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MONEY BOX LIVE

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DUGGLEBY: Good afternoon. With politics increasingly taking centre stage, it's not surprising that many investors have decided to sit on the sidelines to await developments. Are you missing out on potential gains later in the year, or have you already seen the best of the action? We'll try to provide some answers in the next half hour in response to your questions to Money Box Live. It's always said that the stock market is a leading indicator of the economy, anticipating recovery before it's actually reflected in the statistics. The fact that the 100 share index has risen some 50% from the low last March might suggest that recovery's always factored into share values even though last quarter's growth was a bare 0.1%. For those just happy to track the main UK index, nothing much has changed over the last 3 months or in fact over the last 13 years, but there are still concerns over rising inflation - some say it's only temporary; quantitative easing; interest rates; the level of the pound against the dollar and the euro; and whether overseas markets - notably China - offer a prospect of better returns. If the best you can get on your savings barely matches the rate of inflation before tax, is it any wonder that some investors see equities as a better home for their money? And as Money Box has reported, how can most banks and building societies justify cutting rates on ISAs to the point where the tax relief is virtually worthless? Possibly with base rate at a nominal half of 1%, they think they can get away with it. Are corporate bonds or gilts a better bet for those of a nervous disposition? Well that's a question for the panel, if asked. 03700 100 444 is the number to call if you want some advice on share investment. And with me to provide the answers: Morven Whyte, Portfolio Manager with stockbrokers Redmayne

Bentley; Rob Burgeman, Divisional Director of Brewin Dolphin; and Gavin Oldham, Chief Executive of The Share Centre. And the number again - 03700 100 444. Standard geographic charges apply and calls from a mobile may cost you more. First up though, we have Paul in Stourbridge.

PAUL: Hello there. Good afternoon. I have a ISA at the moment on behalf of my 19 year old daughter. Obviously, as you said, they're not doing very well. I have £5,100 into it. Prior to this, I was investing with Morgan Stanley; took it out in 2008. I want the best way long-term - because she's not interested in short-term, i.e. something between 2 and 5 years - to invest the money.

DUGGLEBY: I take it from what you're saying, your daughter has the ISA. Let's get this right. It's not your ISA. It's your daughter's. And you're funding it?

PAUL: No, I have the ISA. Basically what it was is my ex-wife and myself had an insurance policy out for my daughter which matured, and it's somewhere to put it away for the time being until things get better.

DUGGLEBY: But it is your … Let's get it clear. It's your daughter's money and you're merely …

PAUL: It's my daughter's money.

DUGGLEBY: And you're advising her what to do?

PAUL: Yes.

DUGGLEBY: Okay, right. That's clear. Because certainly Gavin in this case, I mean you have to have the shares or funds in your own name?

PAUL: Yes.

OLDHAM: Yes, I mean they'll be bought into the ISA obviously there. But, yuh, the thing is that the stock market is certainly the right place to be for long-term returns, as you said. At the moment, the amount of money you're going to get on any sort of interest bearing you know sort of deposit, cash ISA and so on, is going to be extremely low. But it sounds to me as if you probably will have you know a risk profile which maybe doesn't want to take too much risk at the moment, so you know really you want to go for a fairly safe area of the market - areas like utilities, for example. Get some advice. It's important to go to a broker which does provide advice.

PAUL: I've worked my expenses out. I mean I got the information last time from The Times. There was a supplement in there giving different companies.

DUGGLEBY: That's not a bad way of doing it because often, Morven, you and other companies will provide information to The Times as to what you're buying and selling and the reasons for it, and I guess the readers then pick up this and say, "Oh I quite like that" or "Don't like it." I mean that's probably what you're doing, isn't it - sort of making your own selection from what the professionals are saying in public, in the press.

PAUL: That's right, yes.

DUGGLEBY: Morven?

PAUL: So you think that the right time is now to invest it in shares rather than leave it …

DUGGLEBY: *(over)* We'll see what Morven says, first of all, and then we'll get Rob after that. Morven?

