MONEY BOX SPECIAL: SAVINGS AND INVESTING

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LEWIS: Hello and welcome to the first of our summer season Money Box Specials. In today's programme, we're looking at saving and investing. Savings rates are at all time lows - the average return is said to be less than 1% - but there are still some good rates out there if you can tie your money up for a year or two. At the same time share prices, having plummeted, have suddenly risen by almost 11% in just two weeks after the FTSE index of share prices in our 100 biggest companies rose for ten consecutive days. There are mixed messages with the economy too: it's still shrinking, but retail sales are rising. In these strange times, how do you put any spare money to work? Well let me start the discussion with Justin Urquhart Stewart, a director of Seven Investment Management. Justin, is that strange light in the sky from green shoots or a false dawn?

URQUHART STEWART: I think we've got to be extremely careful. There are some shafts of light obviously because, remember, it is a cycle we're going through - a very painful one - one that's been made a lot worse by the fact that our banking system's been severely damaged as well. But remember our economy's based on consumer spending to a great extent. The consumer's under pressure - we're spending less and we're feeling nervous because of our housing - so it's inevitable we're going through this weak part of the cycle. Having said that, what we've seen in the growth figures - they were worse than expected this week, the past week - but they are nonetheless getting … they're not as bad as they were before, and over the next few months will start improving.

LEWIS: Okay. Thanks for that, Justin. Also listening to us in Nottingham is Clare Francis. She's Editor of Moneysupermarket.com, which tracks savings rates, among others things. Clare Francis, any sign from your website that the worst of the recession is over, that we've turned a corner?

FRANCIS: Well I think, as Justin was … You know there's so much conflicting data still coming out, but I think one thing we perhaps are seeing a bit of is increasing confidence in the consumer. We've had lending figures out this week showing mortgage lending was up. And just sort of indications that we can see over what articles people are reading, what's going on in forums and things like that, suggests that interest may be coming back and perhaps people aren't as nervous about what the future holds as they were sort of 6, 7 months ago.

LEWIS: Right, so some green shoots there. And to complete our panel is Adrian Lowcock, who's Senior Investment Advisor with Bestinvest Brokers Limited. Adrian, the FTSE up, house prices turning, banks back in profit. Light at the end of the tunnel?

LOWCOCK: I think it's a bit of a relief at the moment. I mean this time last year, we were just on the verge of banks collapsing; and even at the beginning of the year, we were more concerned about it getting worse than it was getting better. So I think a lot of it is relief, and you know it's after that that we see whether or not there's light at the end of the tunnel.

LEWIS: Right, so we're in the sort of 'phew' stage at the moment …

LOWCOCK: I think so.

LEWIS: … and we'll see what that turns into later. Well that's the big picture. Let's start this discussion by looking at savings as opposed to investments. And by that, I mean cash or things that can't go down in value. And we'll hear first from a Money Box listener whose experience is, I'm sure, shared with millions of retired people. Dennis Andrews from Nottingham who's 85 relied on a modest income from his savings, but it's all but disappeared.

ANDREWS: Where I was getting £62 a month from one area of saving, that's now dropped down to £11, and that particular saving was a means of helping me to pay every day expenses. And this means now that because of the shortfall I'm now having to draw on that capital and, therefore, the capital is now going to be reduced. And if and when interest rates start to rise, unfortunately I'll have less capital to earn the interest rate that it has been increased to.

LEWIS: Well one experience - as I said, I'm sure fairly typical. Clare Francis, you track savings rates. The average is less than 1%. Some are about a tenth of that. But what alternatives are there?

FRANCIS: Well the good news for savers … Obviously those who rely on savings income to fund their costs of living have been really badly hit by the reductions in the Bank of England base rate. But that said, the banks and building societies are still really desperate to attract savers' cash at the moment and as a result the best savings rates are massively higher than the Bank of England base rate and the average rate. So you can get fixed rates now if you can afford to lock your money away for 2 years at sort of 4.35, 4.45%. If you can go 3 years or more, you can even get 5% now. We saw Barnsley launch a new range of fixed rate bonds this week and it's got a 3 year deal at 5%, which is impressive given that the base rate's just half of one 1%.

LEWIS: Yes and looking at the newspapers today, they are full of adverts: 3.3%, 6%, 4.15%, 4.35. You really can get the rates, but you always have to pay a price, don't you, in flexibility or locking your money away?

