

Are you ready for the risk?



PLAYING THE LONG GAME

Neil Middleton 40,
logistics planning manager

Over the past year, Neil has invested £3,600 in a stocks-and-shares Isa. It's now worth around £3,800. Neil bought his Isa using a fund supermarket because he likes the discounts – his initial charges have been between 0 and 2 per cent. He's currently investing £100 a month, splitting it among his eight different funds.

Neil can access his account online. This not only makes it easy to switch money between funds, and to switch funds, but it also means he can check two or three times a week to see how his investment is doing. 'I'm pleased with my investment,' Neil told us. 'It's doing all right despite the recent stock market jitters. I'm using this as a long-term savings plan and am not too worried about short-term volatility.'

We help you decide whether you should invest in a stocks-and-shares Isa

Next month sees the biggest shake-up of Isas since they began nine years ago. New rules introduced by the government mean that there are no barriers if you want to move your cash Isa money to a stocks-and-shares Isa. This means you'll be able to transfer money saved in cash Isas in previous tax years into stocks-and-shares Isas without affecting your current year's Isa allowance. You'll also be able to transfer your current year's cash Isa to a stocks-and-shares Isa, provided you transfer the whole amount.

So should you take the plunge? Stocks-and-shares Isas are different from cash Isas – which are just tax-free savings accounts. With a stocks-and-shares Isa, you invest in the stock market and your investment can go down as well as up. It's not a decision to take lightly – in January the stock market fell by almost 5.5 per cent in a day. If you haven't invested in stocks and shares before, use our 'Are you an investor?' guide, right, to help you decide whether this is the right step for you.

What is a stocks-and-shares Isa?

Think of an Isa as a wrapper that you put around savings and investments to protect them from tax. A stocks-and-shares Isa lets you put money into a range of investments, such as unit trusts, open-ended investment companies (similar to unit trusts) and investment trusts, as well as government and corporate bonds.

You can also buy individual shares and put them into an Isa – this is known as a self-select stocks-and-shares Isa. The Isa wrapper allows you to invest up to £7,200 each tax year in a stocks-and-shares Isa (from April 2008).

Be aware that, unlike a cash Isa, stocks-and-shares Isas aren't completely tax-free. Buying share-based investments (such as unit trusts and open-ended investment companies) through Isas saves you tax only if you're a higher-rate taxpayer, or are likely to pay capital gains tax. However, if you use your stocks-and-shares Isa to invest in interest-bearing investments, like

corporate bonds, the interest is tax-free whatever tax band you fall into.

Stocks-and-shares Isas have charges that are used to pay commission to financial advisers, cover admin costs and pay fund managers. These vary, depending on what you invest in, but aren't usually any higher than those you'd pay if you invested outside an Isa.

How to buy

Choosing a stocks-and-shares Isa can be tricky – there are more than 2,000 investment funds in different sectors, ranging from high to low risk. And, as our graph on p24 shows, the performance of the funds can vary greatly.

Unless you're a super-confident invest-

ARE YOU AN INVESTOR?

Find out if you're ready to invest in the stock market

If you can answer yes to our five questions, you could be ready to invest in the stock market. The next step is to decide whether it makes sense to wrap your investments in an Isa – see our 'Checklist', opposite, to find out whether you'll save tax.

If you're still unsure whether or where to invest, get advice from an independent financial adviser.



or, your best bet is to see an independent financial adviser (IFA) who specialises in investments. If an IFA-recommended product turns out to be inappropriate, you can complain to the IFA that gave you the advice provided that they are authorised by the Financial Services Authority (see 'Contacts', p24). If your complaint is unresolved, you can take it to the Financial Ombudsman Service, which can award compensation.

Going it alone

If you're confident enough to choose your own investment, your best bet is to buy through a discount broker. They offer substantial discounts on the initial charge on unit trusts and open-ended investment companies – initial charges can be reduced to 0 per cent, compared with up to 5.5 per cent for buying direct from a fund manager.

The downside of picking your own investments is you've got no redress if it turns out to be unsuitable.

Fund supermarkets are an increasingly popular way of buying stocks-and-shares ISAs. They not only enable you to save on

the initial charge, as they are often run by discount brokers online, but also allow you to mix and match funds from a range of different fund managers. It's also quick and easy to switch funds, and admin is reduced because you get one statement with all your investments listed.