WHYTE: Well I think it's absolutely down to risk. You said that there was £5,200 in there. I don't know whether it's all in cash just now. In other words, if it is and your daughter decides that she would like to take more risk - yes, she may well go into two or three or even four investment trusts or unit trusts. And by all means, have a look, do your own research. But then you will find that a number of brokers are quite approachable and you can you know explain what you're intending on doing and say is this a good idea, and you know work from there. But certainly to appreciate that you're going from cash to stocks and shares in some form is increasing the risk profile and the £5,200 which you possibly invest now will go up and down in value depending on what the market's doing. She's got to be comfortable with that.

DUGGLEBY: Rob …

PAUL: The only thing I'm concerned with as far as brokers are concerned is the amount that they're going to charge.

DUGGLEBY: Alright, well let's get Rob to comment on that. £5,100 - management charges. I mean it's in an ISA, so essentially this is something which you would be advising on, I suppose, because you have to.

BURGEMAN: The management charges on the whole, it depends what kind of service level you're looking for and how you're invested.

DUGGLEBY: But you know 1%, 1.4, 1.5?

BURGEMAN: For purchases, yes it's going to be sort of 1% plus stamp duty depending on what you buy.

DUGGLEBY: *(over)* And you're going to have an annual fee though if you're looking after people's investments.

BURGEMAN: And again it's going to be about the same kind of level. So you know you've got to be careful. For small amounts of money particularly, you've got to keep one eye on the costs of investment.

DUGGLEBY: Indeed. I mean we've got a couple of emails … Well we have a number of emails on people who have money to invest - I mean starting perhaps with Zainab who's got £1,000 and says he's not even sure whether it's too small to invest at all, ranging right up to a gentleman who's got £200,000. I'm just trying to find him. He says he's got £200,000 to invest. Now there's all the difference in the world between somebody with a £1,000 and £200,000.

BURGEMAN: Well the key is always diversification. If you've got £1,000 to invest, there are things that you can do, but inevitably your ability to have a well diversified portfolio of investments is reduced. I mean it's a matter of eggs and baskets, isn't it really?

DUGGLEBY: I mean the contrast I've found … It's Sally actually in Manchester who's got this £200,000. But she's asking, for example Gavin, whether discretionary fund management by a broker or a fund manager is the way to do it? In other words, is £200,000 too much for an individual really to get their head around unless they're working at it full-time? I suspect it is.

OLDHAM: Well it's often claimed that the discretionary way is the best way to take it forward, but that's because the discretionary managers can make quite a lot of money out of £200,000. I have to say that the performance of discretionary managers does vary very, very widely and you need to hold them to account very, very closely to make sure you are actually getting an active service and not just pulling your file out of the drawer you know once every 6 months and checking to make sure it's okay. So you know I think that if you've got an aptitude for investing yourself, then certainly a large part of that sort of size money could be invested yourself, with advice; and actually by using the sort of Internet stock broking services these days, you can be very, very hands on with that.

DUGGLEBY: Morven, I mean given that most brokers work on the principle called 'asset allocation' where you look around and you say okay, here's the size of the portfolio, where are you going to put it - I mean with a fund of you know six figures, what is your current thinking about where it should be put I mean both internationally and in terms of how much cash, bonds, whatever else you hold?

WHYTE: Oh I hate to go back down to the risk, but it does very much depend on the risk profile and also what kind of income, if any income is required from the portfolio. And, again, what element of capital protection do you require? They will all answer questions in terms of whether you're wanting a fairly high percentage in bonds - maybe 20, 30%. Again if you want to try and protect your capital from inflation, you might put quite a large part into indexed linked gilts. Again, depending on the risk profile, then someone might decide that they really would prefer to stay with some of the Western economies, stay within the UK. Other more adventurous clients, then we might well tilt the portfolio more towards Asia Pacific, emerging markets or even the new emerging markets such as Venezuela and Indonesia. It all depends very much on the level of risk in terms of asset allocation.

