Investing Wisely

""All that glitters is not gold""

I am not authorised to give advice on specific investments but I can point out a few general guiding principles that may help. These may be of use when "doing it yourself" or when approaching investment advisors who are authorised to give specific advice.

1. The quotation is as old as the hills but it remains true. If something seems too good to be true, it probably is! In a recession be cautious regarding investments offering staggering capital appreciation or annual income. There may be the risk of equally staggering capital losses or very little income.

2. In all investment situations, it is a case of "buyer beware". In other words if, for example, you are placing funds on deposit you need to read the small print very carefully. The interest rate may include an introductory bonus which after a short period (often 6 months) is removed leaving the deposit receiving a very small annual interest rate. There is no harm in this provided you know about it and you make a diary note to change the deposit either with the same building society or by choosing another one, shortly before the introductory bonus ceases.

3. Many building societies or banks offer higher rates of interest for longer-term deposits. You must think carefully before using them if there is any risk of you needing the funds for an emergency or earlier than the end date of the deposit. If a longer-term deposit is not left to mature on the intended date and you remove funds from it, there could be some very severe penalties imposed on the effective rate of interest you actually receive.

4. If you are fortunate enough to have more than £50,000 on deposit, which is not so rare these days when individuals inherit houses from parents etc, then it is very important to have a series of deposits of less than £50,000 rather than putting all of the funds in one account. The reason for this is quite simple. The Financial Services Compensation Scheme (FSCS) guarantees all deposits up to a certain amount so that, for example, if a building society fails, then depositors will be compensated for their loss. The compensation rules are too complicated for this brief article, but basically if you work on having no more than £50,000 in any bank or building society, then you won't go far wrong. The £50,000 limit includes interest which is accumulating to the deposit and so you need to remove funds from the deposit from time-to-time to keep within that limit.

5. The £50,000 limit means that it is unwise to have deposits of more than that amount because the excess over that figure will not be compensated in the event of the relevant company going bust.

6. The principle of spreading your deposits has one further condition to be met. Some banks and building societies are in the same group. Sometimes, but not always, the FSCS £50,000 guarantee has to be shared by all members of the group so that if you have £50,000 with a bank and £50,000 with a building society which are in the same group, there is still a problem as only £50,000 of the £100,000 total is covered by the guarantee.

7. One of the simplest ways to spread deposits is for spouses to divide the total deposit between them and then, if that is still a problem, look around to spread their deposit between different companies. Two further points arise from this. Firstly, the gift of some of the deposit to your spouse is a legal gift and from that point on, he or she has the right to say how the deposit is used. Second, there are tax implications from dividing the deposit between spouses. The recipient spouse may have a lower rate of tax on the interest arising (or perhaps higher) so please bear this in mind.

8. The same principle of spreading deposits may extend to organisations to which you belong, for example your congregation funds.

9. When it comes to investing in mediums other than deposits, for example the stock exchange, even more caution has to be shown. My personal view is that it is crucial to choose carefully the advisor to whom you are entrusting your money. I do not think it is a good idea to respond to e-mails and telephone calls offering investment services. It is better to do your own research amongst friends and business colleagues asking for their views and suggestions based upon their own experiences. If you are going to appoint a stockbroker ask to see their track record. Of course, even respected stockbrokers are subject to the volatility of the stock exchange and other investment mediums. If you are a worrier or if financial matters make you nervous and anxious, it may be that the safer but less spectacular deposit is preferable for you.

10. Many people have bought residential properties to let. They have used a mixture of spare cash and monies borrowed from banks and building societies. Until the recession, this was always seen as a safe investment because the house value increased and rental income usually covered the mortgage costs, especially where the mortgage was far less than the cost of the house. However, during the years of the recession, many people have discovered that tenants were hard to find and there were periods where the house was unlet. This gave difficulties in paying the mortgage. The alternative of selling the house was often not attractive because in the recession the house value had fallen or it was impossible to sell it. This is another case where you need to do your homework carefully before you invest in property to let.

11. Rather than finish on a negative note, I would say that, even in a recession, it <u>is</u> possible to find deposits paying interest at 2.5% or more(but watch the introductory interest principle) and it is possible to make profits/reasonable income via the stock exchange. Investing in property might be a good long-term investment if you buy cheaply during the recession and are able to hold the property until the economy improves. The watch word must be “caution” and do your homework and/or take advice.

Finally, if you need a source of free and very helpful advice on financial matters in a wide variety of circumstances, try the website MoneySavingExpert.com. If you don’t have internet access, I am sure you know somebody who does!

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