even noticing.

When prices are high you will buy fewer shares, but when prices are low, you get more units for your money. Your average buying price is therefore likely to be lower in volatile markets and will benefit overall when markets rise again. You are able to forget worrying about when is the right time to invest – and when is the wrong time – and you can continue the good savings habits you created whilst building your deposit account cushion.

Look to the long-term

We consider investing in equities because over the long-term, they have traditionally outperformed all other asset classes. However, by long-term we mean at least five years and preferably longer. The downside to equities is that short-term, stock market investment is a volatile business and you need to be prepared to see the value of your investment fall from time to time. The trick is to remember why you invested and look through any short-term issues towards your longer term goals.

However, there is one final rule which overrides all of these...

Don't push your luck

Markets are constantly changing so, just as your prepare your portfolio at the outset, you also have to plan for the final goal. Therefore, as that date gets closer, you might consider consolidating some of the gains you made so that you can actually carry out your plans. After all, you do not want to see all your hard earned savings cut in half by a market downturn in the final six months.

Better, therefore, to consider moving money out of the stock market, bit by bit. You might start two to three years ahead of your goal or, if you are retiring, five, even ten years ahead. Just like monthly savings on the way into the market, drip feeding your money out means the value you will receive back will vary as the market moves up and down. However, the price you get will likely be higher than if your investment is hit by a downturn at the last minute. These amounts could then be invested in cash, or maybe bonds, and earn interest over the final months or years until you withdraw the full amount.

Similarly, during the life of your investment, watch out for market peaks. A good rule of thumb is, if your money doubles, take out half. Switch to cash or put it in a deposit account – then when markets fall, you could buy back into the same investment, at a lower price, and benefit a second time as markets recover.

Produced by marketing-hub.co.uk on behalf of your financial adviser. This guide is not intended to be a recommendation to invest in any of the assets or products mentioned. Before you make any investment decision, we recommend that you take professional financial advice.