Better returns mean taking risks

PHOTOGRAPH: JAMES GALLOWAY

Savings rates are at rock bottom – but be careful where else you put your cash. By Simon Bain

INFLATION has crept back up to 2.9%, while the new Bank of England governor, Mark Carney, has signalled that interest rates will not be rising any time soon. That means a continuing conundrum for anyone trying to put money away and make any real return on it.

Since the Government's Funding for Lending scheme was launched a year ago, giving banks access to cheaper money, the top savings rates in the market have halved from 3.25% to 1.6%. Almost 800 savings products have had their rates cut, and even the best payers a year ago will now be losing the temporary bonus, often accounting for three-quarters of the introductory rate which attracted savers. The loss of this may now be prompting them to look for a better deal.

Skipton Building Society's new seven-year fixed-rate bond pays 3.5%, and is available at its branches for deposits between £500 and £10,000. But Susan Hannums, director at Savingschampion.co.uk said: "On the face of it the rate is good news, but you need to be comfortable investing for the whole term and a lot could change in that time."

The latest fixed-rate bonds from Bank of Scotland pay 2.25% over four years and 2.35% for five years, putting them "in the top half" of product rankings, according to Moneyfacts. The new Lloyds TSB variable rate two-year tracker, at 1.55%, is "in the bottom half".

Even the best-paying five-year cash Isas, from Shawbrook Bank (2.9%) and Virgin Money (2.75%) fail to beat inflation. For easy access, Nationwide's 1.7% for its own internet customers, with five withdrawals a year, is about as good as it gets.

People who saw the Co-operative Group as a low-risk way of bagging returns of between 5.5% and 13% on its bank's bond-like permanent shares have found out the hard way that they had no investor protection – they have seen interest payments suspended and are threatened with losing 40% of their capital.

A safer option is retail bonds issued by big, solid firms such as Tesco, which are listed on the stock exchange, making them easily tradeable. But such attractive bets arrive rarely and sell out quickly.

This year has seen the launch of a slew of riskier, unlisted bonds by organisations and charities looking to raise money from rate-squeezed savers. Nuffield Health, the UK's biggest not-for-profit hospitals and health clubs group, offered 6%, while Golden Lane Housing, part of Mencap, was offering 4% in the biggest-ever charity bond issue, fronted by ethical bank Triodos.

Jason Hollands, managing director at adviser Bestinvest, said: "Individual retail bonds are not covered by the Financial Services Compensation Scheme, so in the event that the issuer goes bust you could lose your money. And unlike a savings account, the interest on the bond may be fixed but the price of the bond itself may fluctuate, so if you need to sell your investment prior to its maturity, you may not get back the capital you invested."

Hollands added that where bonds are unlisted it may be difficult to sell at all. "While headline yields may be relatively gobsmacking, a general rule of thumb should be that the higher the income on offer, the more risky the bond may be."

Adrian Lowcock at broker Hargreaves Lansdown suggests instead using funds which invest in a variety of bonds and letting expert managers judge the risks in a diversified portfolio. His recommendations include Jupiter Strategic Bond Fund, with an historic yield of 5.4%, currently invested largely in higher risk, high-yielding corporate bonds in more defensive sectors. Then there are equity income funds, where managers look for companies able to pay good dividends, such as JO Hambro UK Equity Income paying 4.2% or Newton Global Higher Income paying 3.9%.

Last week, the Government announced that, from August 5, investors can hold Alternative Investment Market (Aim) shares in their Isas. But Patrick Connolly at Chase De Vere warned: "Investing in Aim shares is only suitable for wealthier individuals who are prepared to accept the high risks involved, and even then only for a small proportion of their overall investment portfolio."

A newer option is social lending, where you lend money to individuals or businesses through sites such as Zopa, offering typically 4.8% over five years, or Ratesetter (4% over three years), and crowdfunding platforms such as Seedrs which enable you to invest in start-up businesses. There is a risk of defaults, and returns are not predictable, though the big sites do now put minimum guarantees in place.

For wealthy investors with cash to spare, the top three investments are gold, classic cars and fine wine. The Wine Investment Fund recently reported its tenth anniversary with total growth of 133% – 9.1% a year. Gold has just staged a weak rally after crashing by 30% since the start of 2013, while gold mining shares are down 46% and could be seen as ripe for buying.

But before looking for exotic alternatives, ordinary savers with a mortgage should remember that paying down their mortgage (or credit card debt) is usually the most cost-effective use of spare cash that won't be needed elsewhere.

