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The Isas have it

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The panel say we should keep Isas and consider if the RDR spells the end for balanced and cautious managed funds

The Institute for Public Policy Research has called for Isas to be scrapped as the only people using them are the wealthy who save anyway. Do you agree Isas should be replaced with an alternative structure, perhaps using some form of cash-matching, to encourage lower earners to save?

Norton: I agree it is not the very poorest who are saving into Isas but a broad cross-section of society are using them and because of that they should be kept.
The other point is that they are quite simple. I think there was something in the IPPR report that said Isas are complicated, which is a fallacy. The public like Isas and are happy to save into Isas whereas there seems to be a distrust of pensions.

Broadly speaking, I do not agree with the report but something does need to be done to make it easier for the poorest in society to save.

McDermott: I think the argument is nonsense. It is clear that since the tax incentives were decreased from a Pep to an Isa, less people are buying Isas than bought Peps. The tax incentives, however small, are absolutely key to encouraging those who can save to save, rather than wasting money on encouraging those who cannot afford to save.

Of course I would say this as we sell Isas but I could not agree with the IPPR less.

We have seen this argument over the last decade and the Labour Government had a strong look at it. But I would suggest that without any form of tax incentive to a savings plan, you would see a huge decrease in saving.

Chadborn: Isas work as a catalyst for broader financial planning discussions. That there are benefits to be had from Isas is something even financially uneducated people are aware of. With interest rates so low, the tax-efficiency of Isas is enough to motivate even people looking at just cash Isas to do something.

The Isa conversation is a catalyst to talk about broader financial planning and, for that reason alone, I would not want to see it changed.

What does the Glencore initial public offering say about the demand for commodities?

Norton: It says there is a lot of demand out there. Glencore has been a massively successful business on the back of a commodities boom but it does not really tell us if the boom will end in a month's time, a year's time or 10 years' time. I do not think we should read anything into it all about the future of the commodities market.

McDermott: There is a little bit of scepticism here, which I can fully understand. Glencore is more like an investment bank that trades commodities. It can make money out of commodities whichever way the market goes.

I believe Glencore's senior management have all signed long-term deals not to leave and they can not sell their shares for five years, so I would suggest they do not think it is the end of the commodities boom and that is not why they are doing it.

We have seen in the last few days that commodities are a volatile asset class. They are all about supply and demand and if you have got something and more people want it, you can charge more for it.

I think the oil price is likely to stay above $80. Gold has obviously had a good run but could still go higher.

Chadborn: The outlook still looks good for commodities. I do not necessarily subscribe to the view that it is a bubble about to burst. Everyone said that about gold a year ago and look what happened.

We are more interested in how commodities add diversification to a portfolio rather than get the timing of a market right. We do not see our job as trying to catch a wave or determine whether now is the right time to be in or out. It is about building balanced portfolios and I like commodities for that reason.

Fund manager OPM recently said balanced and cautious managed funds are doomed by the retail distribution review due to a need for IFAs to construct a portfolio of investments to justify their advice or outsource the investment decision-making. Do you agree that cautious and balanced managed funds are on the way out?

Norton: We do not buy them but this sounds a bit like a fund manager trying to boost their own book. I would not read anything into that comment whatsoever.

McDermott: IFAs are already outsourcing their investment decisions, it is called multi-managing. Multi-managers or multi-managed products dominate the cautious managed sector.

I do not think this will be the demise of cautious managed. We will probably see some changes to the cautious managed sector come out of the IMA review but I would like to see the outcome of that before calling the long-term demise of the sector.

Chadborn: Not at all. I agree that IFAs are going to have to prove their worth more and position themselves either as investment managers or outsource. However, a degree of outsourcing could be seen to be using a cautious managed or balanced managed fund, particularly if it is a multi-manager approach. After the RDR, advisers will have to explain more clearly the ongoing service they provide to their clients.

Unless the client has sufficient knowledge to engage in an investment planning discussion, we are adding no value in building and managing portfolios internally. The answer will either be a simple balanced managed or cautious managed fund for lower value investors or it will be outsourcing for higher values. In a nutshell, there is a still a part for such funds to play.

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