SPECIAL REPORT END OF TAX YEAR

Cash pointers

Isa investment Leading advisers give some guidance for investors looking to use the new freedom allowing switches from cash Isas to equity Isas

In April, at the start of the 2008/09 tax year, new legislation comes into force which will allow cash Isa savers transfer their money into equity Isas, without losing their tax- exempt status or affecting that year's Isa allowance.

Many savers could have built up substantial levels of cash savings and may be tempted by the opportunity to switch. But given the present volatility in the stockmarkets, if cash savers want to take the plunge into equity investing, where should they invest?

Money Marketing asked five leading IFAs what they would advise.

DARIUS McDERMOTT
MANAGING DIRECTOR
CHELSEA FINANCIAL SERVICES

Clients must bear in mind when they are considering such a switch is that, once executed, they cannot go back. When they have decided to take the plunge into stocks and shares, they must then consider their risk profile

Now we can only assume that those invested in cash Isas have a very low risk threshold. We would therefore see it appropriate that they switch into a range of low-risk equity funds which provide good defence against volatility while still offering the potential for returns above cash. With that in mind, we would look at equity income, multi-asset and corporate bond funds.

One defensive equity income fund that we highly rate is Neil Woodford's Invesco Perpetual high income. Woodford has managed to provide a safe haven in times of volatility while still delivering impressive returns.

On the corporate bond front, we like Henderson Strategic bond fund manager John Pattullo. He has managed the fund impressively in a difficult last year and is always willing to look outside the investment grade.

The other type of fund that we would like to recommend are multi-asset vehicles. These funds are relatively new on the scene and offer an investor true diversification by moving outside the traditional asset class mix of cash, bonds and equities, as, in addition, they offer exposure to private equity, fund of hedge funds, commodities and property.

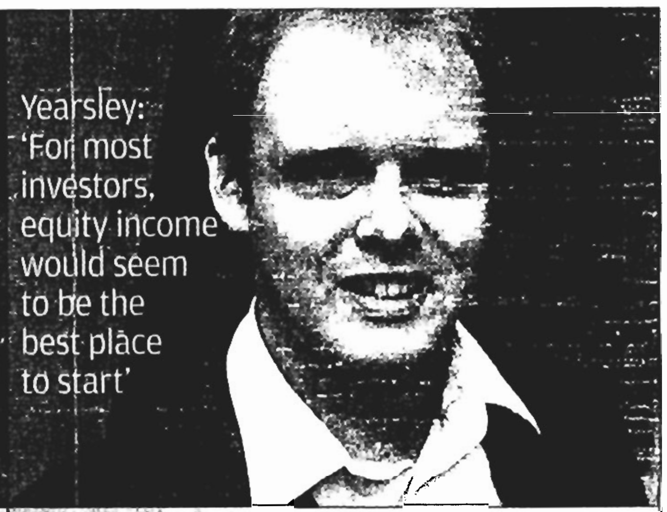
Of this new breed of funds, we like the Newton Phoenix and Insight DTR.

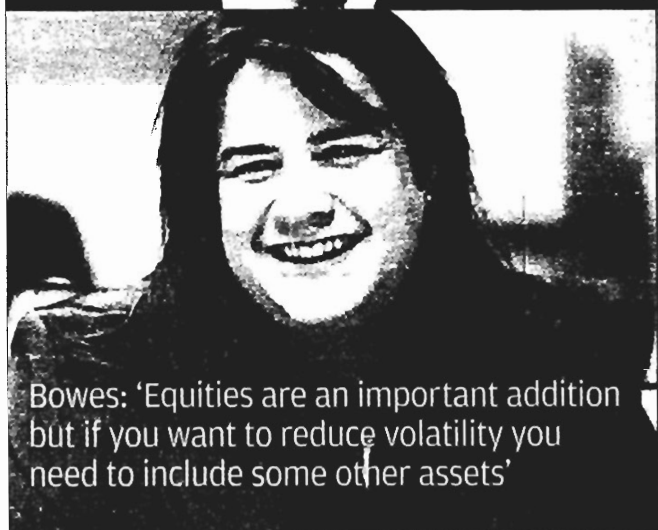
BEN YEARSLEY
INVESTMENT MANAGER
HARGREAVES LANSDOWN

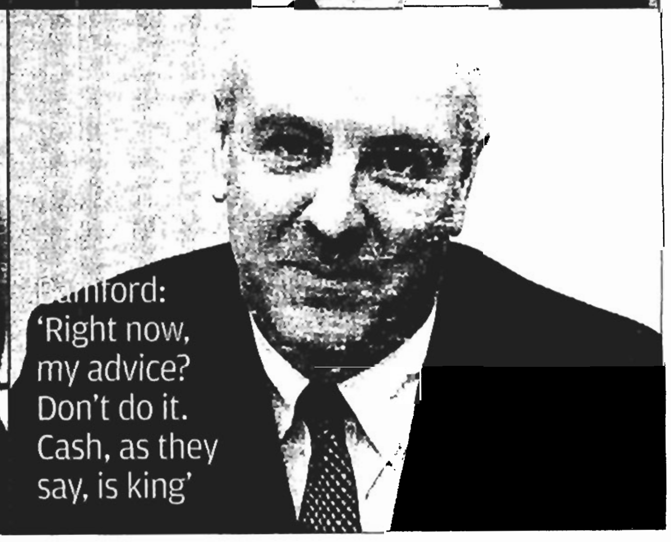
The first thing to point out is that investors should only do this if they have rainy day money or emergency funds elsewhere. As with all investments, you have to ensure the client has a balanced portfolio. For most investors, equity income would seem to be the best place to start if they have not got many other equity investments. Investing mainly in UK, profitable, dividend-paying companies can be a good core of a portfolio.

