MONEY BOX LIVE (13th May 2009)

DUGGLEBY: Good afternoon. There's been much discussion in the last week about the rise in share prices. Some investors are convinced that a new boom market is already underway. Others are more cautious suggesting this is just a short-term rally which will soon peter out. The fact is however the market has risen by around 25% since the beginning of March and bank shares, notably Barclays, have posted stratospheric gains, always assuming of course that you bought them in March. Longer term holders will still have lost more than half their money and the market as a whole is only back to where it was at the beginning of the year but at least there seems to be a bit more confidence about. That said, there are many of you I know who simply cannot afford to take a risk. Bank base rate looks set to remain at half of one percent for the next few months but banks and building societies have started to edge up the interest paid to savers, especially those prepared to tie their money up for a year or two. Admittedly inflation as measured by the Retail Prices Index is not an issue now but do you really believe that will last? If not, is three or four percent sufficient to keep pace? Already there are siren voices saying that inflation of five or ten percent would be acceptable for a strong economic recovery but ask yourself, how far would interest rates need to go up to bring that inflation target back to the, back on target especially if house prices start to rise strongly again. As I said in January when we last did investment on Money Box Live it's very difficult to judge markets that are being driven by fear and uncertainty but maybe optimism is coming back into fashion. Either way my guests will do their best to help answer your investment questions. Adrian Lowcock is senior investment adviser with Bestinvest, Clare Frances is the editor of the website MoneySupermarket.com and Morven White from stockbrokers Redmayne Bentley joins us from the Leeds studio. 03700 100 444 is the number and Philip in Heaton Moor, you have the first call.

PHILIP: Yes I'm over fifty, I'm looking to invest as much as possible in a cash ISA this year. Should I invest now or should I wait until October when the increased limit comes in?

DUGGLEBY: Yeah we'd better establish the increased limits first, Clare?

FRANCES: As was announced in last month's budget, the ISA allowance is going to rise, the overall allowance from £7,200 to £102,00 and of that the cash element will go up from £3,600 to £5,100 and that takes effect from October this year for anybody over fifty. If you're under fifty you have to wait till next April.

DUGGLEBY: Well until you're fifty, your fiftieth birthday I think, OK so that gives you a limit Philip but I suspect the next question we have to ask you is cash ISAs are all very well but of course they don't absorb the full amount of ISA money that you could use if you wished so are shares or funds appealing at all?

PHILIP: Yes I mean I'd also be wanting to do that as well but that's more under control at the moment.

DUGGLEBY: OK but still Adrian let's start off with a sort of profile, risk profile of ISAs because I mean they … you can invest in virtually anything.

ADRIAN: You pretty much can. I mean you can go from sort of commercial property to bonds to equities so if you're looking to invest in a stocks and shares ISA you really need to decide what your risk level is. If you're looking to invest now, then things like corporate bonds look attractive for the longer term and in the short term because they're paying you a decent return, sort of five percent plus at the moment.

DUGGLEBY: We know Clare that the current going rate for ISAs is still pretty low isn't it, the cash ISAs, two or three percent is about par?

FRANCES: Well I mean the highest you can get is about three and a half percent, Barclays is paying 3.61% on its golden ISA. That's only accepting new money though. You can't transfer into that. Plus it's a variable rate so I mean given, it sounds low but obviously you've got to remember that the base rate's at half of one percent so it's significantly higher than that, and with economists sort of being, the consensus being that rates aren't going to fall much further, a variable rate option could be a good deal at the moment and for Philip because he wants to invest, you know, potentially the higher allowance come October, opting for a variable rate could be a better option because the danger with fixed rates, if he locks into a fixed rate ISA now, is a lot of those only accept one initial lump sum and we're still awaiting clarification from providers as to whether or not they'll let these savers pay in the additional amount come October.

DUGGLEBY: So Adrian, how do the corporate bond funds available now compare in terms of the yield, bearing in mind the corporate bond funds are not risk free?

