thisismoney.co.uk
Financial website of the year

email GO

Investing

Experts pick their top equity Isas

Philip Scott, This is Money
14 February 2008
Chat | Vote | Calculate

It is official - the start of 2008 now represents one of the most dismal beginnings to a year since stock market records began. Across the globe an astonishing £2.7 trillion ($5 trillion) was eroded from the value of shares during January.

The FTSE 100 index of the UK's largest firms shed no less than £77bn during the course of just one trading day, on January 21. And the bad news has kept coming - AIG, the world's biggest insurer cut the value of some of its contracts by $5bn, as a result its shares plummeted by 12% - costing the company a hefty $15bn.

'For investors it has been an absolutely dismal start to the year, - understandably many are running scared' says Justin Urquhart Stuart of Seven Investment Management.

The **G7** group of leading industrial nations said losses from the US subprime fallout could top $400bn but some economists believe the cost could be substantially higher. The situation does not bode well for the run up to the end of the fiscal year or indeed the '**Isa** season'.

Since the most recent **bear market** ended in March 2003, the Isa season has been regaining its legs but unsurprisingly activity is expected to pull back this year.

But Urquhart Stuart points out that although he anticipates this year's Isa season to be akin to the 'damp squib' that was summer 2007 he believes there is still reason to invest.

'Stocks and shares are cheaper and although, it may be a little late in the day for this year's Isa season run-up - drip feeding your money into the stock market as opposed to putting down a lump sum is the best way forward for now.'

Of course potential investors should remember that they can put their allowance into a stocks and shares Isa and hold it in cash for up to six months before they have to invest it.

For the benefit of those willing to dip into the market, we asked four independent financial advisers where they think investors – novice, intermediate and those willing to take a risk - should put their cash this year.

FOR THE NOVICE:

Alliance & Leicester Direct Isa Issue

The markets make any investment timing decision difficult and cash Isa rates remain very attractive, even in light of falling interest rates. Martin Bamford of Informed Choice recommends the Alliance & Leicester Direct Isa Issue 4, which is offering 6.25% but this includes a 1% bonus which ends on 31 May 2009.

Invesco Perpetual High Income

Invesco Perpetual High Income occupies the core of many a UK investor's investment portfolio. Its manager Neil Woodford has a stellar long-term track record.

Since its launch in March 1988 to February 11 2008, it has massively outperformed against its peers, achieving a return of 1,330% against an average of 489%, according to fund analyst Morningstar. Over the past five years it has returned 143% against an average of 92% and is the recommendation from Ben Yearsley of Hargreaves Lansdown for first-time investors.

He says: 'Woodford who altogether runs a massive £20m of Invesco's funds has been through a variety of economic cycles and has come through them all. He has his funds positioned quite defensively in such sectors as tobacco and utility stocks. Although his funds have fallen year to date, they have done by only about 4% compared to the FTSE 100 which has dropped by some 11%.'

Gartmore Cautious Managed

Tim Ames, of Cathedral Financial Planning rates the Gartmore Cautious Managed fund. It provides some exposure to the equity market but as it is a managed fund, the equity proportion is limited to 60% of the fund value and a degree of stability is achieved through investment in bonds.

Ames says: 'I like this fund because it has the flexibility to conservatively adjust the balance between bonds and **equities** to reflect changing market conditions.' Over the past five years the portfolio has delivered a return of 56% to investors against an average of 54%.

Jupiter Merlin Balanced

A fund of funds, Jupiter Merlin Balanced is CBK Colchester's Peter Chadborn's novice pick. The fund is unfettered, so it is not restricted to just Jupiter products – and as it is well diversified Chadborn believes it is suitable for investors who prefer to invest the majority of their assets in the UK but want to add an element of overseas exposure to their investments. Over the past five years it has achieved growth of 92% against a sector mean of 78%.

He says: 'The funds held in the Jupiter Merlin Balanced Portfolio invest in international equities, fixed interest stocks, commodities and property. It is more expensive than a single fund but its manager has an excellent track record.'

Arm yourself for the market storm

Our latest stock market analysis and investment advice:


• Analysis: FTSE 100 'set to fall 40%'
• Analysis: Where next for the FTSE 100?

- [Advice: How to weather stock market storm]
- [Advice: Expert fund tips for 2008]
- **[A round-up of stock market forecasts]**

FOR THE EXPERIENCED

L&G UK Index Trust

Experts say when you have a bit more experience of investing money you should be making more active investment decisions to control the level of risk within your Isa portfolio.