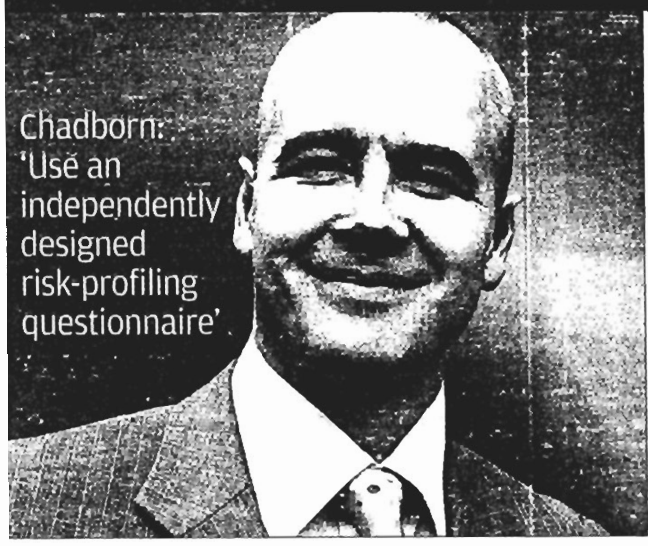
Although not called absolute return funds, some portfolios such as Invesco Perpetual's high income are run on a similar basis. If a client wants a proper absolute return fund, the BlackRock UK absolute alpha may be the one to suggest. Cash is obviously an absolute return product as it cannot go down in value. Although this fund can go down, it aims to make a positive return each month regardless of the direction of the stockmarket.

I would not try to replace cash directly as there really is not a fund that can do that. But for clients looking for more stability, the Artemis strategic bond fund could be a suitable choice. Its manager, James Foster, is one of the best in the market and can move the portfolio around and take advantage of market conditions.









ANNA BOWES
INVESTMENT MANAGER
AWD CHASE DE VERE

Invest the money into a balanced portfolio. Exactly what you choose will depend on what you are trying to achieve, over what term and at what risk.

Sadly, the mistake that many make is to react to short-term market conditions, thereby often investing into areas that have recently done very well and shying away from the less successful. This can lead to buying high and selling low.

As a client will be unable to switch back into a cash Isa, it is always advisable to keep some emergency funds in cash, this may as well be in a tax-free account, so perhaps do not switch it all.

Equities are an important addition for long-term capital growth but if you want to reduce the volatility of the portfolio, you also need to include some other assets, such as commercial property and fixed interest.

You can either build a portfolio, choosing appropriate funds or even choose a multi-asset fund, certainly as a core holding, to give your client discretionary management within all the asset classes mentioned and more.

NICK BAMFORD
MANAGING DIRECTOR
INFORMED CHOICE

At this time of equity market volatility, we find ourselves caught between a rock and a hard place.

On the one hand, we feel secure with cash and interest rates look reasonably attractive. On the other hand, if you are going to invest for the long term, then equities seem to make better sense than cash so why not buy now while share prices are relatively cheap?

But what about interest rates? Many commentators believe they will be cut and our cash deposits will then seem less attractive.

To transfer a client's cash Isa to an equity Isa will depend entirely upon their investment goals and objectives. If they are short term and you take a cautious view, do not let them be seduced by the prospect of long-term equity returns.

If your client's investment goals are longer term, say five years or more, and they can tolerate the volatility of equity markets, then the ability to transfer a cash Isa into an equity Isa will represent an opportunity to get actively invested.

But right now, my advice? Do not do it. Cash, as they say, is king.

PETER CHADBORN
PRINCIPAL
CBK COLCHESTER

You must first establish the client's understanding that equity-based investment must be viewed as medium to long term (at least five years), followed by the provision of cash reserves for emergencies and known short-term expenditure.

The establishment of the client's attitude to risk, or more accurately their tolerance of volatility, is crucial because investment risk means different things to different people.

Use an independently designed risk-profiling questionnaire and include factors such as age, overall wealth, other investments strategies, investment experience and timescales.

Assuming a medium-risk profile and a timescale of between 10 and 15 years, we recommend the following split in a portfolio – 20 per cent in UK fixed interest, we like the Invesco Perpetual corporate bond and Artemis high income.

We would split 15 per cent evenly between Gartmore cautious managed, JP Morgan natural resources and First State Asia Pacific leaders and put 15 per cent in M&G managed growth.

Around 10 per cent would be invested in the Norwich property trust, another 10 per cent in Artemis European and the remaining 30 per cent would be split evenly between M&G recovery and Invesco Perpetual high income.