



TQ

Invest

# ISAs for beginners

[TQinvest.co.uk](https://www.tqinvest.co.uk)

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# ISAs explained

**You don't have to have large amounts of money, or be a financial expert to use your ISA allowance. ISAs are a simple and tax efficient way of saving money.**

An ISA is a 'wrapper' for your savings and investments. Once your money has the protection of being held in an ISA, it becomes more tax efficient, so interest or growth can be paid without UK Income, or Capital Gains Tax deducted\*.

## How do ISAs differ from regular savings?

An ISA 'wrapper' makes your savings and investments more tax efficient. Without this 'wrapper' they are subject to income and capital gains tax. So it makes financial sense to use at least some of your ISA allowance every year.

ISAs come in two forms; a cash ISA and an equity ISA (or stocks and shares ISA). In the past ISAs have been referred to as mini ISAs or maxi ISAs, and TESSAs and PEPs, which they replaced in 1999.

This year (2011/2012) you are able to place £10,680 into an ISA – tax free. You may choose to split this between a cash ISA and an equity ISA, with a limit of £5,340 for cash ISAs, or invest the whole £10,680 into an equity ISA. Remember, once you have used your entire ISA allowance you can't invest anymore until the next tax year, even to replace money you have withdrawn from your ISA.

## Cash v equity ISAs

At TQ Invest we can help you invest into an equity ISA. Typically, you can start a cash ISA with a bank or building society.

## Cash ISAs may be for you if:

- You have a short-term view on your savings
- You want to take the least amount of risk with your money
- You are aware that interest paid on cash savings may not always keep up with inflation

## Equity ISAs may be for you if:

- You have a medium to long-term view on your savings
- You are happy to take a degree of risk in search of greater returns
- You are saving for retirement and want investments to supplement your pension income

\* Equity based ISAs are subject to some unrecoverable tax, but this is paid by the fund, not you directly.

# Equity ISAs

**An equity ISA (sometimes referred to as a stocks and shares ISA) provides a tax efficient way to invest in a wide range of assets, normally stock market related, with the potential for higher returns than cash.**

Equity ISAs are more of a long-term commitment than a cash ISA, so they may be a better idea if you are saving for an event a number of years away, such as retirement or something more indulgent. Please keep in mind that with the prospect of higher returns comes some fluctuation in the value of your investments. At times they may even be lower than when you invested. However, over the long-term equity based investments have historically out-performed all other asset types, but future performance can't be guaranteed.

## What is it?

The majority of equity ISAs use collective investment funds, such as Unit Trusts or Open Ended Investment Companies (OEICs), rather than shares in individual companies.

Funds pool investor's money and appoint an expert (fund manager) to run it. The manager, along with a team of researchers and analysts, look for companies and assets to invest the pool of money in. The companies and assets invested in depend upon the funds aims and objectives. Our guide to funds will give you more information about how they work and the different types available.

Before choosing a fund, or funds, to invest in think about the following; will it help you achieve your investment goals? Are you happy with the level of risk and the investments the manager makes?

The overall value of your ISA is dependent on the value of the funds you hold within it. If you have chosen a fund that pays income, you have the option to take this income as a payment to yourself or reinvest it into your ISA. This does not affect your ISA allowance.

## Is an equity ISA right for me?

### Yes

- You have a medium to long-term view on your savings
- You are happy to take a degree of risk in search of greater returns
- You are saving for retirement and want investments to supplement your pension income

### No

- You have a short-term view on your savings
- You want to take the least amount of risk with your money

## Equity ISA Benefits

Aside from the tax benefits both cash and equity ISAs share, there are specific benefits to investing into an equity ISA.

# What is a fund?

**A fund is a form of collective investment that allows you to invest in a wide range of assets, including company shares. They are a useful way to access investments you couldn't manage on your own.**

The term 'collective investment' refers to the fact that your money is pooled together with that of other investors and invested on your behalf by the fund manager. This approach gives you access to buying power you wouldn't be able to achieve on your own.

The fund manager, along with a team of researchers and analysts, runs the fund according to its aims and objectives on a daily basis, monitoring a wide range of factors, including the economy, and the performance of assets and companies.

## Types of fund

Funds come in various shapes and sizes, but the most common types are Unit Trusts and Open Ended Investment Companies (OEICs).