LOWCOCK: You've got a yield of about five, five to six percent on a low risk good quality corporate bond so something like the Fidelity Moneybuilder Income Fund will pay out that and it's invested in the lower risk end of the market so they are riskier than cash but they're paying out an interest that reflects that, and you've got the potential for capital growth on top of that as well so it's a trade-off.

DUGGLEBY: And your call now Morven?

WHYTE: I think base rates are going to remain low and I think, you know, what the banks give you in terms of cash ISAs is probably still going to be measly because I don't think they can afford to give you much more. So you're really stuck if you're going in for a cash ISA yeah, around about the three ish percent is probably the best you're going to get and in terms of the stocks and shares element to the ISA then, you know, you can do a little bit better, obviously not without risk but it may well, the stocks and shares side of things may well provide you some inflation proofing because of course this is something that I'm sure most people will agree could be a problem going forward.

DUGGLEBY: I think Philip, if I'm right in saying you're really asking us about timing aren't you on this one primarily?

PHILIP: Yes.

DUGGLEBY: So I would just observe this: you may remember a year ago that the banks and building societies were bidding up the price of money like crazy. I mean they were bidding up four five six even seven percent they were bidding by September of last year and I think that there's going to be a possibility that they will realise – and I don't know whether you're agree with me Clare – that suddenly they're going to realise all this money which is mostly locked up for a year is all going to have to be bought back so strictly answering the question, I would say that the rates in October ought to be higher than they are now. Would you agree with that?

FRANCES: Yeah well if I had a crystal ball – you know the danger, we don't know but what we can say at the moment is we just look at the activity that's going on in the market at the moment, in the fixed rate bond market, and just in the last week there's been a flurry of new bonds launched paying more than four percent. Sounds low in comparison to the six and seven percent you could get last year but it could be indicative of things to come. You know the banks are still desperate for our money.

DUGGLEBY: And just one final word from you Morwen, and that is raising this question of the government who is after all the biggest borrower of the lot. They are in that market bidding for funds.

WHYTE: Well this is the bizarre thing really right now. I mean the government needs to issue more gilts and borrow more money but at the same time the central bank are buying those gilts that they've issued and it's just such a bizarre set-up right now, that they want to keep rates low because their financing costs for all this monies that they've borrowed, you know they need to keep low so that's where my argument to rates - will probably stay fairly low for some time. And if there is a bit of inflation, the government's not going to worry too much about it because the real value of that debt will fall. So I personally wouldn't bank on rates going up very much over the next kind of six to twelve months.

DUGGLEBY: OK there we go and we'll take Judy now in Peterborough. Judy, your call?

JUDY: Yes I've sold my mother's house and I have £250,000 to invest safely, in inverted commas. My financial adviser is asking me to put some money into Skandia Life bonds which will dripfeed up to £100,000. My accountant is telling me to keep control of it and keep instant cash. I'm totally confused and would like your advice.

DUGGLEBY: Right well I take it you would describe yourself as not an experienced investor, you're a novice investor?

JUDY: Not at all, I'm fifty-five and I'm totally at the mercy of my advisers.

DUGGLEBY: Right well we've got three people no doubt with different views. Who's going to start us off, Adrian you start.

LOWCOCK It's a difficult one because it's all to do with the levels of risk that you actually want to take. I think I would sit somewhere in the balance of putting everything in cash and putting some into various investments. So cash, it all depends on your level of risk but put in a bit to sort of you know see through for later years and use as an income and your safety net so you could put 50% of it into cash and put it into sort of one two year fixed bonds and get a reasonable return. With the investments, you could spread it across a sort of range of equities, bonds, commercial property, really diversifying it to actually reduce the risk of any one investment losing significant amounts of money, and also profiting from sort of whichever markets do perform. I think the first thing I would suggest doing is use your ISA allowances though because you'll get tax-free income from that and also drip feed the money into the market so that you don't actually get timing wrong.

DUGGLEBY: Do you know anything about – Skandia bond is presumably something which enables you to select on sort of subfunds and things? It retains a flexibility through that means?

LOWCOCK You'll be able to buy a range of unit trusts on that Skandia platform so there will be –

DUGGLEBY: Am I right in saying it's like a supermarket, is it a fund supermarket kind of thing?