DUGGLEBY: And also, of course, dependent (as you make the point) on the fact find, which is defined by the individuals.

WHYTE: Yes.

DUGGLEBY: But again, sorry to pin you down, Rob, but I mean are you of the school of thought that says the market's running a bit ahead of events, or are you still a comfortable buyer of the UK market at these levels?

WHYTE: Well we did a survey within our office and branches, and the feeling was the FTSE may well close the year at around about 5500. *(Rob tries to interject)* If that's the case, then we're at about, what, 5300 just now for the level of the big FTSE, so it doesn't actually leave an awful lot of scope for growth. So, therefore, you may want to be selecting particular shares or investments that are providing you an income as well as a modest bit of growth. I think stock picking will certainly be … stock picking or specific asset picking will be the name of the game this year.

BURGEMAN: That's exactly right. I mean stock markets don't go up in straight lines. Nor do the sectors within the stock market. So you'll have a rotation. Retail for example at the moment is looking … I think with the kind of headwinds that the UK economy is likely to run into over the next 6 to 9 months, then retail may have a sticky time. And that's the kind of thing that stock markets, since they are by their nature forward looking, tends to get reflected in share prices. On the other hand, sectors like the mining sector will pay very close attention to what's happening in China and what implications that has for global growth.

DUGGLEBY: Okay Jim, you're ringing us from the North East. I suspect we sort of trampled on your territory for your question, but nonetheless do come in.

JIM: Well I'm in my late 60s and my wife's in her early 60s. We have invested, we've invested for quite a number of years, but I'm just wondering about just how cautious I should be as the years roll on. Would you like to hear what investments I have?

DUGGLEBY: Briefly, briefly please.

JIM: Yes. Well I have £55,000 in World Select Cautious with HSBC and £38,000 in the World Select Dynamic. My wife has a Jupiter Merlin income portfolio, which is accumulation, which is in the £60,000s. And we have something like £60,000 in premium bonds, in cash, etcetera.

DUGGLEBY: Okay, well what you're clearly doing, for the benefit of those people who probably have never heard of these funds, Gavin, these are collective funds. They're big, sort of internationally, broadly spread. So the fact that Jim and his wife only own what we would see as three investments - actually of course underlying it, there are dozens, if not hundreds of companies.

OLDHAM: Well I can see straightaway that Jim is quite a cautious investor and that's perfectly okay, many people are quite cautious investors. You know you may have been irritated to have been out of the market last year, which saw quite a steep rise, but that was more a reaction to the fact that interest rates are so low and there was good returns to be had you know on a dividend income basis during last year and so it was really returning to its norm. I think if you are a cautious investor, you know you're right to be looking at funds. It's a good way of getting a really good spread there. And certainly in terms of the period ahead, I don't think that there's going to be some huge rise in the market this year as there was last year. But I have to say some other areas this year are also looking under some pressure. You know certainly areas like government bonds, for example, are very highly rated at the moment, and obviously if the government doesn't sort out its public sector deficit problems, they could come under quite a bit of pressure. So it's not a time to be too adventurous on these fronts.

DUGGLEBY: Your view now, Rob.

BURGEMAN: I think again I'm agreeing. The whole point with having a cautious approach to investment is that … If you look at last year, you made some money last year and you probably made more money than you made on deposit. If you remain cautious this year, in all likelihood you'll make more money than you would make on deposit. There's an opportunity cost that goes with that - that if stock markets perform very strongly, you won't make as much money - but in the end it's about going to bed and sleeping and not worrying about your investments as much as you would if you were more adventurous.

DUGGLEBY: Our emails are indicating that people are concerned about the relatively low level of interest rates and wondering possibly whether they might go up; and if they went up, would that change the climate for the stock market? What do you think, Morven?

WHYTE: I am going to stick my neck out here and say I think interest rates, certainly in the UK, are going to stay fairly low for some time.