**Unit Trusts** - When you invest in a Unit Trust, your money buys 'units'. The units vary in value according to how well (or not) the Unit Trust's investments are doing plus whether you take an income or not. So the worth of your investment is mainly determined by the number and the value of the units you own. All Unit Trust funds are 'open-ended' which means they can issue new units in response to demand from investors. Unit Trusts trade at their net asset value – that is the value of the investments held by the Unit Trust divided by the number of units issued. Unit Trusts traditionally quote two prices: the buying/offer price and the selling/bid price. The buying/offer price is the price the units are sold to the investor; the selling/bid price (usually 5% lower than the buying price) is the price the investor will get when the units are sold. The difference between the two is known as the bid/offer spread. The price of the Unit Trust is calculated daily, usually at midday. As well as an initial charge of around 5%, unit trusts also levy an annual management charge, which is typically 1.5% per year and is deducted from the fund itself.

**OEICs** – OEICs are a relatively new type of investment fund and many unit trusts are converting to OEICs. An OEIC is a company whose business it is to manage an investment fund. The investor takes a stake in the fund by buying the shares of the OEIC (units) which in common with a unit trust is open-ended. Unlike a unit trust, a single price is quoted for buying and selling the shares. An initial charge - typically 5% of the initial investment's value - will be deducted from the investment fund plus an exit charge may be applied when you finally withdraw your money. Annual management charges are taken from the amount you have invested in the OEIC.

With a fund your money is invested in a range of assets and individual company shares, reducing the risk associated with holding just one of them yourself.

# Fund criteria

**Every fund has an objective it aims to achieve for investors. The underlying investments the fund manager makes will depend upon that objective. Broadly, funds make their investments with the following criteria:**

- **Geography** e.g. UK, America and developing economies such as China
- **Asset type** e.g. company shares, corporate and government bonds and commodities
- **Company size** e.g. investing in small to medium-sized business or large multi-nationals
- **Focus** e.g. invest in any type of asset or industry or specialise in a particular one, such as bonds.

The criteria the fund follows will determine the risk factor. For instance, if a fund invests primarily in UK Government bonds, then the risk factor is relatively low. Whereas if a fund invests in gold mining companies based in Africa, the risk factor is relatively high.

The majority of funds you can buy take an active approach to management, where the fund manager is constantly looking at the performance of the fund and investment opportunities. However, there are funds that are classed as Passive. These funds are not actively managed, but instead look to track a particular index, such as the FTSE 100. Find out more about the difference between Active and Passive funds with our [free guide](#).

## Fund charges

The majority of funds have two ways of charging for the service they are offering to you:

**Initial Charge** – is the cost of the making the investment in the first instance. The initial charge includes commission the fund provider would pay to a financial adviser, plus an additional amount to cover their administration costs. At TQ Invest, we don't give advice so there's no upfront commission for you to pay. We also use our buying power to negotiate significant discounts on the administration charge, often removing them completely. On a fund with an initial charge of 5.5%, TQ Invest could save you over £587 on a £10,680 ISA.

Annual Management Charge (AMC) - is the cost of running the fund on an annual basis and is usually in the region of 1% to 1.5%. It includes the remuneration of the manager and his team, plus a proportion that is given to the company that arranged your investments to pay for the service they provide to you.

**Other charges** – some funds make additional charges to those mentioned above, such as a performance fee. The type and size of the charge differs greatly between funds, so they can be hard to compare. A great way to compare a fund's overall charges is to look at its Total Expense Ratio (TER), which calculates every charge as a percentage. The TER can be found on the fund's factsheet.

# The benefits of using funds

- **An alternative to cash** – Continuing low interest rates on cash savings and high inflation are a source for frustration of the majority of UK savers. Investing in funds is proven to provide greater returns than cash over the long-term, and although higher risk than cash, they represent less risk than investing directly into company shares yourself.
- **Diversification** – Funds invest in a wide range of assets, such as shares, bonds, property and even gold. They also invest in different markets from the UK to as far afield as China. This diversification reduces the risk of reliance on one asset or market.
- **Expertise** – Funds are run by investment experts (fund managers), who are supported by a team of analysts. They run the fund with the aim of achieving long-term goals. To do this, the fund manager, and their team, analyse the economic environment, individual companies who they either have made, or intend to make investments in to, and the relative performance of different asset classes.
- **Income or growth** – Different funds provide different solutions to match your goals. Some funds have the aim of providing capital growth (referred to as accumulation funds). These are particularly relevant if you are trying to build up the value of your investments over a number of years. Other funds have the aim of providing you with a regular income (referred to as income funds). If you are investing to supplement your other income, perhaps a pension, these funds can be useful. Some funds even offer both.
- **Simplicity** – The days of seeing a financial adviser, or making the trip to your bank or building society in order to invest are long-gone for many people, as are the costs involved. Funds remove a large proportion of the complexity of investing, largely because there is a fund manager in charge of the day to day running of the money you have invested. All you have to do is choose the fund that you feel is right for you. Fund investing is popular for beginners and seasoned investors alike, because of this simplicity.
- **Convenience** – Fund prices don't move as often as share and asset prices, so there is no need for you to constantly monitor market movements every hour of the day. However, monitoring the performance of the funds in your ISA is all part of the experience, and so you can now get access to fund research and the value of your investments online, whenever you like.
- **Liquidity** – Although investing in cash arguably gives you the quickest and easiest solution if you need access to your money, most funds can be sold at relatively short notice. However, investing should really be for those who can afford to keep their money invested for the long-term as this provides the best scenario for growth.