LOWCOCK Skandia is a fund supermarket and the bond itself would be a life assurance product so it'll have different tax rates as well which may or may not be favourable.

DUGGLEBY: I'm going to couple your question Judy with one that's come in on the e-mail from Nigel in Malmesbury and he's an early retirement, he's taken early retirement, he's got an occupational index linked pension up to four and a half percent and he too has got a reasonably substantial sum of money and he's asking us about something called asset allocation which is quite important. And his asset allocation for the benefit of you Morwen in our Leeds studio, he's got a mixture of index linked certificates, he's got unit and investment trust holdings, and he's got cash, and he wonders whether that's a reasonable balance in today's climate.

WHYTE I would say so, I'd say that certainly for him and for this potential £250,000 nobody knows you know, we've heard from the governor of the Bank of England today saying forecasting is almost impossible so you know I think nobody does know so you have got to spread your eggs in a variety of baskets, in other words bonds, shares and cash. And I think the other thing is certainly just for the time being seeing as there is so much uncertainty around, don't rush into any decisions and stay reasonably flexible. Stay in you know into investments that maybe don't lock in for too long a period of time because it might be very different in eight, nine, ten, months time - nobody knows so – but certainly having this asset allocation, allocating some of your money into a variety of areas makes a lot of sense but understand what you're going to go into and don't be afraid, you know if you're a novice investor, to ask the basic questions.

DUGGLEBY: And you don't of course have to put it all in one go but I must say I don't what you think Clare but Nigel seems to me to actually have a rather good strategy. I mean let's take him literally and say three asset categories, index linked savings certificate, well of course you can't put more than a limited amount in that. Not quite so sure about index linked gilts. He does ask us about that but they are a fairly specialist market. Investment unit trust holdings, well OK which investment trust, which unit trust, there's a question there. And cash, I mean that's thirty thirty thirty. The real question I suppose is if you take the risk bit out of that which is the investment in unit trusts which is what one or two other listeners have asked us in e-mails saying are there any favoured markets, and I take it from that they mean international allocation, you know is America better than Japan or Japan better than the old BRICS, I mean – the Brazil, Russia access, is there any favoured place for you, Adrian?

LOWCOCK: I think corporate bonds are one of the favourite areas but if you took it into equities and look at the different countries, I mean Asia and emerging markets look particularly attractive for sort of two fundamental reasons. One, their banks didn't have the problems the western banks did so they're a lot more robust in that and their economies haven't suffered. And secondly the population of those countries has actually been saving whilst the west has been spending so they can actually drive growth by consumer demand in their domestic markets, so it looks attractive but there are still risks there. There's political risk, economic risk, there's – you need to get advice on these things as well because it's easier to research a UK company than it is to one based out in Asia so –

DUGGLEBY: It's not possible though to imagine a recovery of the world without China being a pretty large player is it?

LOWCOCK Well exactly and I think that's … indicators are that it's now driving sort of the sentiment forward with its big stimulus packages.

DUGGLEBY: OK let's move on with the calls. Now Stephanie in Woodford Green, your call.

STEPHANIE: Hello I've got an ISA which is a mini cash ISA which is paying a very low rate of return and I was wanting to transfer it somewhere or even open another ISA but I didn't know, if I close an ISA down, and you can only put so much in every year, does it take you several years to reopen another ISA?

DUGGLEBY: Clare?

FRANCES: You have to be quite careful with this one, Stephanie because you can transfer the money from your existing ISA into a new ISA that's paying a higher rate without losing the tax break but you have to be very careful. Whatever you do, don't close your existing ISA first because it's classed as a withdrawal then and you lose the tax free status on that money so keep your existing ISA open, find a new, you know a new rate, a new account that you want to open that's paying a better rate. Again you've got to be careful because not all cash ISAs accept transfers in but there are a few paying sort of above three percent – M&S Money for example is paying 3.1, NatWest has an ISA, its e-ISA at 3.25 percent although you're required to have a NatWest current account or savings account to qualify but look for one of those deals that accepts transfers and when you make the application, there will be something on the application form asking you whether or not you want to transfer money in from another existing cash ISA so you just sort of tick that box and let the new ISA provider arrange the transfer for you, and that will ensure that you don't lose the tax break on that money.