You can also buy from a fund supermarket via an IFA – see our 'Checklist', right, for more details about this. If you go through an IFA, you'll receive advice on what funds to buy.

Our advice

Of course, a stocks-and-shares ISA isn't for everyone. And, unlike cash ISAs, stocks-and-shares ISAs aren't always tax-free. There are other products available – such as self-invested personal pensions – that save more tax but place greater restrictions on access to your savings.

Use our 'Are you an investor?' guide, below, to see if investing in the stock market could be for you. If you're not sure, get independent financial advice – our 'Contacts' box, p24, will help you choose an appropriate adviser.

Q Have I cleared my debts?

A It makes sense to reduce or pay off any debts – such as credit cards or personal loans – before you commit to an investment.



Q Am I properly insured?

A Have you got life insurance to protect your dependants if you die, or income protection insurance in case you can't work? If not, get cover before you invest.

Q Have I got a rainy-day fund?

A Ideally, you should have enough cash in an easily accessible savings account to be able to keep you and any dependants going for three to six months.

Q Can I tie up cash for at least five years?

A A combination of the charges you'll have to pay and short-term fluctuations in the stock market mean that you shouldn't invest if you think you'll need the money in the next five years.

Q Am I prepared to lose money?

A If you're going to invest in the stock market, be prepared to take some risk – the value of your investments may

go down as well as up. This won't suit everyone.

If you go ahead, remember that it will be a long-term investment and things can go wrong – as one Which? member found out. He told us that his £7,000 stocks-and-shares ISA investment fell to £4,168 in the first year and then further to £3,119. Seven years on, it has recovered slightly but is still worth £700 less than his original investment.



Checklist

Get the lowdown on stocks-and-shares ISAs

■ **New ISA rules** The biggest change to the ISA rules since they were first introduced come into force this April. Out go maxi and mini ISAs, and in come new rules on transfers from cash to stocks-and-shares ISAs. See 'New ISA rules', p24.

■ **Risky business** If you invest in a stocks-and-shares ISA, be prepared to take a risk with your money – there's no guarantee that you'll get back the amount you put in. However, you can spread your risk by investing across a range of investments, from bonds to individual shares.



■ **Tax** Unlike cash ISAs, stocks-and-shares ISAs are not always tax-free. If you're a basic-rate or starting-rate taxpayer with no capital gains, you'll pay the same tax on share-based investments as you would on non-ISA investments. ISA income does not need to be declared on tax returns.

■ **Older advantage** If you're 65 or over, your income from a cash or stocks-and-shares ISA won't affect your age-related personal allowance.

■ **Getting advice** If you're not an experienced investor, get advice from an independent financial adviser (IFA) who's



authorised by the FSA – use 'Contacts', p24.

■ **Charges** These vary and cover costs, including admin and commission to financial advisers. Charges aren't usually any higher than if you invest outside an ISA – unit trusts, for example, have an initial cost from 0.5 to 5.5 per cent and an annual charge of 1 to 1.5 per cent. Charges usually come out of your investment, unless your IFA accepts a fee instead of commission.

■ Fund supermarkets

Ask your IFA about buying through a fund supermarket. You'll get discounts on the initial charge and other benefits, too. If you don't use an IFA, you won't get advice and can't complain if the product's unsuitable.

■ Making a complaint

If you're given inappropriate advice by an FSA-authorized IFA, complain. If the complaint is unresolved, take it to the Financial Ombudsman Service – see 'Contacts', p24.



New Isa rules

The new rules take effect on 6 April 2008. Here's how they affect you

NEW ALLOWANCES

Every adult has an overall allowance of £7,200 each tax year. You can invest a maximum of £3,600 of your allowance in a cash Isa. So you could either invest the full £7,200 in a stocks-and-shares Isa, or invest up to £3,600 in a cash Isa and, if you choose, invest the remaining £3,600 of your allowance in a stocks-and-shares Isa.

PEPS BECOME ISAS

All Peps automatically

become stocks-and-shares Isas and are subject to the Isa rules.

NO MORE MINIS AND MAXIS

There will now be just two types of Isa: cash Isas and stocks-and-shares Isas.