# Buying an Equity ISA

**Buying an equity ISA has become easier in recent years with an increasing amount of research and information available to help make your own decisions on the funds you want to invest in.**

In this section you will learn more about choosing the right fund. This will enable you to start investing in no time at all.

## **Before you get started**

By asking yourself the following simple questions, the process of choosing funds for your ISA becomes straightforward:

- Can I afford to take a longer-term view towards investing? I.e. You won't need to take money out of your ISA to buy everyday items
- What level of risk am I willing to take? People who can afford to lose some of their money and have the longest view on investing are generally willing to invest in riskier funds.
- What am I looking for from my ISA? Some people want their ISA to provide them with additional income, other simply look for the value of their ISA to grow

Once you have answered these questions, it's time to think about the funds that are right for you.

## **What is your goal?**

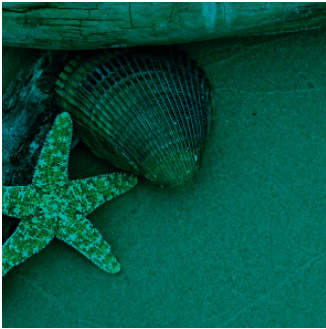
Generally, investors have one of two goals – to generate an income to supplement other payments, such as a pension – or to build a large value of investments for a particular use, i.e. a dream holiday or to send their child/grandchild to University.

**Generating Income** – can be achieved by investing in income funds (denoted by the term 'Inc'). The fund manager of these funds will usually invest in assets that provide interest or dividends. This is then passed on to you as an income payment from the fund. Alternatively, you can have this income paid back into you investment to buy more of that fund.

**Generating Growth** – can be achieved by investing in growth funds (also known as accumulation funds and denoted by the term 'Acc'). The fund manager of these funds will usually invest in assets that are expected to increase in value, i.e. via an increase in a company's share price or an increase in the price of commodities.

Once you have an idea of the sort of fund that will help you achieve your goals, you can start to research suitable funds.

09/15



# Buying an Equity ISA

## Paying money into your ISA

Investing is not just for the super wealthy. In fact, anyone who is over 18 and a UK citizen can invest into an equity ISA, and there are three ways you do it.

## Investing a lump sum

Quite often people invest a lump sum of money into their ISA. This may be because they have the money available and want to take full advantage of any potential growth, or because the end of the tax year is looming.

The minimum amount you can invest as a lump sum varies between funds, but it is usually £250. You can also invest your entire £10,680 ISA allowance as a lump sum, and thanks to fund platforms, you don't have to invest all of it in one fund.

## Investing monthly

If you don't have a lump sum of money to invest, or simply don't want to invest a large amount in one go, you can make small, monthly, contributions into your ISA.

You can contribute into your ISA from as little as £50 per month. It is a great way to build up a large sum of money over a long-period of time. It also helps smooth out the ups, and downs of stock market investing because of a term called 'Pound-Cost Averaging', which basically means when markets are lower, your £50 contribution will buy a greater amount of units in a fund, and when markets are higher, you buy less.

Setting up monthly payments into an ISA is easy, please call 0800 294 7181 to find out more.

## Phasing

Phasing your investment is a great way of investing a lump sum, without putting all of your money into the markets at once.

## How it works

If you want to invest £6,000 for example, the fund provider will divide this into six equal amounts and invest the first installment (£1,000) immediately. The rest is held in a cash account and invested in five equal amounts over a five month period.

This option works on the same principle as monthly investing, but in a much shorter time-frame.

