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YOUR MONEY

BEST PLACES TO INVEST €100,000 IN AN ERA OF LOW INTEREST RATES

You could just as easily lose as make money if jumping from deposit to investment, writes **Louise McBride**

THE move by Bank of Ireland to charge negative interest on cash held in a number of pension funds from next month will be a blow for many of those saving up for their retirement — and has prompted concerns that other banks will follow suit.

Although none of the banks have moved to directly charge their personal customers negative interest rates on savings held in deposit accounts, the Bank of Ireland move — along with the paltry savings interest rates being paid by the various banks — could tempt those with large lump sums sitting in a deposit account in a bank to move their money elsewhere.

With this in mind, *The Sunday Independent* asked some top investment experts for their advice on the best places to invest a lump sum of €100,000 or €50,000. The advisers have assumed that the investor has this money to spare — that is, that the individual has no outstanding mortgage or other major financial commitments.

ULTRA CAUTIOUS INVESTOR IN EARLY 60'S

LET us say you have a €100,000 lump sum which you want to invest somewhere it will make a better return than it will in a bank account — but you don't want to risk losing any of the money you invest. You're in your early Sixties.

As you are unwilling to take any investment risk, a National Solidarity Bond (NSB) from State Savings would be the most suitable option for your lump sum, according to Nick Charalambous, managing director of the financial advisers, Alpha Wealth. NSBs are deposit rather than investment products — but the annual interest paid on lump sums is typically higher than on other deposits.

The best return you'll get on an NSB is with a ten-year bond — this pays 1.5pc interest a year if you leave your lump sum invested for ten years. The interest paid is tax-free as long as you're an Irish resident. You pay no fees, charges or commission on NSBs. By contrast, put your money into an investment product offered by a life assurer or investment firm and you are likely to face tax and investment charges. NSBs aren't liable to the 1pc government levy charged on many life assurance products either.

For those who can't afford to tie up their money in a NSB for ten years, State Savings also has a five-year Savings Cert which pays 0.98pc tax-free interest a year.

"For an individual seeking 100pc capital security (where you should, at the very least, get back what you originally invested), I would recommend State Savings and I would rule out insurance companies because whilst they have very low-risk options, none are 100pc secure," said Charalambous. "Even the most conservative [investment product from an insurance company] will typically suffer an annual fee of around 1pc a year — which will lead to capital loss."

Credebt Exchange's Investabill could be an option for a cautious investor seeking an alternative to deposits, according to Gary Browne, portfolio analyst with Curran Futures. This product is an Exchange Traded Receivable (ETR). With ETRs, you buy a company's invoices for a certain amount of time and you could make a better return on your money than had you left it on deposit. However, you could lose money if the company or companies whose invoices you have bought don't settle their bills — though such defaults may be covered by an insurer.

"Investabill pays a gross return of around 2pc a year," said Browne. "It is not without risk but in our view, it is no more risky over time than a deposit account where your money is losing value [to inflation]." Any returns made on an ETR are liable to Capital Gains Tax (CGT) — but your gains could be tax-free, depending on how much money you make. You typically pay CGT of 33pc on any returns made on an ETR but under the CGT annual exemption, the first €1,270 of an individual's annual gains are exempt from CGT.

Be aware that Credebt Exchange and other firms that offer ETRs are not regulated by the Central Bank as there is no requirement for them to be authorised. It is very important therefore that you understand how ETRs work — and the risks involved — before investing in them.

LOW-RISK INVESTOR IN EARLY 50'S

LET us say you want to move a €100,000 deposit into an investment product — and you are willing to take on a small-to-moderate amount of investment risk.

A good multi-asset fund (an investment fund which typically invests in a range of types of investments, countries and markets) from a life assurer could be your best option, according to Charalambous, who recommends investing half of the €100,000 lump sum in Zurich Life's Prisma 3 fund — and the other €50,000 in New Ireland's Sentinel II fund. Over the last five years, the net return (the return after fees and other charges have been deducted) on Prisma 3 has been around 1pc a year, according to Charalambous. The Sentinel II fund was launched in September 2019.

Most investment funds and products have a risk rating which indicates how much risk an investor takes when putting money into them. That rating typically ranges from one to seven. An investment with a risk rating of one will have a very low chance of losing money on the stock markets, but will also deliver low (if any) returns. An investment with a rating of seven will be a very high-risk product with the potential to deliver high returns, as well as high losses. Zurich Life's Prisma 3 fund has a risk rating of four while New Ireland's Sentinel II fund has a risk rating of three. Some advisers believe that investment products with a risk rating of at least four have the best chance of beating deposit returns.

