The Telegraph

How to plan your investments depending on your age

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Younger investors should prioritise accumulating wealth while older investors should aim for income.

Financial planning can help people meet their investment goals, from managing risk to cutting taxes. But it can also be prohibitively expensive, particularly for those with smaller pots who do not want to pay a large upfront fee.

For investors with more experience, it is natural to question if a financial planner can tell them anything they do not already know and if it is worth paying for advice.

Telegraph Money asked financial advisers how they would start building a financial plan for a client, depending on their age. With no one-size-fits-all approach available, here are the steps you should take when planning your own investments.

Twenties

If you are at the start of your career you should focus on accumulating as much wealth as possible for the long term so that returns can compound, but also keep money aside in less risky assets for life's biggest events, such as a wedding or buying a house.

Carla Morris, of wealth manager Brewin Dolphin, said while retirement is unlikely to be high on a twentysomething's list of priorities, maximising participation in a company pension scheme is a good place to start. "Your employer will pay in money on your behalf. If you don't join you may well regret it later in life as that money will be lost," she said.

A more accessible savings vehicle than a pension is an Isa, which allows £20,000 a year in tax-free savings. Popular stock funds for accumulating long-term gains are the £20bn Fundsmith Equity fund or the Vanguard 100pc Equity Lifestrategy passive fund. Both are featured in the Telegraph 25 list of favourite funds.

Thirties

Your thirties are still a period for accumulating wealth and investing for the long term.

It is a time to start thinking about your life goals and taking your retirement saving more seriously. "If you have time on your side, even relatively small amounts you invest can build into much larger sums. The earlier you start to save the more powerful the effect of compounding will be," Ms Morris said. The focus should be on potential asset growth, so stocks are the natural fit for an investor in their 30s. However, Ms Morris said paying off debt should also be a priority. "Most debts are ‘dead money’ and cost far more than you realise. If you come into possession of a lump sum, you may need to decide whether to pay off part or all of your mortgage now, reduce any other debts or invest the money." An important starting point would be to calculate the cost of the interest on your debts and compare it to the expected returns of stocks and bonds. Including dividends, the FTSE 100 has returned 8pc a year since the 1980s, according to calculations from stock broker IG Group.

Forties

Once you are in your 40s, wealth preservation should begin to be part of your financial planning process because it is when you are likely to hit your peak earning potential and amass a larger pension pot or property portfolio, according to Chetan Mistry, of wealth manager Mattioli Woods. He said the focus should shift from asset growth to risk management. Planning should become a priority rather than simply accumulating as much wealth as possible, he noted. “Emphasis now should be on how to best structure your wealth to ensure you are taking advantage of readily available tax wrappers and to really start thinking about what retirement means to you and how much you will be spending,” he said.

Venture Capital Trusts (VCTs) have income tax relief of 30pc on the investment if it is held for five years. They provide investors who have filled up their Isas with another tool to minimise the tax payments.

Fifties

This period should mark the beginning of the "wealth distribution" stage, where you look to enjoy your wealth and extract income from it, particularly if you are planning to retire relatively early.

“By now, you would hope the investments and strategies that were implemented many years ago are prime and ready to provide you with your much needed and deserved income in retirement.

Retirement means different things to different people, but whatever your reality is, the careful planning, investments and strategies that were put in place are now serving their purpose,” said Mr Mistry.

This where more defensive investments come into their own, such as income-producing stocks or bonds. The popular £1.5bn City of London investment trust is packed with stocks that return money to investors and also has the ability to pay dividends out of its own reserves, for example.

Ms Morris said: “Many people use their 50s to continue earning and give their retirement savings a final boost. It is also time to start focusing on the level of income you will need in retirement. Once you have a realistic income target you can establish whether your pension pot will provide the income you need – and take action accordingly."

Sixties and above

Once you reach your 60s retirement is likely to be in sight, which will affect how manage your investments. The focus should shift towards income and capital preservation rather than growth, according to Ms Morris.

If you are retired, you will probably need to access your money to pay for living expenses. This makes it more important that you do not suffer large sudden falls in its value.

A popular fund for those looking to protect their money is the £3bn RIT Capital Partners investment trust. The fund was set up to manage some of the Rothschild family’s money. It takes a “multi-asset” approach, spreading investments across assets ranging from property and gold to shares listed in emerging markets.

However, if you intend to keep much of your pension invested after you retire, continuing to take investment risk for longer will give it more of a chance to grow in your later years, Ms Morris added.

"You could be hit hard by any falls in the market, but if you are taking a long-term approach hopefully you will be able to ride out any losses in value," said Ms Morris.