If you would like to invest by Phasing, please call 0800 294 7181.

# What is a fund platform?

**Traditionally, when making an investment into an ISA, you could only invest in the funds of one fund provider. However, with a fund platform you can invest in over 1,000 funds from over 60 fund providers**

Think of a fund platform as a supermarket, only for funds. You don't get the trolleys and aisle-rage, but you do get choice and convenience, as well as significant cost savings.

Instead of milk and bread, the aisles of a fund platform are lined with the widest choice of funds on offer from the majority of the UK's fund providers. There are funds from the UK, America, Japan, China, and even Russia and Brazil. Some of them invest in shares, some in bonds, and some in a wide range of assets including cash and Gold.

Investing via a fund platform allows you to view all of your funds in one place, which cuts a lot of the paperwork involved and makes monitoring and managing your funds easy and hassle-free

## Choosing a platform

When investing in an ISA, we suggest using a fund platform (also referred to as a fund supermarket). At TQ invest we offer a choice of investing via Cofunds or FundsNetwork.

The decision over which platform to choose is a relatively simple one, and is largely down to your own preference. If you already have investments on the Cofunds or FundsNetwork platform then it makes sense to place any new investments you make in the same place. If you are new to investing, or none of your existing investments are currently on platform, then here are some key facts about both Cofunds and FundsNetwork to help inform your decision.

## Cofunds

- Established in 2001
- UK's largest independent investment platform
- Cofunds holds a 26% share of the UK platform market (as at March 2011)
- Access to over 1,500 funds from more than 90 fund managers
- Assets under administration in excess of £30bn

## FundsNetwork

- over 1,100 funds from over 65 fund companies
- choice of tax efficient wrappers - ISAs, SIPPs
- Assets under administration in excess of £15bn.



## The benefits of investing through TQ Invest

- **Reduced costs** – Our purpose in life is to reduce the cost of investing, and there are two ways we do this. Firstly, because you make your own investment decisions, without the help of a financial adviser or a bank or building society, you don't pay commission. This automatically cuts the cost of investing by 3%. Secondly, because of our size and reputation, we are able to negotiate with the fund providers to reduce their initial charges. This can save in the region of 0.5% to 2.5% depending on the fund. In total, we may be able to save you 5.5% in charges, or to put it another way £587 on a £10,680 ISA investment.
- **Choice** – We offer a range of choices and solutions to help find the fund that is right for you. There are literally 1,000s of funds for you to choose from, and you will find information and research on these funds within our website ([www.tqinvest.co.uk/isaguide](http://www.tqinvest.co.uk/isaguide)). For those who prefer to search from a smaller list of funds we have the Hero Funds list, which is a list of the funds our investments experts believe are amongst the best in their field. Alternatively, we have developed a ready-made portfolio, called the Six of the Best. If you feel these six funds are right for you, it provides a time-saving and convenient option for your ISA. There's more information on our Six of the Best portfolio later on in this guide.
- **Help and support** – You will find a range of useful research tools and information within this website. However, if you feel the need to speak to a real person, we have a UK-based help desk on hand to answer any questions you have.
- **Ease of investing** – We provide three routes for you to invest in your ISA. If you prefer to invest online, you can. If you would like someone to invest for you, you can call a member of the team on 0800 294 7181. And if you prefer the traditional way, you can invest by post with a cheque and application form.

## Ready to get started?

We have three options if you're looking to invest in your ISA

1. Unlimited choice – Browse the 1,000s of funds on offer for the one that's right for you.
2. A choice of the best – We've created a list of some of the best funds on the market to make your search for the right fund easier.
3. Six of the Best – A ready-made portfolio for those who don't have the time to research lots of funds. A great option if you feel the funds are right for you.

### **When too much choice is confusing**

If you have neither the time nor the inclination to research the 1,000s of funds available for you equity ISA, TQ invest has developed two investment solutions designed to help make choosing the funds that are right for you, easier.

## Six of the Best

Every tax year brings the same dilemma for people looking to pick funds for their ISA. Over the years our Six of the Best has been a popular choice for our clients, mainly because it saves time and provides a ready-made option for you to consider, especially if you are happy to make your own investment decisions, without the help, and cost of a financial adviser.

Overall we believe the Six of the Best portfolio works well together because Artemis and Invesco Perpetual generally invest in companies with a defensive bias, so could be resilient funds to hold during a time when the economic recovery remains fragile. Newton provides overseas exposure (including higher growth areas) with high income. The Schroder fund, with its focused growth bias, complements the three income funds. For diversification the M&G fund invests in fixed interest, whereas the Jupiter fund with its flexible approach, aims to deliver positive returns irrespective of market conditions.