FRANCIS: Yeah, I mean the devil's in the detail; it always is. And obviously the best rates are those on fixed rate bonds at the moment, so again you can't usually access your money during the fixed term. If you're looking for easy access, you can get above 3%. Coventry's got a deal at 3.3%, but it's a postal account. You can only make four penalty free withdrawals a year. The minimum withdrawal's £1,000 a time. So it's being aware of reading the small print and getting a deal that you can adhere to the terms and conditions on.

LEWIS: Adrian Lowcock, you wrote about cash ISA's recently where at least you're not paying tax on these rather small rates of interest, but you're getting pretty poor rates on cash ISA's now.

LOWCOCK: Yeah, I mean compared to the sort of 5% you're getting with the Barnsley 3 year bond. You can get a similar sort of 3 year bond but it's paying 4.2%, so you're not actually benefiting from the tax relief on it.

LEWIS: No, so the bank or building society is taking the tax relief in effect.

LOWCOCK: Effectively, yes, so similar levels of return.

LEWIS: Yes. There was certainly a survey in the Guardian today saying that that was exactly what was happening. Two almost identical products with the same bank, the ISA one was paying a lower rate than the non-ISA one. Justin, are investors seeking cash-like returns, things that are risk-free as they see it? They're called cash but they're really investments.

URQUHART STEWART: They're trying to find other ways where they can, and for that they're looking at the bond in terms of fixed interest market where you can actually look at anything from government gilts where there's an awful lot of issuance there - the Government's obviously trying to raise money to cover this huge debt they've been building up - right the way through to corporate bonds, and they go from the more secure ones through to the high-risk junk bond areas where you've got to be extremely careful. The rates may be very attractive, but for a reason.

LEWIS: Yes and those are more investments that we'll be talking about later. And just going back to Dennis who we heard from earlier – and Dennis is 85. He doesn't want to spend his capital down, though he thinks he's going to have to. Is there a time in life when that is perhaps a sensible thing to do because, to put it bluntly, you can't take it with you?

URQUHART STEWART: Well exactly - you build up your capital, so you run it down over time. And that's always the most important in financial planning - how much is enough? Because we all want to make sure at the time when we do have to go and meet our maker that actually we are not doing so in a position of penury; we've still got some left to make sure that we're not that worried about it. But when we're getting to 85, yes at that stage you are probably eating into that capital and running it down over time.

LEWIS: And Clare Francis, briefly - with rates so low, there are various tricks, aren't there, that banks are employing? I mean there's an advert in fact in today's paper from Alliance & Leicester offering 6% to the over-50s, but then it charges you £120 a year for some insurance products that you may not need or perhaps could get cheaper elsewhere?

FRANCIS: Yeah, it's as I was saying: it's checking the detail. So other common things are introductory bonuses, which last for 12 months, or a restriction on the number of withdrawals you can make within a year and things like that. So it's not necessarily that these deals need to be avoided, you just need to check and make sure you can adhere to the terms and conditions. And certainly with bonuses, move your money again when that bonus period ends.

LEWIS: Got to be careful. Right, we'll come back to you all shortly, but let's hear about one alternative to standard savings. It's called Zopa. It's a website, a marketplace if you like, where people with money to lend are teamed up with those who want to borrow. It claims great return, so there is some risk. Wesley Stephenson went to Zopa's office to check it out.

STEPHENSON: The front page of Zopa's website proclaims that over the last 12 months Zopa lenders have enjoyed returns of around 8.2%. The smaller writing underneath makes it clear that this is after Zopa take their 1% fee, but before any bad debt and of course before tax.

ANDREW: My most current offer is for £3,300. It's all been lent out and I'm lending … *(fades under)*

STEPHENSON: It works by matching people who want to borrow money with people who want to lend money. Giles Andrew, Zopa's Managing Director, explains the basics.

ANDREW: You can choose the kind of people you want to lend it to. So what Zopa does as a marketplace is to define borrower applicants in terms of their risk profile, and by that we mean their likelihood of repaying you or defaulting. We divide our marketplace into five different credit grades from A*, A, B, C, and also we have a market which we call the 'young market' for people who are as credit worthy as young people can be given the lack of credit data that's available. And as a lender, you make a choice as to which of those or all of those you wish to lend for, for how long - either 3 years or 5 years - and the rates that you'd like to lend money to people in each of those markets. This person has well over £100,000 borrowing, some of which is mortgage.

