



**Surviving
on savings
when rates
are low.**



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Introduction

Investors sticking to the safety of bank and building society deposit accounts have suffered as interest rates tumble.

Fortunately, investors willing to take slightly more risk with their money can achieve potentially better returns over the longer term than if their money was left in a deposit account. And this is without having to go as far as taking the higher risk of investing in individual companies where the value of your shares can vary from day to day. Risk, for the purposes of this guide, is taken as being price volatility.

With hundreds of different investments available, the type that suits you best depends on a number of things such as the risk you are willing to take, the amount of

income you need (if any), when you need your money back and the rate of tax you pay.

You should always keep part of your money in an easy access deposit account to cover unexpected expenses. Some experts suggest keeping as much as 3 months net salary in the bank or building society. Do take the time to seek out one of the top paying accounts.

Over the longer term some experts argue that investing very conservatively and sticking only to deposit accounts offered by banks and building societies carries its own dangers because your money is not working hard enough and the effects of inflation can mean that your money has less purchasing power.

A good place to start looking for low risk investments is through National

Savings & Investments. Details of the current range of products and rates can be found at www.nsandi.com

Alternatively insurance companies and fund management groups provide investment products known as collective investment schemes, which offer access to many different types of investment opportunities. These products pool your money with other people's so you are able to achieve a wider spread of investments than you could buy on your own, thereby reducing your risk.

You need to make sure you are making the most of tax breaks, particularly by wrapping up your investments in an Individual Savings Account (ISA) whenever possible.

This guide hopes to demystify the majority of low risk investment products. Remember that there are no low risk investment

options available that offer a high return, past performance is no indication of future performance and the value of funds can go down in many cases as well as up.

It is important that you understand the risk associated with investments. Sometimes investments that look low risk can actually be high risk.

An independent financial adviser (IFA) can talk you through your savings options, look at your individual circumstances, review the entire range of investment options available and suggest what is suitable for you. Call IFA Promotion on **0800 085 3250**, visit www.unbiased.co.uk for details of four IFAs in your local area. If this guide was supplied to you by an IFA, their details may be found on the back cover.



These bonds, offered by insurance companies, invest your money in the insurance company's With Profits fund that will invest in shares, fixed interest stock, gilts and property. The advantage of With Profits investment is that the volatility of investment returns is 'smoothed' particularly by reducing the ups and downs of stock market returns.

The insurance company keeps back some of the profit made in good years to be able to top up the return in bad years. In this way With Profits protects you from the daily movement of share prices.

The aim of a With Profits bond is that a bonus should be declared each year – known as an annual or reversionary bonus – which

is added to the value of your bond. When you cash in your bond you could also receive another bonus called a terminal bonus.

You can cash in your bond at any time but be aware that you could get back less than you invested. You must be prepared to invest for at least five years. Insurance companies reserve the right to charge a surrender penalty or a so-called 'market value adjuster' if you cash in or take a part of your money out, particularly in the early years.

It is crucial to use a good independent financial adviser (IFA) to pick a With Profits bond for you. The most important factor behind these bonds is the strength of the life insurance company issuing them and its

ability to pay bonuses. A company needs to be fat enough to tide you over the bad times without cutting heavily into the bonuses. An IFA can explain to you the taxation treatment of insurance company bonds and how the surrender penalties could be applied, as not all With Profits bond rules are the same.

Key Questions:

- How strong is the insurance company?
- What is the bonus rate both currently and historically?
- Is it likely to be cut?
- What are the charges?
- Are there any penalties when I cash in the Bond?

- Has a Market Value Adjuster (MVA) or surrender penalty ever been applied and in what circumstance?

Type of investment:	Lump sum investment (regular premium plans are available)
Minimum term:	None. But the investment should be for 5 years or longer
Minimum single investment:	Typically £5,000
Income:	'Income' can be taken as regular capital withdrawals
Risk to capital:	Low



There are many types of investment bonds available such as those offered by insurance companies. These bonds offer access to a range of unit-linked funds, which individually invest in many different areas such as shares, property, stocks and gilts. Like the With Profits fund, your money will be pooled with other investors money but you can choose your own funds and level of risk. You can choose from a range of geographical funds such as a UK or a European fund or invest in a managed fund that will invest in a combination of the funds available through the bond.

Banks and building societies also offer investment bonds that are a combination of a fixed rate deposit account and an investment generally linked to shares. How much goes into each part of the bond varies, so you will need to compare from company to company.

You must be prepared to invest for at least five years. You can cash in your bond at any time but be aware that you could get back less than you invested.

An independent financial adviser can help you pick an Investment Bond that matches your own circumstances.