## 2011's Six of the Best

### 15% Artemis Income Fund

The fund has the flexibility to invest up to 20% in overseas markets. Many of its peers do not. Generally, companies with more predictable earnings are preferred. Consequently there is a defensive bias to the fund, for example with stocks in the healthcare sector featuring heavily.

5.25%  
Discount

### 15% Invesco Perpetual High Income Fund

Managed by probably the best known of all UK fund managers, Neil Woodford, this fund has an outstanding track record. The resolutely defensive approach he favours means that there will be spells when he will under-perform against his peers (as happened in 2009) however, it does mean that currently the fund is well placed to perform in an uncertain economic environment.

5%  
Discount

### 20% Newton Global Higher Income

A fund that has a track record of providing a meaningful income from overseas, including the high growth areas of Latin America & the Far East.

4%  
Discount

### 20% M&G Optimal Income Fund

This is one of a range of funds managed by the highly experienced Richard Woolnough. It is a specialist fixed interest fund, which has the flexibility to allow separate views on duration (the sensitivity to interest rate change) and credit risk, which are the two key drivers of fixed interest securities. This approach allows the fund to profit from a broad range of scenarios that more traditional fixed interest funds would be unable to achieve. This flexibility is a key attraction of the fund.

4%  
Discount

### 15% Jupiter Absolute Return Fund\*

Phillip Gibbs has been one of the best fund managers for many years. This fund provides the manager with greater scope to have significant flexibility. It can genuinely take a "go anywhere" approach. The portfolio will invest in a range of assets, including shares and fixed interest securities, allowing the manager to use strategies designed to make money in falling, as well as rising markets. Despite an unremarkable 2010, he remains a most able manager.

5.25%  
Discount

### 15% Schroder UK Alpha Plus Fund

Richard Buxton continues to believe that an approach of simply tracking the FTSE 100 Index will not deliver the returns compared to a proactive approach. Consequently, being heavily overweight in banks in early 2009 was highly beneficial. This fund takes a much more concentrated approach than many of its peers, its rigorous research approach meaning that generally around 35 shares are held.

5.25%  
Discount

## Choose a Hero

If you like the idea of researching your own funds (and let's face it, it can be half the fun of investing) but would like the choice of a smaller list of the UK's best investment funds, then our Hero Funds list is there to help.

Each of our Hero Funds has passed a rigorous selection process set by our Investment Committee, to provide you with a list of funds you may wish to consider including in your portfolio.

The benefit of using our Hero list is that with the basic research done, you have time to fine tune your fund selection, choosing only funds we believe are amongst the best in the market.

For more information on TQ Invest and our services, visit [www.tqinvest.co.uk/isaguide](http://www.tqinvest.co.uk/isaguide) or call us on 0800 294 7181

\*A performance fee may apply if the fund meets certain performance criteria. For full details of the performance fee please refer to the fund fact sheet which can be found at [www.tqinvest.co.uk/isaguide](http://www.tqinvest.co.uk/isaguide)

Past performance should not be regarded as a guide to the future. Please note that our 'Six of the Best' Portfolio and Hero Funds are not personal advice to you, and you should read TQ Invest's [Client Agreement](#) and the funds' [factsheets](#) before investing.

# Important Notes



TQ Invest is an independent investments broker providing products and information from the whole of the market whilst acting on behalf of our customers. The views expressed by third parties within this guide may not be the same as ours. As we don't know your individual circumstances, none of information in this guide is specific to you; therefore Torquil Clark Ltd can take no responsibility for the decisions you make from it. You must obtain full details of the products and look at your own circumstances, objectives and attitude to risk before proceeding. If you need advice, please call 0800 294 7191. Past performance is not a reliable indication of future returns, the value of your investments, and any income, can fall as well as rise and you may get back less than you invested. Levels and basis of and reliefs from taxation can change. Tax reliefs referred to are those currently available and their relevance depends on your individual circumstances and your tax position. As with all investments, the tax treatment of ISAs is subject to change by HM Revenue and Customs. The information in this bulletin has been gathered from sources such as Trustnet and CTP/Exchange. If you no longer wish to receive our bulletin, please contact a member of the TQ Invest Team. TQ Invest is a trading name of Torquil Clark Ltd, which is authorised and regulated by the Financial Services Authority.

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