STEPHENSON: Zopa use the same checking systems to banks to weed out any potential bad debtors. If borrowers end up defaulting, then a credit agency will chase them up and ultimately take them to court. And a default with Zopa affects their credit rating, just as it would do with a bank loan. Giles says that most potential borrowers won't make it past their credit checking systems.

ANDREW: We knock out 50% of the people at the application process, and then in underwriting we knock out a number actually slightly bigger than that again.

STEPHENSON: To minimise the risks, your money isn't all lent out to one person either. Zopa split up your money into chunks, typically around £10 at a time, so if someone defaults you don't lose everything. It seems to be a big hit with those who've invested money. Tudor Ashton Davis has several thousand pounds with Zopa and is pleased with his return.

ASHTON DAVIS: I think if you go in with your eyes open and an acknowledgement of what the risks are, then I think it's a fine investment. I would say I'm getting at least two percentage points more than I would in the very best fixed rate deposit, and I'm certainly getting more than I have been in equities over the last year to 3 years. That's not to say of course that it's without risk. Defaults could increase in the future.

ANDREW: I have currently no money that I can actually offer, so all my funds are either lent out or they're currently in processing.

STEPHENSON: Giles isn't just the boss. He's an investor too. When the company started, he and his colleagues put in a lot of their own money in order to kick start the market. *(to Andrews)* How have you done as far as people defaulting and late payers?

ANDREW: I have, to the great amusement of everyone in this office, have had so far the biggest ever bad debt - so I actually suffered a loss of, on one borrower, 240 quid out of £350 lent to him.

STEPHENSON: So that's the most that anyone's ever lost?

ANDREW: No, I think in a part of our business we call 'listings', which is where people get to choose individual borrowers who make submissions as to why people would want to lend them money - some of our lenders have lent some of those borrowers quite large amounts of money, maybe thousands of pounds, and I think one or two of them have lost money in that way. But it's not a typical Zopa experience. You're going to use it, aren't you, I can tell?

STEPHENSON: Now those losses may seem alarming, but if you look on the Zopa website you can see exactly how the various markets have performed. In the last four years, Zopa has lent around £50 million and the default rate is 0.4%. Not bad. But of course this is an average. If you look at the 5 year C market, which has higher risk borrowers, it has defaults of 3.5%. Compare that to the A* market, and this has defaults of 0%. And if you look at the listings section of the site, which Giles mentioned earlier, this has defaults of 2.4%, so it really does depend where you put your money as to the amount of risk there is. Our investor, Tudor Ashton Davis, says that although his losses are higher than average, he's not too worried.

ASHTON DAVIS: As a percentage of my investment, it's not too bad. I've got bad debt of about 2 or 3% and I've currently got late payers of perhaps 3%. So still a manageable 3.5, 4% of my total assets.

STEPHENSON: So what kind of impact does that make on your return on your investment?

DAVIS: I should think it's reduced it by a percentage point, from 8% a year to maybe 7% a year.

STEPHENSON: Now if that seems too risky, another Internet venture launched within the last week. It's called Licuro. It's another marketplace site, but here you offer your money up to banks and building societies who bid by offering you attractive interest rates. The founder thinks the market will perform in a similar way to its sister site in Denmark and gives savers a 1% increase on a standard savings account. Of course the risk is minimised because your savings are with banks and covered by the Financial Services Compensation Scheme. This isn't true of Zopa. But if you invest wisely with them, you could see higher returns as long as you don't forget Zopa is investment and not savings and there will always be a risk.

LEWIS: Wesley Stephenson. So could this new sort of market be the way to squeeze the best rates in difficult times? Wesley mentioned Licuro at the end of that report. That's an online interest rate auction house where banks or building societies which have signed up bid for your money. Clare Francis, are people with money to lend taking charge now? Is this a new way forward to get the best rate return?

FRANCIS: The Licuro is an interesting concept. I mean it all depends really on how many banks and building societies are after your money and how much they're prepared to get …

LEWIS: There aren't many at the moment.

FRANCIS: There aren't many at the moment. And I know that we've run some figures this week and sort of on a £30,000 investment, I think they were offered a return of 2.2%. And it's a fixed rate deal, so I mean you can get much better than that on some of the fixed rate bonds we were talking about earlier on.

LEWIS: Yes.

FRANCIS: So we've seen a similar thing before with mortgages, with a sort of mortgage auction that didn't work out, so I think it's too early to say whether or not Licuro will work.

LEWIS: Perhaps something for the future. Adrian Lowcock, views on this?

