

## **Why it's good to invest while markets are volatile**

With markets and investment performances being volatile in recent months, naturally this leads to concerns for those with investments or who or thinking of investing. The current global uncertainty especially with the Eurozone crisis is causing large swings in investment values, however when markets are low this usually represents good opportunities. Everyone is aware of the concept of buying low and selling high. In reality people actually do the opposite as they try to time the market which is dangerous game. Having your money invested regularly in volatile times will generally lead to better performance and returns on your money.

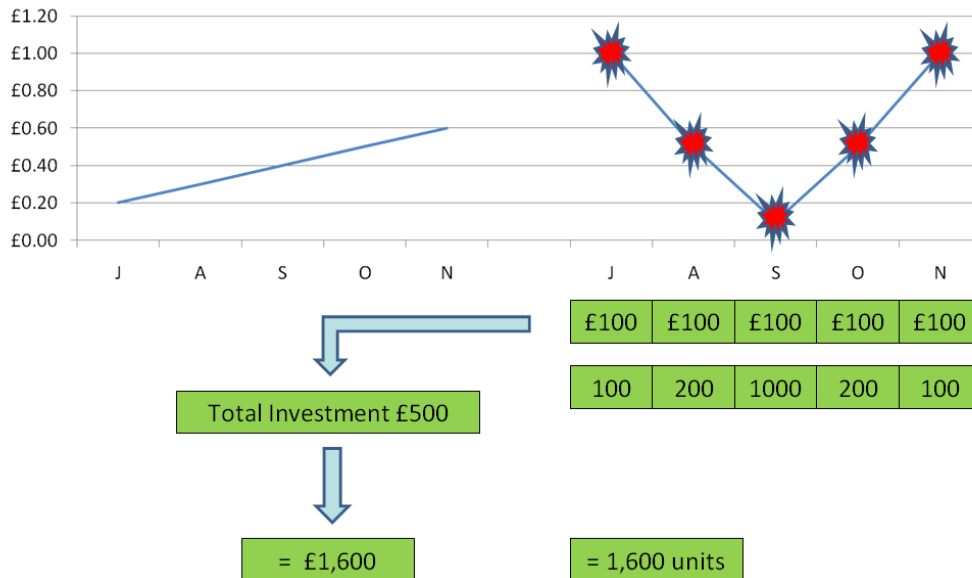
Investors who are nervous about timing their investment can make regular contributions to their asset growth in smaller tranches over a period of time. Regular savers, including those investing into managed funds with regular contributions are set to reap long-term rewards. This can be especially effective when markets are at a turning point.

“Buying the U” describes the process of feeding money slowly into the market while it is still falling, through the bottom and up the other side as the market recovers. Monthly investments offer a way to benefit no matter how the markets are performing: If investment prices go up, what you already own will increase in value. If prices go down, your next payment will buy more units.

Such an approach can go a little way to eliminate the anxiety of timing lump sum investments, can smooth the highs and lows of the market and even improve an investor's eventual outcome. The regular investor finishes the period with an investment that is worth more than if the entire amount was invested at the outset, even though the units are the same price at the end of the period as they were at the beginning. This is called pound cost averaging.

***The value of the investment can go down as well as up and you may not get back as much as you put in.***

## Pound / Cost Averaging



In this example, we assume investing £100pm over 5 months, one with the value gradually going up, and the other with there being a dip and recovery in the value. The first illustration on the left would accrue units each month at  $500 + 333 + 250 + 200 + 167 = 1,450$  units. As you can see when there is a dip, in the second example this totals 1,600 units.

The overall important factor when it comes to investing is timeframe. If you are investing in equity based portfolios your minimum timeframe should be 5 years. Reason is that if there is a large drop in value at some point during that time, this should give your investment time to recover and provide a competitive return. It must be understood that investment returns are not guaranteed and values can fluctuate. If the investment is at a loss at some point, this is only what is called a paper loss, because this is the value on paper. You only realise your losses or gains if you cash in the investment at this point in time. So it is sensible to understand not to worry too much if values are down, but also not get too carried away if the value is significantly high.

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## **Investing in an ISA (Individual Savings Account)**

There are 2 types of these: Cash ISA's and Equity ISA's.

### **Cash ISA**

Effectively a cash savings account, but you do not pay tax on the interest rate. So if the rate is 3% that is what you get. In a normal savings account, if you were a basic rate tax payer, you would lose 20% of that interest rate, meaning you receive a rate of 2.4%. If you are a higher rate tax payer, you lose another 20%, so the rate would then be 1.8%. The maximum you can pay into a Cash ISA is £5,340, but this is increasing to £5,640 from 6<sup>th</sup> April 2012.

### **Equity ISA**

This is invested in assets such as fixed interest funds (corporate bonds and gilts), commercial property funds, stocks and shares and cash. These should be for a minimum of 5 years in case there are any large drops in market values. ISA's are tax efficient because you have no capital gains or income tax to pay, so keeping more money in your pocket rather than the tax man's.

The total ISA allowance for the current tax year is £10,680. Half of this you can put in cash, and the remaining £5,340 into an equity ISA. However if you did not need any in a cash ISA you could put the full £10,680 into an equity ISA. This will increase to a total allowance of £11,280 from 6<sup>th</sup> April 2012.

With the end of the tax year fast approaching any money not working hard in the bank should be considered for ISA's, depending on personal plans and circumstances. Once the tax year has finished, you can not make contributions for the previous tax year, only the one we are in at that point in time. It is important to make sure that you get what is specifically suited to you so speaking to a qualified adviser is the best approach, mainly to make sure the correct investment portfolio is being created around you as an individual.

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