

YOUR MONEY

Almary Green Investments

LOVEWELL BLAKE

With-profit bonds can be wealth hazard

John Mee, director Lovewell Blake Financial Planning

There are still financial advisers who advise clients to invest in with-profits bonds, even though they have long been considered discredited by most of their colleagues.

Over the last decade I believe the world has moved on and satisfaction among with-profits investors has certainly taken a turn for the worse.

Normally a with-profits fund would be half invested in the stock market and half in fixed interest such as gilts, corporate bonds, and commercial property.

Investors would receive annual bonuses on their investment based on any rise in value of the underlying assets in the fund. These bonuses are paid annually at around 2%-3%. Final bonuses are paid when the contract is terminated and in most cases form the majority of any profit.

Despite many years of dismal returns, with-profits bonds continue to attract new money. I will explain why it is wise to steer well away from them.

In the main there is poor investment management of the funds leading to low returns. Encashment can often cause loss of an additional age-related personal allowance for over 65s, resulting in more tax to pay.

Annual management charges are often hidden and with-profit bonds apply exit penalties in the first five years of up to 10%. Investors can never be sure they are enjoying the full benefit of the fund's growth as the bonuses are, in the main, less than returns from the stock market.

Quite often it is claimed an investor is protected from stock market falls, but when markets are poor a Market Value Reduction (MVR) is applied to a holding when it is encashed, reducing its value.

Around 10 years ago, a mixture of poor investment management and low stock market returns coupled with over ambitious guarantees forced many with-profit funds to close. Many investors are now caught in these often called 'zombie' funds, unable to exit without harsh penalties or MVRs.

With-profits providers used to compare performance to a managed fund, and now compare them to returns on cash deposits. With-profit returns are not guaranteed and in my view if an investor has been recommended to invest in a with-profits fund they might be better off leaving their money in cash. Alternatively they could consider a well managed unit trust or investment trust portfolio, as they will not suffer unacceptable commissions of up to 7% being paid to advisers.

My advice is to keep well clear of with-profits bonds as they can seriously damage your wealth.

Safety first is not always the best option when investing

Independent financial adviser JIM BARR examines the risk factor in financial planning

Risk is an inherent part of everyday life. From crossing the road to choosing a holiday, it is ever-present.

But when it comes to planning our financial future, just how many of us fully understand how much risk is involved. And how much is right for us?

As I wrote in a recent column, understanding risk means identifying the different types of risk and identifying your own attitude to risk that will enable you to minimise the chances of your investment going wrong.

Do people these days really want to take risks with their money?

In reality, all investments carry an element of risk – even stuffing your cash under the bed is not totally safe. To many people, the biggest risk is whether or not they will get back the money that they have put away, known as the capital.

Some investments, such as National Savings, carry little capital risk, but having little capital risk is not always the right thing to do.

Inflation is a huge enemy of investments, particularly over the longer term. With interest rates at an all-time low, many savings accounts have a net rate of interest (ie after the deduction of tax) lower than inflation.

So to use a politician's phrase, in 'real terms' the value of your capital is going down.

If you have a specific target in mind for the future, are you saving enough to reach that goal? It's no use putting £20 away each month thinking that will miraculously give you £10,000 in 10 years' time.

Time is also a risk. If you are saving for the short-term, then it is rarely worth taking much, if any, capital risk. The longer time period you have to save, the more risk you can afford to take.

What about stocks and shares?

Stockmarket investment has always been viewed as risky. Whether you invest directly into a particular share or through an investment fund, the value will fluctuate and can perform badly.

If you invest in international stockmarkets, then you also have the risk of the currency. Anyone

**PLAYING WITH FIRE:** You need to assess your attitude to risk to get the best out of your investments

travelling to Europe recently will be well aware of how the strength or weakness of the pound affects the price of goods. It's the same with international stockmarkets and funds.

The final risk is that of the manager. Football fans can see for themselves how a team's performance can be affected by the manager in charge.

If a particular investment fund manager does a good job then he may be poached by an opponent and this can lead to the fund's performance going down.

Taking all of these risks into account, how can I determine my own attitude to risk?

There are many factors to consider. How long will you be investing for? Are you saving monthly or putting a lump sum away? What would you do if the capital value fell? And how much interest will you take in

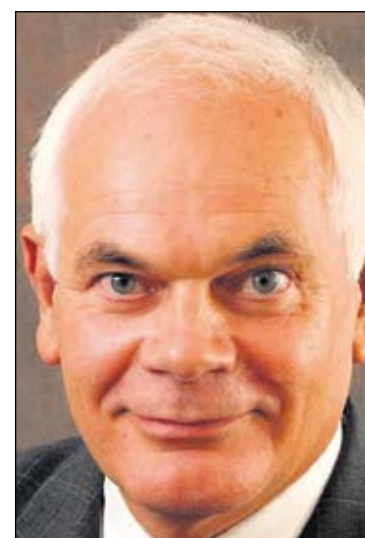
monitoring the investment closely?

These are all questions you should ask yourself. Be honest, if the thought of losing money brings you out in a cold sweat then don't invest in something that has capital risk.

Equally, if making your capital grow is important, then accept that this will involve taking risk and the possibility of not getting all of your capital back.

Any independent financial adviser will take time to assess your attitude to risk and you should feel 100% happy before committing any of your money.

Independent Financial Adviser Jim Barr is based at the Ipswich office of Almary Green Investments. He looks after the financial requirements of individual and corporate clients on a wide range of protection, pension and



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