Case Study

Title: Short term investing

Source: Moneywise http://www.moneywise.co.uk/

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We are completing on our house (a farm actually) on 2 July and are buying a much smaller house to live in for a while whilst we continue our search for another permanent house. We will then let out the smaller house. Whilst we live in the smaller house we shall have cleared funds from the sale of the farm (minus purchase of small house) of about £1.2 million.

The question is - where should we put this money? We cannot put it in long-term investment as we will want up to £1 million for when the right (permanent) house comes along. That may be in a month's time - it may be in a year's time (if we are unlucky).

I'm 62 and semi-retired - only earning about £15,000 a year now. My wife, 54, is just starting a part-time job and will be earning around £13,000 a year. So, we don't have a great deal of income at the moment. In case it's at all relevant we are both using up our Capital Gains Tax allowances for this year in selling the farm (the CGT on the land).

An essential rule of investing is to consider a minimum term of five years on the basis that the peaks and troughs of investment markets should be ironed out over that time, plus investment charges should be overcome. In consideration of this theory and the uncertainty around your access requirements, dull is going to be the most appropriate solution and this does indeed mean deposit-based savings.

You are wise to be mindful of the FSCS limit of £85,000 and this does pose a dilemma for savers with sums which are significantly greater than this limit. However, depositors may still receive a share of their savings above this limit following any distribution of assets as part of the insolvency process for a failed bank. For more information: http://www.fscs.org.uk/?&gclid=CKyHla2dtq4CFaEntAodhFPEow

When setting up different accounts with different banks be careful to diversify to ensure you get no overlap within the same Group because the FSCS applies to savings with the Group and not necessarily the individual organisation.

To avoid opening many accounts via different banks with balances below £85,000 I would recommend you consider NS&I. The money deposited is secure because they are backed by HM Treasury with no overall limit on how much is guaranteed. Most accounts can be accessed online, by phone, by post and at Post Office branches. For more information: http://www.nsandi.com/

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When considering opening accounts with any bank it is advisable to ensure that you only save with institutions with which you are completely comfortable. Familiarise yourself with their withdrawal and transfer procedures so you can efficiently transfer funds when the need arises. Furthermore, be aware of deals where the interest rate is only payable for a limited time or is based upon the savings balance being maintained for a set period of time. In this scenario you may not receive the return you were expecting if the rate quoted necessitated the balance to be held for, say, twelve months, but you ultimately required access after nine months.

Remember to utilise you Cash ISA allowances each tax year.

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