DUGGLEBY: And is that good for the stock market?

WHYTE: Well it depends what it's coupled with. If it's coupled with inflation and a recovery by way of GDP, then we'll probably see companies doing reasonably well because they're paying less to finance their debt. But I don't think you can just look at one thing in isolation. There's a whole lot of other indicators that you'd have to see. Interest rates I think will stay low because the government is going to have to stop spending and cost cutting in the public sector. The impact that will have on the economy will be quite significant and I don't think any government, whichever government gets in come May, is going to put rates up because I don't think the economy will be able to stomach it.

OLDHAM: Yes, I think that's right that interest rates *will* stay very low this year. I think as soon as the economy can cope with any tightening, it will be taken up by the government in the way of tax and there'll be very little room for the Bank of England's Monetary Policy Committee to push up interest rates by more than a small amount. But the thing is that the equity market is driven by a lot more things than purely interest rates. I mean one of the really significant things for us is that 70% (it is said) of the FTSE 100 stocks actually earn their money overseas, and so the level of sterling is extremely important to them. Now we've seen a real depreciation in the currency and that improves the prospects for exporters and it also improves the prospects for any company which has significant amounts of earnings overseas which are then repatriated into sterling at a beneficial currency rate.

DUGGLEBY: So supposing somebody you know thinks yeah that sounds … Gavin's talking a lot of sense there, is there a fund that caters for this?

OLDHAM: Well unfortunately we can't find a fund which actually specialises in countries with very strong overseas earnings. Of course there's managers who will have a style that way, but in fact in our investor magazine which will come out in February we will be actually highlighting all the stocks in the FTSE 100 which do have strong overseas earnings and actually picking them out one by one. You've actually got to go through their report and accounts to get all the details because they all report in different ways.

DUGGLEBY: Okay, well you've raised this point of the currency as being perhaps an Achilles heel. But we've got a couple of emails - one from Donald in Kenland, Kendall I'm sorry, and one from Colin in Kingsbridge - and they're both worried about inflation. Now Donald says he's got quite a significant part of his portfolio in corporate bonds. He fears inflation is going to start rising rather fast. Wonders whether index linked gilts are a possible solution. And Colin simply says, 'Experts say there's a renewed threat of inflation. What's the best place to invest my cash and are there any types of shares which could be described as a *hedge* against inflation?' Rob?

BURGEMAN: Index linked gilts are certainly a good way of hedging against inflation and they're pretty tax efficient as well for most UK investors. The question of inflation is a more complex one because the pressures that are around in the economy, particularly the other side of an election where we're likely to see tax increases and cuts in spending, are deflationary ones. However, things like tax rises immediately go through onto the Retail Price Index, which gets reflected in inflation. Now there's not very much that the Bank of England can do to affect that. Natural sort of hedges for inflation are things like food companies because food prices go up and they generally can pass those on. They're quite good for people like the supermarkets.

DUGGLEBY: We've had an email from a listener regarding hedging against inflation: are utilities - you know bearing in mind that they've got a near monopoly - are *they* any good?

OLDHAM: Well I mean I would say worry not about inflation actually. I do appreciate that the value of sterling …

DUGGLEBY: *(over)* There's pretty big inflation in oil and electricity and gas. There's a very inflationary …

OLDHAM: *(over)* Absolutely understand; and as the pound comes down it will make certain commodities coming in from overseas, particularly you know oil, look more expensive. But the fact is that there's a bit of a relationship between unemployment and inflation. The economists used to call it the Phillips Curve. And the fact is that we're looking into a period where there's going to be I'm afraid probably increasing unemployment because of the size of the public sector deficit, which is going to be cut, and that will actually act to keep inflation low for quite a long period to come. And so I really don't think that this is going to be an area which is going to do much in the short-term other than stir people's feelings that surely at some stage there's got to be inflation because the Bank of England's pumping all this money into the system.

DUGGLEBY: Absolutely.