TRANSFERS

ALLOWED You will be able to transfer your previous years' cash Isas into stocks-and-shares Isas without affecting your Isa allowance. You'll also be able to transfer your current year's cash Isa to a stocks-and-shares

Isa, provided you transfer the whole amount.

CHILD TRUST FUND ACCOUNTS CAN BECOME ISAS When they mature, child trust funds can be rolled over into Isas.



Contacts

Financial Ombudsman Service 0845 080 1800
www.financial-ombudsman.org.uk

Find an independent financial adviser

IFA Promotions 0800 085 3250; www.unbiased.co.uk
Institute of Financial Planning 0117 945 2470; www.financialplanning.org.uk
The Personal Finance Society 020 8530 0852; www.thepfs.org

Check whether an IFA is authorised

Financial Services Authority 0845 606 1234; www.fsa.gov.uk/register

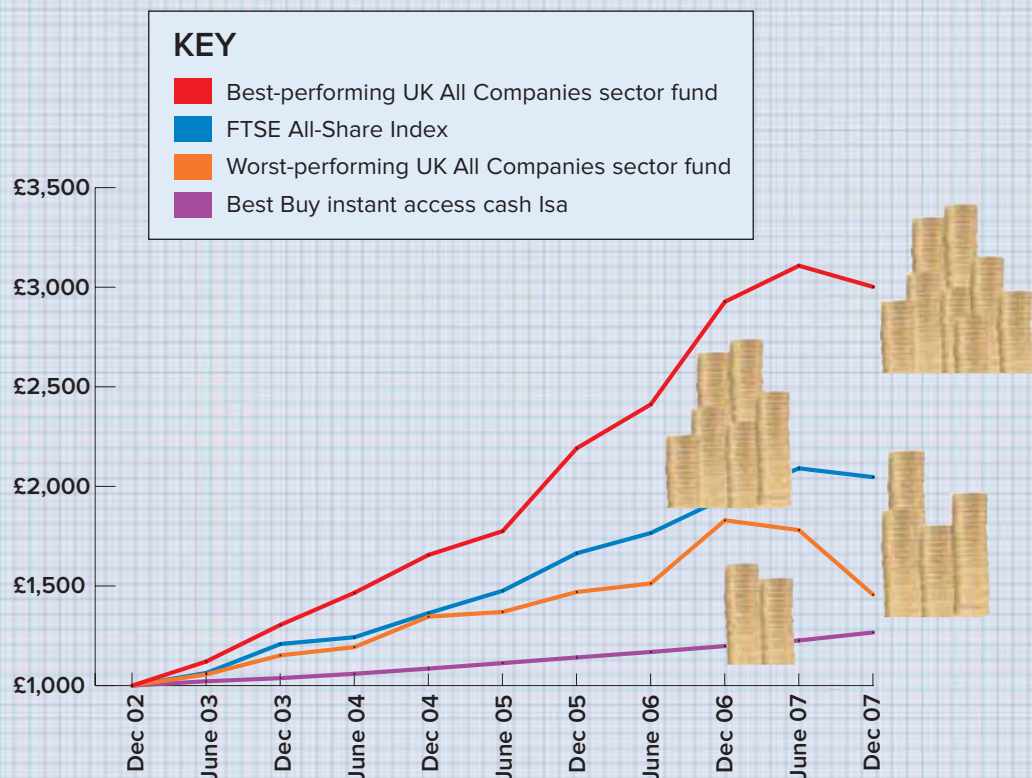
HOW PERFORMANCE CAN VARY

There's more than £1,500 difference between the best and worst performing funds over five years

This graph shows the best and worst performing stocks-and-shares Isa funds in the UK All Companies sector over five years, compared with the performance of the FTSE All-Share Index and a Best Buy cash Isa.

One thousand pounds invested in the best-performing fund grew to £3,001. The worst-performing fund rose to only £1,456 and didn't do as well as the general stock market – as shown by the FTSE All-Share Index on our graph.

The Best Buy cash Isa has grown slowly but surely to £1,267. Any investment here is protected against stock market crashes.



Figures taken from 31 December 2002 to 31 December 2007 and include charges. Source for stocks-and-shares Isas and FTSE All-Share Index data: Lipper Hindsight