Key Questions:

- Will my money be tied up and if so for how long?
- What are the charges?
- Are there any penalties when I cash in the Bond?
- What are the fund choices?
- Can I switch funds at no charge?

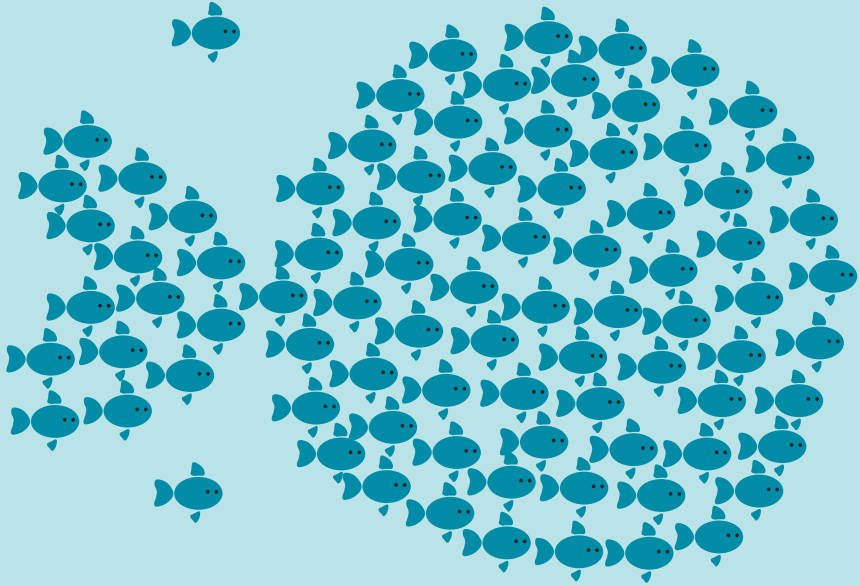
Type of investment:	Lump sum investment (regular premium plans are available)
Minimum term:	Check with the provider. Generally there is no specific term, in which case the investment should be for 5 years or longer
Minimum single investment:	Typically £5,000 but some providers have lower limits
Income:	Yes. May be as regular capital withdrawals
Risk to capital:	Depends on the fund(s) chosen. Concentrate on the low risk funds

Unit Trusts, Open Ended Investment Companies (OEICs) & Investment Trusts

The three product types above allow you to invest in a pooled fund run by a fund management company. Your investment is 'pooled' together with other investors' money and used to buy a wide selection of investments as allowed by the remit of the fund e.g. a cautious managed fund. These collective investment schemes can also give you access to investments that you may not normally have sufficient cash to meet the minimum investment level.

It is the job of the appointed fund manager to decide which investments to buy and sell. The aim of the fund manager is to return a profit or an income to investors whilst lessening the risk compared with

buying, for example, one particular share. If you invested in one company that appeared 'safe', which later went bankrupt, you would lose all, or most, of your money. A fund will be affected by the same bankruptcy if it held the company's shares, but as there are many dozens of different holdings, this will lessen the extent of the loss. Also the professional fund manager will have had access to regular technical information on all of the fund's holdings (not normally available to private investors) that should have resulted in him or her selling the holding before the downturn came.



Key Questions:

- What are the charges?
- How good are the managers of the fund?
- What is the fund's performance benchmark (if any)?
- Background to the fund management company. Is it new, old, big or small?
- How does the fund compare to its peer group?

Type of investment:	Lump sum investment (regular premium plans are available)
Minimum term:	None. But the investment should be for 5 years or longer
Minimum investment:	Typically £1,000
Income:	Yes from some funds.
Risk to capital:	Depends on the fund(s) chosen. Concentrate on the low risk funds



Gilt-edged securities, or Government bonds, are one of the lowest risk investment around – but returns are correspondingly low.

Gilts are loans made by investors to the Government, which then pays you a fixed income generally twice yearly. Most Gilts have a fixed maturity date – there are three categories – short (up to five years), medium (five to 15 years) or long (more than 15 years). At the set maturity date, the gilts are redeemed and at this point the Government pays the original issuing price of the stock to whoever holds them – so you know exactly what you will earn over the term if you hold the Gilt until it matures.

Returns on Gilts move broadly in line with interest rates. Each Gilt has a fixed interest

rate, so when interest rates are rising, the capital value of the Gilt falls. The reverse also applies, so there is the potential for capital gain or loss if you sell before the fixed maturity date depending on interest rates, supply and demand for the specific Gilt and the term they have left to run.

You can buy individual Gilts from stockbrokers or from the Post Office. Alternatively you can invest in Gilts through a unit trust or OEIC.

