INVESTMENT BULLETIN

In association with 'Dobson & Hodge Ltd'

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SAFETY FIRST - A LOOK AT NATIONAL SAVINGS

Originally established by the British Government in 1861, National Savings & Investments (NS&I) products are intended to encourage people to save for the future, to provide a secure home for their savings and to generate a valuable supply of funds for the UK Exchequer. When individuals invest in a NS&I product, they are lending money to the UK Government; in exchange, the Government guarantees the safety of their capital and provides an additional incentive in the form of interest, Premium Bond prizes or returns linked to the performance of the UK Stock-market.

NS&I offers a broad range of products aimed at investors who might be looking for income or growth, for tax-free products or who might want to protect themselves from the effects of inflation. Simple, straightforward savings accounts and investments for children are also available, as are Premium Bonds, which are probably the best-known of all NS&I's products. Today, NS&I has more than 25 million customers with more than £100bn invested.

NS&I is arguably the most secure place for UK savers to put their money. All the products are backed by the Government so, unless the country finds itself in serious financial trouble, investors can feel confident their capital is safe. However, this safety comes at a price – greater security means lower risk and investors pay for peace of mind by sacrificing the higher returns they might have earned from a riskier investment. Nevertheless, demand for these Government-underwritten NS&I accounts has surged in recent years, exacerbated by exceptionally low UK interest rates – which have dampened returns on all deposit based accounts – and nervousness following the failure or near-failure of some high profile financial institutions. Basically, because the difference in the interest rates currently on offer from different deposit accounts is relatively small, there is little incentive for investors to take on additional risk. This has driven some investors towards the lowest-risk options "just in case".

Some building societies – which have struggled to attract inflows to their savings products in this climate of low interest rates – have lobbied the Government to make NS&I's products less competitive. Indeed, NS&I has actually withdrawn some of the more popular accounts recently. NS&I does not necessarily want to be seen as offering the most competitive rates, believing the guarantee of total security is the most significant Incentive for its customers.

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CORPORATE ACTIVITY DOMINATES

An initial public offering (IPO) can be a watershed moment for many firms, but that moment is often complicated by a degree of hype, particularly if the company has a high profile or if the floatation is controversial. IPOs are often perceived as a target for relatively small or young companies who want to raise cash to invest in their businesses. However, IPOs are also undertaken by established companies who want to take advantage of some of the benefits that come with a public listing.

A publicly listed company has to abide by the most stringent rules and regulations but, while this high level of accountability, reporting and disclosure can prove expensive and time consuming, the additional transparency can also make the company more attractive to lenders. Many companies hold an IPO to generate additional capital – perhaps to invest in their business or to reduce existing debt. An IPO helps to draw attention to the company, providing additional publicity that can, in turn, generate new customers and boost market share. They can also provide an opportunity for a company's founders to cash in on what they created.

For a private investor, investing in an IPO is a relatively high-risk option, even if the company is a household name. It is vital to understand the general risks involved in direct investment in a single company, and the specific risks relating to the company in question. It is easy to become swept up in the hype, so take expert advice before investing.

AN INTRODUCTION TO GILTS

Gilt-edged securities or 'gilts' are loans issued by the UK government. As the government is considered highly unlikely to default on its loans, gilts are regarded as low-risk and are therefore a popular component of a balanced investment portfolio. Investors receive a pre-agreed rate of interest – the 'coupon' – twice each year. This might be fixed at a certain level or it might begin at a relatively low level and rise in line with inflation. If you buy a gilt at issue and hold it until it is repaid – the 'redemption date' – your initial capital will also be repaid in full.

A long term view

Over the long term, the Stock market has traditionally tended to outperform cash. However, past performance is not a reliable indicator of Future performance and the market is also volatile. This tends to worry investors, tempting them to sell at the first sign of trouble.

However, selling after a sharp fall can be a Kneejerk reaction. Falls can be followed by upward movements and, over the long term, short-term ups and downs should have no serious impact on achieving your objectives. Share prices do go down as well as up and are not guaranteed, but think before you act. Have your needs changed? Has your attitude to risk changed? If your portfolio has been set up to fit your aims, time should be all it needs.

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