LOWCOCK: I think that's right. I mean there's a lot of competition in this area. They've got the online price comparison websites, you can go into your bank and actually just speak to them and find out what rates are available. It's early days. There's only about three or four building societies available at the moment on it.

LEWIS: Justin, briefly?

URQUHART STEWART: This is a great invention, I think, because it's breaking down the traditional barriers. Just as we saw in the stock market where you're able to actually find a better price formation and competition coming through for prices, so same should be for lending and also for saving.

LEWIS: But it needs the volume, doesn't it?

URQUHART STEWART: Yes, it takes time to mature.

LEWIS: Thanks for that, Justin. Stay with us. We're moving on now to investing.

And for half a century or more, that's normally meant buying shares on the stock market. One of the great advocates of stock market investment is Anthony Bolton, perhaps the most famous and well regarded manager of funds in the UK. For well over 20 years, he made an average return of 20% a year for investors in his Fidelity Special Situations Fund. Well Anthony's now left active fund management, but is still at Fidelity International as an adviser. I talked to him a few days ago and asked if now *was* the time to invest in shares.

BOLTON: I've been saying over the last few months that I think a new bull market has started. I think March was the low in markets and I am optimistic for the next couple of years. So I think in general this is actually quite a good time to be invested in the stock market.

LEWIS: And why do you think that? It can't just be the numbers because overall over the last 10 years it's not been great. I think the FTSE 100 is back where it was 12 years ago, in March 1997.

BOLTON: But that's the whole point. If it had performed brilliantly, then I might have been more cautious. The fact that it *hasn't* performed well is why I'm more optimistic. There are three things that I generally look at in helping me to try and time markets. The first thing is the patterns of bull and bear markets. And they're never exactly the same, but you know when the market's been going up for a long time, I think then you have to be more cautious. When it's been going down, as we've seen in the bear market we've been through - it's been one of the worst and longest bear markets we've ever seen - I think that makes it a time to be more optimistic. I then look at long-term valuations. That's the second thing I look at, and they became really attractive in the first quarter of this year against the long-term 20 year plus history. And then I look at sentiment, and generally in this business when everyone is pessimistic you want to be more optimistic and vice versa. Only at the beginning of my career in the 1970s did I see people as pessimistic as they were earlier this year.

LEWIS: Looking at other things you've said, you like to look for anomalies in companies, find the sort of anomaly moment. What do you mean by that?

BOLTON: My approach generally was to find specifically valuation anomalies, so to find mis-valued shares. So generally these were the cheapest shares, which for one reason or another had things about them that put off other investors; that maybe they hadn't in their business performed that well. And I was looking for those ones where I thought something was changing for the better or they had something about the business that wasn't exciting investors at *that* moment, but I thought investors would become much more excited about down the road.

LEWIS: And I was looking at the performance of the fund you left behind, the Special Situation Fund. It has indeed outperformed the FTSE 100 index, but it hasn't *made* money, has it? It's *lost* money over the last year or two. Do you think cash, things that in a sense *can't* go down, are very undervalued by fund managers?

BOLTON: No. Cash is very attractive if you want to avoid all risk of losing money, but cash I don't think will protect your savings in the long-term.

LEWIS: And if somebody has got some money, is looking to put it into the stock market. You've given the general advice, but are there sectors, are there opportunities you see in more specific terms now?

BOLTON: I like consumer cyclical shares - retailers, house builders, companies making cars, etcetera - sensitive to consumer expenditure. They've done very poorly. I think there's an opportunity there. Technology. Technology didn't do so well over the last 10 years because of the bubble before that. I think now is the time to go back to technology. The areas that I'm not so keen on is some of the more defensive shares - things like perhaps pharmaceuticals or whatever - and I'm not somebody who thinks commodities and industrial companies are going to do so well. They did spectacularly well in the last bull market and normally what leads one bull market doesn't lead the next one.

LEWIS: Anthony Bolton of Fidelity. And there's a longer version of that interview on our website: bbc.co.uk/moneybox. A bull market, of course, where share prices rise strongly, as indeed they have over the last couple of weeks. Adrian Lowcock, is now the time to get back into shares?

LOWCOCK: I think following the sort of rallies we've had, you have to look to the longer term if you're going to go back into shares - so invest cautiously, drip feed some money in. It's difficult to sort of see where we're at at the moment. We're still sort of looking for that light at the end of the tunnel, so I think cautiously putting money in is where to go with equities at the moment.

LEWIS: Cautiously, yes. Or maybe not at all, Justin Urquhart Stewart. Anthony Bolton saying how *he* picks shares. Can small investors follow him and do the same kind of research and pick the winners?