DUGGLEBY: There is one important point, Stephanie that Money Facts for example is a magazine that you can often find in banks or financial advisers which does actually list all the providers of these different ISAs and they do say whether you can put money in – Clare does your website actually have a list on yours?

FRANCES Yes. On Money –

STEPHANIE: Is that Money Supermarket? I'm writing all this down.

FRANCES Yeah if you look, if you go to the savings channel and select cash ISA and in the results box that it brings you up there's ticks and crosses so it's very clear as to which accounts accept and allow transfers in and which don't.

DUGGLEBY: There is this question of course as to what's going to happen in mid-year. We've already alluded to the October 5th when the new allowance for ISAs comes in and whether those people who have already taken out one - which they would be well advised to do, I mean why miss out on tax free income for the next three or four months – but are they going to let them sort of put more money into that product because they might say oh no you can't put your extra fifteen hundred in?

FRANCES It really depends because I've spoken to quite a few providers over the last few weeks and I think a lot of them were caught on the hop by this announcement in the budget and you know they weren't prepared for it, and as yet have still to sort their system out so they've not, some have confirmed, some of the big names like Barclays and Halifax and things like that have confirmed that they will allow people to top up the extra even if they open an account now but others haven't yet confirmed so again if you are thinking of opening a cash ISA now and will be eligible to pay in the extra come October, check with the new provider as to whether or not they will let you pay in that extra amount.

DUGGLEBY: OK on now to Berkeley in Gloucestershire where Jeff Brooks has a question for us, Jeff?

JEFF: Yeah I have to, together with my two brothers, invest a six figure sum on behalf of my ninety-three year old father to raise income to pay for his care home. Up until now we've managed to do this without, through building societies and you know the rates were sufficient to do that. We're now being suggested by an adviser to use investment bonds, three separate investment bonds because there are myself and my two brothers to consider ultimately. But you know all this is being done with the very best interests of my father. My question is are investment bonds, in your opinion, a suitable vehicle to provide income for my father's position.

DUGGLEBY: Yes I take it you're operating under a power of attorney of some sort?

JEFF: We are indeed, yes.

DUGGLEBY: This is a desperately tricky one isn't it and I do feel for those people whose income which appeared to be sufficient to top up the fees has just suddenly evaporated. So Adrian, what can you suggest?

LOWCOCK I think the first thing I would suggest is actually find out the charging structure of the investment bond because they can be expensive so you know make sure that the charges aren't too high on this because they can be used and if they're used appropriately as I said in three different bonds then you can get the income generated out of it and you can take it tax free as long as you don't go over a certain percentage of five percent, so it could work. But –

DUGGLEBY: But the capital is at risk and in the end of course the capital, well I think for ninety three – I'd be pretty surprised if the capital ran out but the time scale, you have to accept that you will have to almost certainly draw down on some capital if fees go up as they are by substantial amounts.

LOWCOCK: And I mean you've got a sort of investment strategy. If you want to draw on capital gain instead of just the income, you've got an allowance of ten thousand this year and that's going to rise every year, it usually does. And capital gains tax is 18% so you could actually use capital and capital appreciation as a way to actually pay, generate an alternative to pure income.

DUGGLEBY: Morwen, now if you were asked to construct a portfolio to meet this particular problem, how would you go about it?

WHYTE: I think the point just made in terms of you'll only pay 18% on a capital gain, that's if you make a gain over ten thousand, you know don't rule out maybe looking at a proportion of it to show, to try and get some gain out of it and you know top slice, if you make a gain take some of that gain and use that as an income. You know that's a very tax efficient way of doing it. In terms of investment bonds, they tend to be insurance based products to which I don't specialise in but again the point on charging structure is a very very valid one. I'd also say at the age of ninety-three, you know don't go into anything too long dated goes without saying. And you know there is an argument to just eating into some of that capital so that you're not taking too much risk by investing it.