Bamford recommends going for single asset class funds, such as UK Equity or Fixed Interest funds, and blend these together to get the best overall portfolio for your objectives. Bamford says: 'In order to keep costs down pick tracker funds such as the L&G UK Index Trust. Exposure to the asset class is important in the long term than any results from active fund management, so it pays to keep costs down and use tracker funds like this.'

Blackrock UK Absolute Alpha

This is a fund that has held up against market falls this year. Managed by Mark Lyttleton since its launch in April 2005, its aim is to deliver positive returns to investors no matter what direction the market is heading. Yearsley likes the fund because it can be viewed as a good core safe haven fund.

He says: 'In January, when the FTSE 100 dropped by almost 9% and the average UK growth fund was down by about the same, this fund delivered a positive return of 1.25%.' The manager uses a technique known as 'going short' where he can bet on shares he believes are going to fall in value to help boost his returns. Since its launch almost three years ago it has posted growth of 36%, the FTSE 100 over the same period achieved 32%

Newton Global Higher Income

Tim Ames's intermediate pick is the Newton Global Higher Income fund. This fund invests in larger companies across the globe and out of favour cyclical stocks with a long term investment horizon.

Since its launch December 2005 it has grown by 34%, against an average sector return of 12%. He says: 'The manager pays close attention to the forces for change in the global economy in order to ensure his holdings are relevant to the economic climate.'

M&G Managed Growth

M&G Managed Growth, a fettered fund of funds, meaning that it just invests in just M&G products is Peter Chadborns pick. The £918m fund is managed by Graham French and among the managers who run the portfolio's underlying funds are European specialists, smaller companies experts and technology investors.

One of the fund's largest positions is the M&G Global Basics fund which has partly driven performance as a result of a rally in metal prices. Over the past five years it has, significantly outperformed against its peers - achieving a return of 152% against a sector average of 103%.

Chadborn says: 'By spreading an investor's money across some of M&G's best performing equity funds; the fund has delivered some decent returns while keeping risk low.'

Easy ways to invest


• How to invest in oil prices
• How to invest in gold
• How to invest in China
• How to invest in Africa
• How to invest in India
• How to invest in food prices
• How to invest in emerging markets

…AND FOR THE RISK TAKER

First State Asian Property Securities

For the more experienced risk taker there are a number of opportunities for Isa contributions this year. Experts recommend investors pick a specific region or sector where they might benefit from the additional risk involved.

One possibility for those who can stomach it - is to invest in the commercial property sector. Bamford says: 'This has had a tough few months with big falls in value towards the end of last year and more recently the introduction of notice periods on withdrawals for some funds.

'Some investors are seeing this as a buying opportunity and the fundamentals of investing in commercial property remain sound over the longer term. Experts are far more positive in regards to overseas commercial property.'

The First State Asian Property Securities fund, Bamford's choice, was only launched in September 2006 but is already showing some potential. It combines the two currently higher risk themes of Far East investments and commercial property. Since launch it has delivered 13% against a sector mean of 8%.

Neptune Russia & Greater Russia

For those willing to risk their cash for the chance of very high returns, Yearsley recommends the Neptune Russia & Greater Russia. The manager is very bullish about the market there and around 25% of the fund is invested in energy stocks but this is small relative to the market where this sector accounts for around 50%.

The manager is also looking to benefit from investing in stocks that will benefit from increased consumer spending and financial stocks. Since its launch in January 2005, the fund has returned 217% against a sector average of 67%.

Yearsley says: 'Today Russia has a much bigger and growing consumer base and a huge amount of foreign reserves. The chief risk is political instability - this is an emerging market and there will be volatility. The question is whether the risks are worth taking and we believe they are.'

JPMorgan Natural Resources

Chadborn rates the JPMorgan Natural Resources portfolio, which chiefly invests in hard commodities such as uranium but its manager, Ian Henderson, also has exposure to 'softs' too, such as palm oil, which is used for cooking and as a source for alternative fuel.

Investors in the fund have enjoyed a return of 437% over the past five years and they are hoping the portfolio will continue to do well as a result of strong demand for commodities in Asia, particularly in the booming economies of China and India.

Allianz RCM BRIC Stars

Emerging markets continue to be a popular theme so Bric (Brazil, Russia, India and China) funds will be attractive for risk takers. The Allianz RCM Bric fund offers exposure to all four of these **emerging markets** but can also invest up to one third of the fund assets in other regions.

Ames says: 'Investing primarily in the emerging markets of Brazil, Russia, China and India, this fund can also use **derivatives** for efficient portfolio management, as well as cash or money market securities.'

Since launch in February 2006 it has delivered a return of 73%, against a sector average of 29%. Ames adds: 'Using a proprietary global research network, the fund is managed to maximise opportunities in the fastest growing economies.'