Investment Solutions

ISA Tips – 50 Ways to become a Better Investor

1. Don't know what to Buy? Put it in cash for the moment

If you don't know which investments to buy, you can hold your money in cash within an Investment ISA and choose funds at your leisure (although interest will be poor or non-existent).

2. Don't ignore Investment Trusts

Investment trusts are generally cheaper and often produce superior long term performance.

3. Sell your Winners and "rebalance"

When certain investments have performed well, they will automatically represent a larger proportion of your ISA, but this can leave your portfolio unbalanced and potentially more risky. It is prudent to bank profits and to rebalance your portfolio.

4. Buy an Investment Trust on a discount

One way to be a contrarian is to invest in out-of-favour investment trusts. These are the ones whose share prices lack the value of the underlying assets, creating a discount.

5. Reinvest your Dividends (unless you need the income)

Following this rule will make a big difference to the growth of your investments over the long term, thanks to the effects of compounding.

According to A J Bell, the Fund Shop, which based its figures on the UK Stock Market's historic 30-year average capital gain of 6.8% and 3.6% dividend yield, £1,000 would be worth £19,457 in nominal terms in 3 decades' time if dividends were reinvested.

6. Buy the fewest Funds you can

Buying too many funds can mean that holdings overlap, or that you end up replicating the market across your portfolio, which can be done more cheaply through a tracker. 20 funds for most people are more than adequate.

If you don't want to be let down by a Fund Manager, buy a tracker fund.

If it is your belief that Fund Managers do not beat the Market consistently, a tracker fund aims to mirror the performance of a particular Stock Market Index.

7. Avoid fad Investments

Be wary of funds which claim to be offering something new or different – many have come, shone briefly and then disappeared in recent decades.

8. Don't ignore smaller Firms

It may feel safer backing familiar names, but over time it is the shares in smaller firms which tend to produce superior performance.

9. Don't invest in something you do not understand

From complicated With-Profits funds, (think of Equitable Life) to risky, leveraged investment funds (split-capital Investment Trusts), many complex schemes end in tears. Only invest in something that you can readily understand.

10. Your circumstances will change – so should your Portfolio

Your circumstances and aims will change over time; make sure your portfolio reflects this.

For example, if you want to retire in 10 years and your investments seem likely to fall short of what you'll need for retirement, you may need to switch to investments which offer the prospect of high growth – although you will also need to be comfortable with the extra risk.

11. Diversify

"Don't put all your eggs in one basket" is a cardinal rule of investing. Spreading your investments in different assets helps reduce risk.

12. Have specific Investment Goals

Knowing how long you're saving for and how much you need dictates how much risk you take and the funds you should choose.

13. Understand that High Risk comes at a price

Certain investments, such as Emerging Market Funds, offer potentially higher returns, but the trade-off is that your capital is more at risk. Make sure you are comfortable with the risk you are taking.

14. Specialist Funds – limit your exposure

There are various specialist funds from Biotech to Gold. They are extremely volatile. Limit your exposure to, say, 5% to 10% of an ISA.

15. Don't disregard Pensions

The boost from the taxman to pension contributions for higher-rate tax payers often makes a pension a better option than an ISA.

16. Remember the Basic Rules

ISAs are individual and cannot be held jointly with a spouse, for example. They are also for UK residents only. You are still limited to opening just one Cash ISA and one Stocks & Shares ISA in each tax year, despite the recent liberalisation of ISA rules.

17. Be fearful when others are greedy… and greedy when others are fearful

Warren Buffett's rule – he views Stock Market falls as the chance to buy investments more cheaply.

18. Build a Cash Buffer

Another tip from Mr Buffett is to build a cash buffer of, say, 5% of an ISA, so you have money ready to invest when assets become cheaper.

19. Remember your old ISAs

When shopping around for the best rate for this year's Cash ISA, don't forget to switch those that you took out in previous years.

20. The Junior ISA trick

Children aged 16 can hold both a Junior ISA and an adult ISA for 2 years. That means a total tax-free allowance of £48,160.

21. Sell Dud Funds

There are 3,000 or more funds to choose from, but probably only about 150 which are worth considering, because so many Fund Managers fail to beat the Stock Market and peers consistently.

In some cases, this is because the funds, although labelled as "actively managed", are effectively trackers.

22. Be sceptical about Funds sold by Banks

Funds run by High Street Banks and Building Societies are often mediocre. Check performance and be ready to switch.

23. Do not follow the Herd

In the race to make use of the ISA allowance before the tax year ends, investors sometimes rush their decisions and simply choose popular funds at the top of the performance charts.

But outstanding short-term performance should be viewed as a warning sign, rather than an invitation to buy - "contrarian" investors deliberately avoid what others are buying.

24. Know the Rules about "Peer to Peer" funding" and "P2P" ISAs

Innovative finance ISAs were introduced in April 2016 and attracted attention as a tax-free route into the P2P lending market. P2Ps are not protected by the Financial Services Compensation Scheme.