MODERATE-RISK INVESTOR IN 40'S

FOR an investor in his 40's who has a moderate appetite for risk and has €100,000 to invest, Zurich Life's Prisma 4 fund is recommended by Charalambous. This fund has a risk rating of five and has made an annual return of about 2.4pc a year over the last five years, once fees and tax are taken into account, according to Charalambous.

For an investor with a lump sum of €50,000, the Vanguard 80 fund (essentially the Vanguard LifeStrategy 80pc equity fund) — which is 80pc invested in equities and 20pc invested in bonds — could be a good option because it often delivers better returns than similar investment funds, according to Browne. "You can invest in this fund through various online platforms such as Davy Select, Conexim or Cantor Fitzgerald — with a number of the life companies likely to make it available in the coming months," said Browne.

REGULAR SAVER LOOKING TO INVEST

LOW deposit interest rates are a particular challenge for who want to save monthly for a long-term goal — such as parents saving up for a child's third-level education.

Zurich's Easy Access Savings Plan and New Ireland's FutureSave are two life assurance savings plans recommended by Charalambous to parents who want to save €200 monthly for the next five to seven years for their child's third-level education. As long as the parents are prepared to take on a moderate amount of investment risk, the Prisma 4 fund — which has a risk rating of five and can be invested in through Zurich's Easy Access Savings Plan — could be a suitable investment, advised Charalambous. For those opting for New Ireland's FutureSave, Charalambous suggests investing in a blend of the following: the Prime 3 fund (risk rating of three) and the Technology Indexed fund (risk rating of six).

Although the Technology Indexed fund is a high-risk fund, Charalambous feels it could perform well in the current climate. "The large technology companies are well positioned in the post-Covid environment to perform well as people spend more time at time and will utilise their services," said Charalambous. "Also these companies can expand more due to the cheap cost of credit available." However, given it is a high-risk fund, parents should be careful about the extent to which their savings are exposed to the Technology Indexed fund.

For parents who have a lump sum to invest for their children's college education and who wish to combine that with five to seven years of future regular monthly savings, Browne recommends investing in the Dimensional World Allocation 40/60 Fund (as long as the parents have a moderate appetite for investment risk). "From April 2010 to March 2020, the fund achieved a gross annual return (the return before deduction of tax and other charges) of 3.85pc," said Browne. "Some ways to invest in this fund are through Zurich Life's Easy Access Savings Plan or Child Savings Plus plan. For a lump sum investor, the Zurich Investment Bond allows investment in the Dimensional 40/60 Fund."

The State Savings 10-yr NSB is an option if you have a lump sum to invest for your child's education but you are uncomfortable taking any investment risk.

CAVEATS FOR NOVICE INVESTORS

INVESTMENTS DON'T ALWAYS BEAT DEPOSITS

The return made on an investment might be no better, or even lower, than the return made on deposits. Furthermore, you could lose some or all of your money when you put it into an investment if the product performs poorly.

Of course, you might have the potential to make much higher returns on an investment than a deposit account if the investment does well — particularly over the long-term.

Always remember that the past performance of an investment is no guarantee of future returns.

CHARGES ARE OFTEN HIGHER ON INVESTMENTS

Understand how charges on an investment fund or product could eat into your return. You are often liable to the 1pc life assurance levy, exit tax of up to 41pc, annual management charges (usually of at least 1pc) and other investment fees if you invest a lump sum or regular savings into a life assurance or other investment product. The return that you make once all of these charges have been paid could be the same as — or even less — than the interest that would have been earned on a deposit account.

INVESTMENTS ARE OFTEN RISKIER

You are usually taking a risk with your money when you put it into an investment product — which is not the case with ordinary deposit accounts, though inflation will eat into the value of low-interest bearing deposits.

CHECKLIST

Before putting your money into any investment, check that the firm you are dealing with is authorised to provide financial services.

"If a firm is not authorised [by the Central Bank], consumers will not be eligible for compensation under the Investor Compensation Fund should the firm go out of business," said Gráinne McEvoy, director of consumer protection at the Central Bank.

The Investor Compensation Fund is one of the consumer protections in place where an investment firm authorised by the Central Bank is unable to return money or investment instruments it owes to consumers who invested with it (as long as the investment product itself is also covered by the scheme).

