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Investors warned that stock market will remain volatile

There are opposing, divided views over the health of shares, writes Anne O'Doherty

Private investors are being warned that while the stock market may continue to rise, it will remain highly volatile — as last week's reverses confirmed.

Most commentators agree that share prices, up an average 95% since 2009, could fall sharply in the short term. Beyond that, the experts remain polarised. Optimists, or 'bulls', predict continued long-term rises in world share prices as global recovery strengthens. They expect money held in cash or bonds to flood into shares, pushing them higher.

Pessimists, or 'bears', say shares are "alarmingly overvalued" and could crash as central banks cease stimulus measures and the weakness of Western economies is laid bare. So it is no surprise ordinary investors are torn over what to do.

Colm Rapple, an economist by training and a journalist by profession, wrote a very good piece in the 'Money & Jobs' section of this newspaper on Mar 15 last with regard to rates of return on savings and deposits. The issue for all deposits, however, is the low rate of interest. While rates have been sliding downwards for the past nine months or so and are set to continue falling, a lot has been made of strong stock market returns around the world so far this year. The S&P 500 is up 14.02% in the year to date, according to Yahoo! Finance.

However, how would you feel if your broker or life assurance company told you your investment of €10,000 made 20% over five years but that you only got €11,203.20* back (which only represented a profit of 12.03%). Why the difference you might ask? One simple word — Tax.

*€10,000 initial investment subject to 1% sales tax, thus €9,900 is invested and growth of 20% equates to €11,880 less a 36% exit tax on the profit element.

Deposits in Ireland are subject to DIRT of 33%. Any interest received has DIRT deducted at source. This can make it difficult for deposit returns to keep pace with inflation.

If you wish to earn interest without paying DIRT it may be worth considering Irish State Savings Certificates or Savings Bonds. There is a CGT exemption on capital gains on government bonds — in fact, the CGT exemption is quite broad, extending to An Post, certain EU securities, and local authority issues, and is headed "Government and certain other securities". Income on government Gilts is subject to income tax in the normal way.

However, it is not all bad news. There are investment alternatives that will allow you take more of this profit for yourself. While most forms of investment carry a tax liability on any gains, by educating yourself on your options you can reduce that liability. Some ways to reduce the tax you pay on savings and investments include:

■ Using any allowances that may be available to reduce your tax liability;
■ Using tax-advantaged investment structures — the most obvious being a pension;
■ Taking full advantage of your annual capital gains tax allowance.

In summary the message you should take away is: You need to consider tax as well as other factors such as risk/term when considering merits of any investment you undertake.

● Anne O'Doherty is a senior wealth adviser with Quintas Wealth Management.