Key Questions:

- Should I invest directly in Gilts or through a collective investment scheme?

If through a collective investment scheme:

- How good are the managers of the fund?
- What is the minimum single and regular investment level?

- What are the initial and annual charges on the fund?
- Is the annual charge – typically 0.5 to 1 per cent of your money – taken from income made by the fund or from my capital?
- What income level can I expect?

Type of investment:	Lump sum investment
Minimum term:	Depends on the individual Gilt
Minimum investment:	Typically £1,000
Income:	Yes
Risk to capital:	Low



Corporate bonds work in the same way as Gilts (see previous page), but companies rather than the Government issue them.

They are essentially company IOUs that pay you an income for borrowing your money.

They generally pay a higher income than Gilts because you are taking more of a risk with your money. No company can be as secure as the Government so there is extra risk – known as a credit risk – in that the company could miss its interest payments or even go bust and you will not get your money back.

Bonds issued by financially strong companies are known as investment grade bonds. The highest rating being AAA. On

these bonds your credit risk is at a minimum as they are at the safer end of the corporate bond risk scale. The bonds offered by smaller, less financially sound companies whose credit rating is not high will offer higher returns to reflect the higher risk of defaulting. These sub-investment grade bonds are also known as junk bonds.

Some junk bonds are issued by non-UK companies, which are issued in foreign currencies. This increases your risk still further because the value of the currency in which the bonds are issued will go up and down against sterling.

If you invest in a corporate bond fund run by a fund management company, your

Type of investment:	Lump sum investment
Minimum term:	Depends on the individual Corporate Bond
Minimum investment:	Typically £1,000
Income:	Yes
Risk to capital:	Low

capital and income can fluctuate during the term. But bond prices are much less volatile than share prices so they are less risky than shares.

Like Gilts, if interest rates rise, your capital value can fall but your income should stay around the same level.

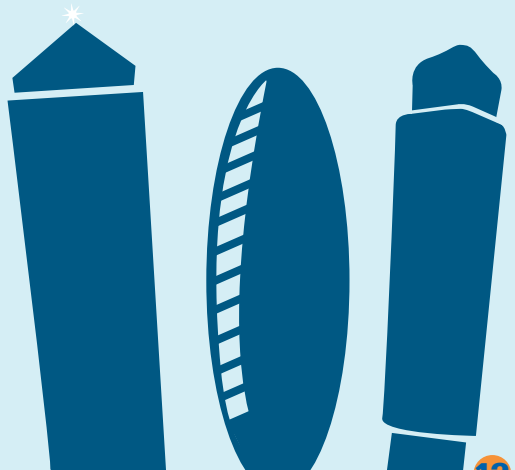
Key Questions:

- Should I invest directly in corporate bonds or through a collective investment scheme?

If through a collective investment scheme:

- Does the fund invest in bonds issued by investment grade?
- How good are the managers of the fund?
- What is the minimum single and regular investment level?

- What are the initial and annual charges on the fund?
- Is the annual charge – typically 0.5 to 1 per cent of your money – taken from income made by the fund or from my capital?
- What income level can I expect?





A Zero Dividend Preference Share, or Zero, is a type of share within what are called split capital investment trusts. Zeros are not entitled to any income (which is why they are called Zeros) but they pay out to their holders a predetermined fixed capital amount on a set day. This date is usually after about 5 years or so.

When an investment trust that issues Zeros comes to its end date, Zeros usually rank first in the payout before other share classes. As with most investments, there is an element of risk in that the Zero may not pay out the predetermined fixed capital amount. To help check the likelihood of a Zero not paying out, there is something called the 'hurdle rate', which indicates by how much the fund has to grow in order to match its fixed capital amount.

Type of investment:	Lump sum
Minimum term:	Depends on the individual Zero
Minimum investment:	Typically £1,000
Income:	No
Risk to capital:	Low to medium

If the hurdle rate is low the fund value can fall and you would still receive the fixed capital amount. If the hurdle rate is high then the risk of not receiving the full amount rises.

Key Questions:

- Should I invest directly in Zeros or through a collective investment scheme?

If through a collective investment scheme:

- How good are the managers of the fund?
- What is the minimum single and regular investment level?
- What are the initial and annual charges on the fund?
- What is the estimated Gross Redemption Yield?
- What is the current hurdle rate?

Guaranteed Income Bonds

These investments guarantee to give you your money back at the end of the term and in the meantime will pay you a fixed return or income. There is no potential for capital growth and the rate offered will change in line with interest rates. Once you have invested in a Guaranteed Income Bond the income level will not change irrespective of what happens to interest rates.

