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Sunday Independent

Got €100k to invest? Seek independent expert advice

It's your money
Louise McBride

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SAVERS are really getting it in the neck these days. The interest paid on savings is a fraction of what it was a few years ago — yet in a month's time, savers will lose almost half of any of the paltry interest they earn to tax, once DIRT tax increases to 41 per cent in January.

A few weeks ago, the European Central Bank (ECB) rate — which often determines the amount of interest banks pay on savings — was chopped yet again. The ECB rate has been at record lows for years and is unlikely to increase any time soon. Furthermore, inflation — which erodes the value of savings over time — is on its way up.

If you've a wad of savings sitting in a low-interest deposit account, now could be the time to make your money work harder for you. The *Sunday Independent* lined up some top investment experts to get their advice on the best places to invest a lump sum of €100,000.

40-SOMETHING COUPLE

You're a married couple in your 40s with four young children. Along with your mortgage, your main financial commitment is the cost of rearing your children. You are well-off however — and can afford to tie up €100,000 for 10 years. You would like to invest this money somewhere so you can provide for your children when they reach adulthood — whether that be their college education or to help them get their feet on the property ladder.

It might be wise to use your €100,000 lump sum to buy a second property, according to Vincent Digby, founder of the financial advisers Impartial. "Given the length of time you are looking at for your investment, and that one of your objectives is to help your children get a foot on the property ladder, I would suggest you look at a direct property purchase," said Digby.

One of the advantages of investing in property at this time is the exemption on capital gains tax (CGT — the tax paid on any profits you make when you sell a property). With this exemption, if you buy a property by the end of 2014, you won't have to pay CGT on any profit you build up during your first seven years of owning the property — as long as you don't sell the property within those seven years.

If you decide to go the investment property route, remember you will probably need to get a mortgage if your lump sum doesn't cover the full price of the property.

"Look at all your costs realistically," said Digby. "Your costs will include the mortgage, repairs, property taxes and voids (when tenants are not renting your property). Compare your costs to the rental income you can achieve. Ideally, you are looking to have all costs covered by the rent — and an additional amount left over to build up a fund to cover voids."

If you are more interested in investment funds, Bank of New York Mellon's Global Return Fund could be worth considering, according to Brian Grimes, head of customer propositions with Bank of Ireland Life. "This is run by a highly experienced team of investment managers with a great track record," said Grimes. "They take views on where the global economy is going and invest accordingly. However, they put protection in place to dampen extreme volatility. You could expect returns over the longer term of about 3 per cent a year in excess of cash — before exit tax is paid. You need to be committed for the longer term however and expect downturns."

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RETIRED COUPLE IN THEIR LATE 50s

You're a married couple in your late 50s who have retired early. Your mortgage is paid and your children have all flown the nest. You therefore don't have many financial commitments. You have built up €100,000 in life savings — but you don't want to squander it. You want to invest it wisely for between three and five years.

Digby recommended a Standard Life investment bond — which would then be used to invest in the life assurer's Synergy Global Absolute Return Strategies (GARS) fund.

"As this is your life savings which you may need in three to five years, I would suggest a reasonably conservative approach — certainly at the outset," said Digby. "Ensure there are no exit penalties on the bond so you can access your money whenever you need to. Synergy GARS is a Steady-Eddie fund. Over the last five years, GARS has delivered a return of just under 10 per cent a year — after all costs are deducted. There are a wide range of other investment options which may provide higher returns but they may be more vulnerable if equity markets fall in value."

If you wish to be more adventurous with your investment bond, you could invest in two other Standard Life Synergy funds — the UK Smaller Companies fund or the European Smaller Companies fund, according to Digby.

"The reason I selected Standard Life over other life assurance companies is that investments in Standard Life are covered by Britain's Financial Services Compensation Scheme guarantee," added Digby. "This means that should Standard Life become insolvent, 90 per cent of the investment is guaranteed by the British government — without any upper limit."

Another product worth considering is Quintas Wealth Management's Gold & Silver Bond, according to Ross Curran, managing director of the Galway financial advisers, Curran Financial Services.

"This bond invests in two stocks — a gold exploration and a silver streaming company," said Curran. "It offers a 'soft' protection, meaning that if neither stock falls by more than 45 per cent over three-and-a-half years, you at least get your original investment back — plus a 28 per cent return. One of the things I like about this bond is that it is a relatively short-term investment. Drawbacks are the soft rather than full guarantee, and the fact that returns are capped. Mining and exploration companies can also be very volatile."

RETIRED COUPLE IN THEIR EARLY 60s

You're a couple in your early 60s who have retired. Your mortgage is paid and your children have all flown the nest so you don't have many financial commitments. You want to invest your €100,000 in life savings wisely as you are planning to leave it as an inheritance for your children.

If you are planning to leave this money as an inheritance, you are probably looking at an investment term of 20 years or more, according to Curran.

"Depending on your attitude to risk, I would build a portfolio using low-cost exchange traded funds (ETF's — a basket of investments that trade on the stock exchange) split across the various types of investments — equities, bonds, cash, commodities, and property (using real estate investment trusts)," said Curran.

"I would probably recommend Davy Select as the custodian, as it offers a straightforward, relatively cheap charging structure and it allows you to login and see how your funds are performing at any stage. It allows for immediate withdrawals — within 48 hours at most — in the case of emergency."

Some form of estate planning might also be prudent at this stage, according to Curran. "For example, you could look at trusts for your children to invest through — thereby saving on potential inheritance tax later on," said Curran.

CAVEATS

Understand the impact that tax can have on any money you expect to make when investing your €100,000. The rate of exit tax you pay on any profits made from most life assurance policies or investment funds increases to 41 per cent from January 2014 — which is as high as the DIRT rate on savings interest.

If you are investing €100,000 or more, it is worthwhile hiring an independent financial adviser. Banks are usually tied agents of their own life assurance company — which means they can only recommend investments sold by that company and these investments may not offer the best value. Similarly, if you approach a broker for advice, remember that he usually gets commission when he sells a product and that he may not be able to offer advice on all of the investment products out there.

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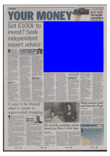

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