CASE STUDY

Scottish landscape artist Scott Naismith used to trade shares regularly, and has a portfolio with some shares showing a paper loss. In current market conditions, he is happy to funnel his savings into something a little safer for now. He opened his first cash Isa with Northern Rock in around 2000 and has maintained it with new owner Virgin Money, but now he has to renew it. "I have been getting around 3.8% but I don't think it will be that this year, I am expecting more like 2.8%," he says. "When you are a self-employed artist, the risk is you won't sell a painting for a couple of months, so the idea is to have something like this in place, and I can top up the Isa."

John Phelps's portfolio

WE celebrated another good week for our share tips by making additional nominal purchases of shares in Barclays and satellite communications group Avanti at our Wednesday review of progress.

Barclays has already enjoyed a good run, but we believe the shares have further to go as investors look forward to its next trading update on July 29 and welcome reports that it should be able to build up its balance sheet without tapping shareholders for fresh funds.

Adding to interest is last week's appointment of Wall Street star Tushar Morzaria as the bank's finance director, a move which boosts hopes that Barclays can start to draw a line under past scandals.

We sold a previous holding in Avanti at a healthy profit under our stop/loss system just before the group issued a profit warning earlier this month and could not resist the opportunity to re-invest with the shares down a further 100p.

The price appears to have stabilised at current levels and we are encouraged by recent buying by directors, as well as reports of fresh orders from major customers including Vodafone and CNN.

We have set our usual stop/loss targets some 10% below current share prices at which we advise shareholders to consider selling if the shares should go into reverse.

The majority of our more recent tips, including Wood Group, Greggs, Legal & General, Fuller Smith & Turner and F&C Asset Management, enjoyed good trading last week although John Menzies suffered a bout of jitters ahead of its results, due early next month.

Three out of four portfolios increased their valuations over the week: the 2011 and 2010 selections both added around 1.5%; and the 2013 list hit another record high with a smaller rise. However, the 2012 portfolio slipped 1%.

2013 PORTFOLIO

INITIAL £6000 INVESTED

2013	Start	Recent	Value	Stop/loss
Galliford	744p	995p	£1337.36	900p
Grainger	117.2p	169.7p	£1447.95	152p
Stagecoach	312p	325.2p	£1042.30	300p
Iomart	200p	265.2p	£1326.00	233p
F&C Asset	95.5p	98.8p	£1034.55	88p

Total Value: £7188.16. Net Cash: £242.98
Total Gain: £1431.14 (23.8%)

2012	Start	Recent	Value	Stop/loss
Halma	334.9p	529.5p	£1569.12	485p
Centrica	317.1p	381.9p	£1204.35	354p
Smiths Group	1260p	1339p	£1062.698	1255p
Stagecoach	313p	325.2p	£1038.97	300p
Avanti	164.2p	164.2p	£1000.00	150p

Total Value: £5875.03. Net Cash: £3019.08
Total Gain: £2894.11 (48.2%)

2011	Start	Recent	Value	Stop/loss
Compass	543.5p	888p	£1633.85	810p
BP	409.5p	584p	£1426.12	526p
Kingfisher	320p	388.6p	£1214.37	350p
AAM	361.1p	397.4p	£1016.53	364p
Fullers	895p	910p	£1016.53	819p

Total Value: £6403.10. Net Cash: £3849.70
Total Gain: £4252.80 (70.8%)

2010	Start	Recent	Value	Stop/loss
Pearson	1160p	1263p	£1088.79	1137p
L & G	165.6p	187.9p	£1134.16	168p
Wood Group	810.5p	904p	£1115.36	810p
Menzies	728p	720p	£986.30	655p
Greggs	428.5p	436.5p	£1016.53	385p

Total Value: £5341.14. Net Cash £6558.68
Total Gain: £5908.26 (98.4%)

PORTFOLIO STARTED IN PREVIOUS YEARS WITH £6000 INVESTMENTS. **2003** portfolio wound up in January 2007 with £12,345.75 gain (205.7%). **2004** portfolio wound up in January 2008 with £12,014.30 gain (200.2%). **2005** portfolio wound up in December 2008 with £4654 gain (77.5%). **2006** portfolio wound up in December 2009 with £6378 gain (108.35%). **2007** portfolio wound up in January 2011 with £272.50 gain (4.8%). **2008** portfolio wound up in December 2011 with £6271.22 gain (104.7%). **2009** portfolio wound up in January 2013 with £5801.46 gain (96.4%)