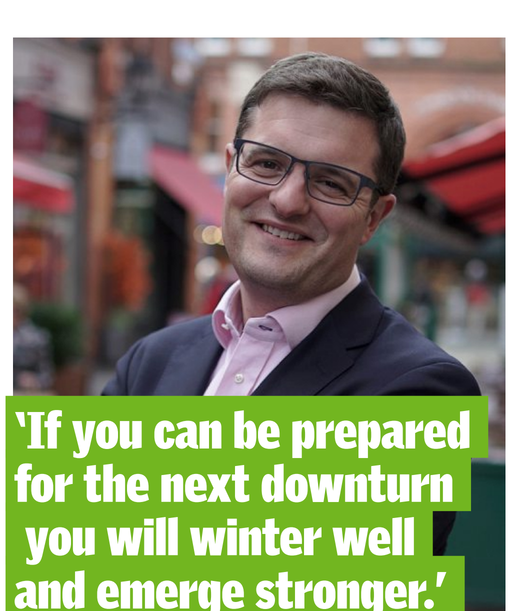
Be clear what your investment goals are before investing in a product — and also of your level of investment experience and your appetite for risk, advised McEvoy.

'Take time to review all material information about the investment, the way it operates — and its associated risks," said McEvoy.

"The value of an investment may go down as well as up — and consumers should take care not to invest money they cannot afford to lose. In light of the ongoing impact of Covid-19, consumers should also be aware of the potential risks of investing during periods of volatility," she added.

Get independent financial advice before making any major investment decisions.

MY MONEY



EOIN McGee is probably best known as the host of RTÉ's popular money makeover show 'How to Be Good with Money'. He is also the founder of Prosperous Financial Services.

He published his book *'How to Be Good with Money'* last March. It can be bought on easons.com.

What's the most important lesson about money which your career has taught you?
Money, markets and economies are cyclical — if you can be prepared for the next downturn, you will winter well and come out stronger the other side.

Has the coronavirus crisis taught you anything about money?
That there is still 'fat' in our spending. There are things we have always paid for — which we actually didn't miss when they were taken away. For me this was things like Diet Coke. Equally there were things I really missed that I am really looking forward to spending money on in the future and that I will appreciate all the more. For me, they are time with the kids having experiences — and socialising with family and people who are important to me.

The most expensive thing about being a parent?
The little stuff all adds up. Giving the kids an allowance teaches them to look after their own money but also allows me to say no guilt-free when they come to me with their hand out.

The most expensive country you ever visited?
Paying US$15 dollars for a pint in Manhattan always hurts but Zurich was one of the most expensive places I have been.

What's your favourite Irish coin or note?
The old 20p. The golden one with the horse on it. I was starting to understand money when the 20p came out and it bought me two 10p bags in the No. 13 shop in Roselawn shopping centre.

Apart from property, what's the most expensive thing you have ever bought?
I am not a big fan of buying direct property — it's too much hassle, you can't convert it quickly into cash if you need to, and there are better things to put your money in. The most expensive thing I ever bought was probably a mobile home — it is a depreciating asset and it makes zero financial sense but it was one of the best investments I ever made because of the experiences my kids have there. Anyone who watches the TV show 'How To Be Good With Money' will know I am also fond of cars and change them mid-series sometimes!

What was your worst job?
I was a security guard for three Saturdays over one Christmas — in a shop in Dublin city centre whilst I was in college. I struggled with the day because I was never sure what I would actually do if I caught somebody. It did however give me a real appreciation for the role — it is not easy and it requires constant concentration all day to ensure the place is not being fleeced. Thankfully, I was working in a furniture store so the items were quite big.

What was your best financial killing?
I genuinely don't believe in financial killings. There is no such thing as the next big thing — there is only the last big thing. The investment guru, Warren Buffett was asked why people don't just copy what he did to get rich and he replied "Because nobody wants to get rich slow anymore". I did, however, back the racehorse Bartra Rock in Fairyhouse one Wednesday night at a corporate event about 20 years ago. I had a fiver on him and he came in on the tote at 63:1. I think I spent the winnings in Copper Face Jacks that night.

If you won the Lottery, what would you do with the money?
Invest it in simple, boring, non-sexy investments that work.

What was the last thing you bought online?
Running shoes in a big Covid-19 sale.

Would you buy Irish property now?
I am not a fan of property unless you plan on living in it — and timing is less important if that's the case.

Do you ever haggle?
Haggling makes me feel uncomfortable. If the price is wrong, I will offer once at what I think something is worth. If they say no, I will walk away. I don't play games with money.