The rates offered need to be checked against other available interest rates to ensure it is competitive.

Guaranteed Income bonds are usually not suitable for non-taxpayers as the interest is paid net of tax and cannot be reclaimed. The attraction to higher rate taxpayers is that the interest does not need to be grossed up as it does with ordinary deposit accounts.

Key Questions:

- What is the income rate?
- How long is the bond's term?
- Is the income rate competitive?
- Is the company financially strong?

Type of investment:	Lump sum
Minimum term:	1 year
Minimum investment:	Typically £5,000
Income:	Yes
Risk to capital:	Low

Equity or Stock Market Bonds

Issued by banks, building societies and insurance companies, these provide a fixed rate of income or growth over a fixed term. Your capital is returned in full as long as the stock market performs in a certain way.

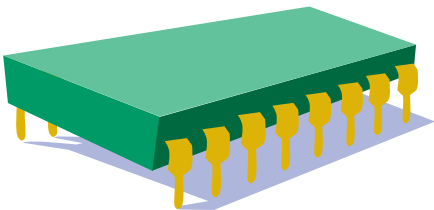
The terms and conditions vary from bond to bond. Some run for two or three years, others for five or longer.

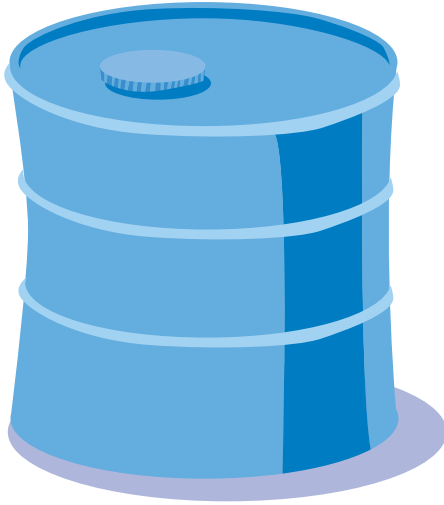
Some are linked to the FT-SE 100, the index that reflects the prices of the largest

100 UK companies, others to the Dow Jones EuroStoxx 50 or the American NASDAQ or a combination of these or other indices.

The higher the fixed rate on offer, the tougher the requirement for the index to perform and the greater the likelihood that capital may not be returned in full.

There is often a 'safety net', which means even if the index has fallen by a certain amount by the end of the term, you will not lose any money. But once it breaks the safety net, you can lose a percentage of your capital.



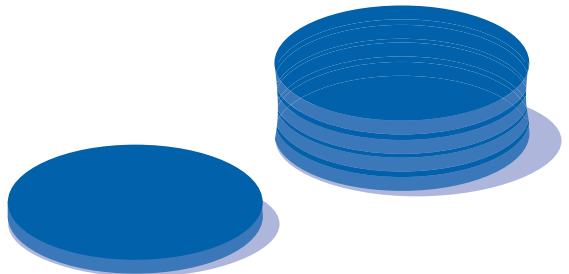


If markets are low when your bond matures you risk losing your capital. You do not have a chance to continue with your investment until stock markets recover.

Key Questions:

- How long does the bond run for?
- To which index or indices is the investment linked?
- What is the growth or income rate?
- Is there a safety net and how much do I lose if the index falls through it?
- How and when are the indices measured for the end date? Some take an average of the final six months, others the index on the day the bond matures.

Type of investment:	Lump sum
Minimum term:	Depends on the bond
Minimum investment:	Typically £5,000
Income:	Yes
Risk to capital:	Low





Conclusion

However bleak things look, there is plenty of choice for investors wanting to increase their income at a time when bank and building society rates are low to make their money work a little harder.

But the very large number of products around makes it difficult to ascertain which ones will suit you best and, just as importantly, which ones you feel comfortable with.

The best way to find that out is to approach an independent financial adviser (IFA) who can guide you through the maze, helping you to decide which particular investment is right for you. They will also alert you to any surprises in the small print that comes with some of these products. In

addition an IFA can also help you decide what level of risk you are willing to take with your money. He or she will explain to you, if you are young, how you should take a little risk with your investments as it can be damaging over the long term to take an ultra-cautious view to investing.

You can request the names of independent financial advisers in your area by calling **0800 085 3250** or visiting **www.unbiased.co.uk**. If this guide was supplied to you by an IFA, their details may be found on the back cover. You can use a variety of criteria to select your IFA including commission or fees, female IFA, area of expertise and level of qualification preferred.

Notes

For further information on the subject contained in this guide, please contact your IFA.

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IFA Promotion Corporate Hotline on **0800 085 3251**.

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