URQUHART STEWART: Oh certainly so. There's now much more opportunity to be able to do so. I think first of all you have to decide … The question is in 5 years time, is it better than it is now? And the answer is probably yes. Not as good as it was 5 years ago - so you drip back money in, just as Adrian says - but into a range of different asset classes. And the good news is these days you've got far more access to these asset classes than ever before. So not just equities but also other areas, geographically as well as actually into different asset classes, but things such as commodities, such as property, such as infrastructure.

LEWIS: Commodities being things like metal and timber and gold and …?

URQUHART STEWART: And foodstuffs - sugar, pork bellies as the Americans …

LEWIS: Pork belly futures. I was wondering when you'd raise that.

URQUHART STEWART: Absolutely.

LEWIS: But if you believe in the stock market, aren't you better just hitching your wagon if you like to a tracker fund, something that just follows the stock market up? Yes it follows it down, but if you believe in the long-term it will go up. Fix to a tracker fund.

URQUHART STEWART: Well you can do. The good news is we now have these things known as exchange traded funds, and all these are effectively is trackers of a particular index but they trade as shares and you don't pay stamp duty on them. Started in California in the early 1990s. Now grown hugely. There are nearly 2,000 of them round the world. But it means you can build your own portfolio of these particular items and have them spread around the world at a much lower cost than an active fund manager. And either you do it or you find a multi asset manager to do it for you. The choice is yours. So you've got a breadth of alternatives there.

LEWIS: Yes and relatively cheap, as you say. And Adrian Lowcock, what sort of expectations should people have? I mentioned the FTSE 100 index rising over the last two weeks, but it's actually back exactly where it was on 5th June 1997, 12 years ago, indeed back where it was 5 years ago. That's a fairly long-term investment, 12 years. You'd expect shares to have risen over that time.

LOWCOCK: It does happen, and it's happened in the past, where you get decades of just flat performance or no returns, and there's a lot of research out there to suggest that after those periods you will see markets actually put in some strong performance. They always say you know past performance is no guide to the future, and I think it's probably a negative view …

LEWIS: *(over)* And that decade doesn't mean a good decade coming up, does it either?

LOWCOCK: Not necessarily. But the data suggests, you know, and supports that, and, as Anthony Bolton said, you know it's better to buy when things are cheap than when they're expensive.

LEWIS: Well that's true, yes, as long as you think they're going to go up. Of course there are products now that claim to give you the upside of stock market investment, so they follow the market up, but then there's no downside. Clare Francis, these are generally called structured products. They're sort of pseudo stock market investments. Do they work?

FRANCIS: Well I think Justin and Adrian will probably agree that you can do it yourself in a way. Why these appeal is that your initial investment is totally guaranteed, and then you get a proportion of the upside if it's an index - a market index – it's linked to rises over a certain period of time. But they tend to be very complicated, they tend not to include dividends, and therefore a lot of people end up at the end of the 3 or 5 year term not having any idea really what return they're going to get back and also then being very disappointed if the index has gone up, but because of the way it's all been measured they're not getting the full impact of that.

LEWIS: Yes. And we mentioned charges earlier and I know there are charges on these that can be worrying. Adrian, why is it that there isn't any fund that says well we'll charge you if it works but we won't charge you if it *doesn't* work? If you go into a shop, something you buy has to work, doesn't it?

LOWCOCK: It's investing. If it was that easy, then we'd all be millionaires out of it. It's not that straightforward. You know there's a lot of factors that determine it. So you can't actually you know predict the future.

LEWIS: Of course we think the people who run these things *are* millionaires, don't we?

LOWCOCK: Some of them are. *(laughs)*

LEWIS: Right, so you can't get rid of charges. I think really we're going to have to draw it to a close there. That's all we've got time for. Adrian Lowcock of Bestinvest, thanks very much; Justin Urquhart Stewart of Seven Investment; and Clare Francis of Moneysupermarket.com. And that's it for the first of these summer specials. More information, the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. Listen again, send us your thoughts and comments. This time next week, Alvin Hall presents the first of two programmes looking at the enormous salaries and bumper bonuses in that millionaire world of high finance, a new generation of multi-millionaires created. That's The Money Grab. After that, Money Box specials on coping with the recession - the first with my colleague Penny Haslam for two weeks, and then I'm back on the last Saturday of August. Today the producer was Richard Vadon and I'm Paul Lewis.