DUGGLEBY: Yes I mean I wonder, what are the fees per year, Jeff?

JEFF: Well quite considerable. The first year, like the initial charge for one which is Canada Life I believe, four percent and I believe it's then 1.5% per year. And that seems to be typical.

WHYTE I mean I would certainly keep quite a high proportion of that in cash even though you're not getting a great return on your cash and I would possibly consider some short dated corporate bonds, specific corporate bonds that you know how much you're going to get on redemption and you know that your interest is paid at that time, and just keep things reasonably simple.

DUGGLEBY: But I would also probably recommend keeping a fair amount in cash because after all what you don't want is you don't want to have to cash in bonds or draw capital out of bonds at just the wrong moment. I mean if the market does well in the next couple of years, fine, you can take the profit. But what if the market, Adrian, just falls? You need to have a little cash cushion, I mean maybe so that you could take £10,000 of cash and say OK we'll just dip into that and top the fees up with the cash.

OK we must move on, there's an interesting e-mail from Andy in Cornwall and he says my question is about whether to invest in unit and investment trusts, or in shares. And he says I've been looking at some of these fund managers and I've worked out that I can see what they're investing in so why shouldn't I basically copy what they're doing and save myself the charges that these funds would otherwise impose? Too clever by half, Adrian?

LOWCOCK If it was that simple. The fact is these fund managers when they tell you which funds, it's usually only the top ten they tell you about which you would assume is their top best ideas anyway. But there's always a delay in the reporting so they may well have bought a share two months ago, three months ago at the bottom and the same argument isn't valid.

DUGGLEBY: And they're out of it before you even get in?

LOWCOCK: They're out of it before you even get in, and they don't – fund managers don't buy it in one day and then sell it the next. They top it up slowly and they've got different investment strategies and objectives, so it's not straightforward.

DUGGLEBY: I can see his point though, Clare. If you look at a typical report of an investment trust you see these top ten holdings and frankly they all seem to be broadly the same and they're all the big oil company, a big supermarket and a mining company. I mean they're all kind of percentage-wise, they have to be in top FTSE 100 shares don't they?

FRANCES: A lot of them are and I think for some people, you know, obviously it's enjoyment and they feel as though they've got more control if they're doing it themselves but equally you've got to be keeping an eye on the market and you've got to be doing your own research, and hopefully what you're paying these managers for is their expertise in knowing when to buy and sell, and they might have more information, more detail than you can get your hands on.

DUGGLEBY: And also Morwen, I think a lot of people don't realise that if you buy say an investment trust it's often at what's called a discount isn't it?

WHYTE It is, yes so you're getting good value, you're getting something priced at a pound but its assets are well over a pound. I think the only thing is that, yeah, we've got a number of people that want to do it themselves rather than going to a fund manager because they don't trust the financial industry and they're going to have a go themselves. That's fine, as you said, as long as they're keeping an eye on the market and they're educating themselves and that perhaps they've got a good broker or someone to support them to do it. But yes you've got to have an element of care.

DUGGLEBY: Ironically I suppose Adrian there is a case for saying if you're keen on investing and you're prepared to make a study at least of the major companies, then good luck to you and have a go. It's really where you need the advice is sometimes in the smaller markets, say you want to invest in FTSE 350s, well there's no way you can research the detail to pick those right ones.

LOWCOCK I mean small cap and the FTSE smaller cap is usually where the value is added and can be added because companies are growing and expanding, and you can add a lot of value there but that's usually where fund managers also can add a lot more value as well.

DUGGLEBY: And am I right in saying that actually in the last bounce in the market, hasn't it been the smaller funds that have actually done better, they've –

LOWCOCK They have, they've added, I mean they've sort of added on a lot more as well but then you know there are sectors that have also done phenomenally well in the rally. I mean the banks have done very well and emerging markets and Asia have done very well, and it's expensive to get access to overseas shares and very hard to find which company you should be buying and probably should diversify into those areas quite significantly.

DUGGLEBY: OK and a call now from Ray in Doncaster, Ray.