25. Remember the Key Points about Peer to Peer Loans

The main advantage is to cut out the Banks by offering better rates than Cash ISAs, but there are risks.

26. Don't obsess over short-term Performance

Logging on to check your portfolio every day can be a bad sign, increasing the temptation to tinker. A considered, dispassionate review every 6 months, say, is a far better idea.

27. Go Global

One way to diversify your holdings is to invest around the world via global or regional funds, which may include trackers.

28. Don't assume that fast-growing Economies are automatic Winners

There are no guarantees that a country's Stock Market will climb in step with a strongly growing economy.

29. Don't forget Cash ISA restrictions

Fixed-rate Cash ISAs tend to have penalties for early withdrawal.

30. ISA Money doesn't have to stay in an ISA forever

One clever way to benefit from tax relief is to save in ISAs whilst you are a basic-rate tax payer, then switch the money to a pension when you start paying the higher rate.
The money you switch will get a bigger uplift from tax relief than if you had saved in a pension sooner.

31. Be careful about "synthetic exchange-traded funds"…

An exchange-traded fund or ETF is basically a tracker fund which is traded like a share. One type, "synthetic ETFs" do not own the shares or assets they track, instead buying complex "derivatives" designed to mimic price movements. This can leave investors exposed if the investment bank behind the derivatives runs into difficulties.

32. …. but do not ignore ETFS altogether

They can be cheaper than conventional tracker funds – especially when it comes to the fund shop's custody charge.

33. Consider "Clever Trackers"

A new breed of tracker fund that incorporates selection criteria, but applies them automatically (and therefore cheaply) is growing in popularity and worth considering. Some aim to pay a high level of income.

34. Not all Tracker Funds are cheap…

Some tracker funds cost 0.1pc a year or less, but some charge 10 times more, such as the Virgin UK Index Tracker Fund…

35. But cheap is not always best

In theory, the lower the tracker fund charge, the more closely the fund's returns will match those of the Index it is trying to replicate.
But this is not always the case, as some trackers cut corners in the replication process.

36. Don't write off Ethical Investments

"Ethical" funds are often avoided on the grounds of sub-standard performance, but there are some good funds and an increasing range available on offer.

37. The basics … keep some money aside for emergencies

Everyone should have some "rainy day" money for emergencies, which should be held in instant-access Cash ISAs or savings accounts.

38. Dividend Tax Changes

From April 6th, basic rate tax payers now pay 7.5% tax on dividend income of more than £5,000 per year (higher-rate tax payers will pay more). This arguably makes sheltering taxable investments in ISAs more important.

39. Inheritable ISAs

ISAs can now be passed on to a surviving spouse on your death and retain the tax-free status.

40. Stay the Course – you could become an ISA millionaire

There are estimated to be a few hundred ISA millionaires, which shows what can be achieved through patience and good investment decisions.

41. Don't confuse retail bonds with mini-bonds.

Retail Bonds, which are listed on the Stock Exchange, can be held in an ISA, but "mini-bonds" which are not listed are generally more risky cannot.

42. Use ISAs in conjunction with CGT allowances

If you have too many investments to hold in an ISA, choose those which will benefit most from the tax-exemption. Funds which aim for capital growth, for example, could be sold outside an ISA and incur no tax liability, thanks to the annual Capital Gains Tax allowance. The dividend allowance will complicate the picture, however.

43. "Absolute Return" funds can lose money

Fund Managers have tried to create a middle ground between shares and cash by launching "absolute return" funds. The aim is to make a positive return regardless of what happens to the Stock Market, but over the years some of these funds have failed to meet expectations.

44. Inheritance Tax Trick : spend ISA money before raiding your pension pot

Wealthy pensioners should consider leaving their pensions invested and take an income from ISAs and other savings to minimise their Inheritance Tax liability, as pensions fall outside your estate.

45. Be aware of using the new personal savings allowance instead of an ISA

There is no guarantee of long-term protection and cash in an ISA can be switched to other assets later whilst retaining tax-exemption.

46. Consider consolidating your investment ISAs into one

By using one company to handle all of your ISA holdings, including different funds or shares, all of your investments will be in one place, making them much easier to monitor.

47. Make use of your Spouse's ISA allowance (if they don't)

It could save you tax if one spouse gives assets to the other in order for both of their ISA allowances to be used to the full. There is no tax on such transfers between spouses.

48. Consider specialist Fund management firms

Most fund management companies try to be jacks of all trades. But a small number specialise in one area, such as bonds, or emerging markets, and tend to produce superior performance.

49. View Fund promises with pinch of salt

Some funds put a figure on how much they expect to make over a certain period. There are no guarantees that these aims will be met.

50. Seeking advice from an Independent Firm of Financial Advisers

…………… such as Investment Solutions!