RAY: Good afternoon. I've just received a letter from my British Rail pension fund allowing me to take my pension in the next week or so, and the detail is this: they are allowing me to take £74000 in lump sum and £11000 pension or a £29000 lump sum and a £14000 pension. Query is what would you do with a pot like that?

DUGGLEBY: Yes this is called the commutation that you get, the option of taking part of your money in this lump sum and some people of course will have an obvious answer to that. They'll say they want to pay off their mortgage or do something like that but I take it you don't have any immediate need for the money?

RAY: No nothing at all.

DUGGLEBY: So it's a straightforward investment versus pension question. Clare?

FRANCES: Well I think ultimately you've got to try and make it, you know whether your lump sum can be invested to make it so that you're generating more income from it, a better return than if you opt to take the smaller amount. I think it's probably one for Morwen or Adrian to answer with regards to the investment but you know ultimately you've got to live off this money so you've got to be quite careful and don't rush into it. Think carefully and seek some advice.

DUGGLEBY: Ray, is your pension index linked in some way?

RAY: Yes it is.

DUGGLEBY: So it's going to be quite difficult to get a guaranteed return which is going to be index linked for the rest of your life?

RAY: Yes.

DUGGLEBY: Indeed, but on the other hand if you don't take it, then you will have nothing for example to spend on something that you might suddenly want to do in a couple of years time, but the investment strategy – Adrian?

LOWCOCK Just having a look at these numbers. I mean it's very difficult to say do one thing or another. But looking at those sort of rough figures you've got sort of effectively about three thousand pound difference in the income being earned, and it's about forty-five thousand pounds difference in the sums, about fifteen year time to get that lump sum back. On the numbers I think you could probably, you could probably beat that, possibly beat that but it all depends on what happens in the market. My view is very much that you know it's a tax free lump sum at the moment and following what's gone on in the budget I'm not confident enough to say that that will be around at any time in the future.

DUGGLEBY: You mean they might stop –

LOWCOCK They might.

RAY: And the other side is if I take it now because I'm a high rate taxpayer, I'll pay forty percent on what I draw down.

DUGGLEBY: On the income you would, yes. Morwen, would you like to come in there?

WHYTE: Yes I was going to come in on two points, yes. It depends how long you're going to live. If you knew that, if you were going to live a long time then you would probably just take it as a pension but if not then your lump sum is a better option. But yes the tax angle, if taking the pension means that you're going to be paying high rate tax, then clearly it would be better to get the tax free lump sum. So I think really you need to be sitting down with a financial adviser, get a few views on which to do.

DUGGLEBY: Indeed.

MORWEN: Yes, we couldn't give you really any advice or comment without knowing more.

DUGGLEBY: I've got about a minute left just to wrap up one or two e-mails, more than one or two. Several people have contacted us saying you know twenty thousand to invest, thirty-five thousand to invest, forty-five thousand to invest, fifty thousand pounds to invest – what do I do? Now we don't know the ages of all these people but can we just finally finish with the time perspective because many of our listeners are retired or retiring, maybe fifty-five, maybe sixty, maybe sixty-five. They face a very long period potentially in retirement. Comments for investing purposes?

ADRIAN: If you're investing in equities, I mean a five to ten year time horizon is probably the minimum you want and it doesn't mean you should stop just because you're retired. There is some potential long returns there. It's to do with your risk though. I think or attitude.

FRANCES Well if we comment, if I comment on cash, remember that only fifty thousand is protected by the Financial Services Compensation scheme so make sure that whatever you've got in cash doesn't exceed that with each institution.

DUGGLEBY: And a final quick word from you, Morwen?

WHYTE: Drip feed if you're putting money into the markets because you don't know what's going to happen in the future, and don't forget inflation.

DUGGLEBY: OK well thanks very much indeed. That's Morven Whyte from Redmayne Bentley, Adrian Lowcock from Bestinvest and Clare Frances from the website MoneySupermarke.com. You can get more information on the points we've raised during the programme by ringing 0800 044 044 or the website bbc.co.uk/moneybox. Paul Lewis will be here with the next edition of the programme on Saturday, I'll be back same time next

Wednesday afternoon to take more of your calls on Money Box Live.