OLDHAM: Well in due course, in the medium long-term, it may do that.

DUGGLEBY: That's what they keep saying, Gavin. That's what the listeners are saying.

OLDHAM: But it won't in the short-term.

DUGGLEBY: Alright, Maureen, your view? *(laughs)* Maureen, I'm sorry. Morven, your call.

MAUREEN: Hello. My stockbroker has just retired, and he always knew this crash was coming and he's put me into bonds - New Zealand bonds, New South Wales, Canada, Australia, which have held up very well. And now I've got an advisory tax … new man I'm thinking of going into, and he thinks they're now not so good to be in and is thinking of putting me into equities, and particularly in AIM. I think AIM?

DUGGLEBY: Yes the AIM market, yeah.

MAUREEN: This is tax efficient. Have you got any ideas about that?

DUGGLEBY: Well you've got two or three questions rolled into one. So let's go to Morven, not Maureen. This is Morven Whyte of Redmayne Bentley. First of all, Morven, what Maureen has described obviously is international bond funds or international … possibly in this case Pacific bonds. But what's your view on that international bond market generally, Morven?

WHYTE: Well yes, you know fantastic in so far as you were obviously given good advice. I would imagine that the bonds have increased in value in sterling terms …

MAUREEN: Yes, very well.

WHYTE: … and you've also enjoyed a fairly good income.

DUGGLEBY: Time to get out?

WHYTE: Well just two seconds. In terms of a move out, then I'm kind of scratching my head up here in terms of a move towards AIM because that's going from something which … You know bonds traditionally …

DUGGLEBY: *(over)* That's a big jump to consider.

WHYTE: … are lower risk, or the lower risk end of the spectrum.

BURGEMAN: *(over)* It may be part of an inheritance tax plan.

WHYTE: Absolutely, yes. I mean if you have a large number of assets, then if you invest part of those in AIM and you survive two years, then they will then fall out of your estate for inheritance tax purposes. So it may be worthwhile speaking to your new adviser further and asking for more rationale as to why the advice has been given.

DUGGLEBY: Yeah, never be afraid, Maureen, to say *why* are you advising me to do this; and if you're in any doubt, then don't. I mean just simply back off if you don't. If you don't understand what you're investing in, then please don't invest in it. A word from you, Rob.

BURGEMAN: Oh I was just saying it's down to the risk of an investment in the end. I mean if one can save 40% inheritance tax by investing in shares which can go down by 80, 90%, you have to ask whether it's a saving worth making.

DUGGLEBY: But in the end, I mean the balance of a portfolio from the sound of things may be reasonably substantial. If it's been very heavily invested in corporate bonds - you know again we're back to asset allocation, Gavin, but it's probably no bad thing to edge back into equities if you've been adverse to them for a year or two?

OLDHAM: Well corporate bonds actually have seen really a very steep rise over the last year, and that's because not only the interest rates have worked in their favour but also it's the credit risk that they represent, which has been re-evaluated by the market. And so you know they have seen quite a strong gain and I can see why the advice is there to actually switch. But again I would rather echo those thoughts about asking the questions why in relation to AIM because you know it certainly has an important part to play in a portfolio, but it shouldn't be … you know it's such an over-weighted part that it would be looked at as …

DUGGLEBY: I ought to mention that AIM is Alternative Investment Market …

OLDHAM: That's right.

DUGGLEBY: … the emphasis being on alternative. What does that mean?

BURGEMAN: They're very small, very adventurous start-up companies generally.

DUGGLEBY: Indeed. Right moving on now. Jason, you've got a specific capital gains question.

JASON: Hi there. Yes, please. I'd like to know please how much I can invest every year and how much profit I can make from my shares, please, without incurring capital gains tax.

DUGGLEBY: Well you can invest as much as you like and the limit on the capital gains or the capital gains tax free limit is …?

BURGEMAN: £10,000.

WHYTE: £10,000.

DUGGLEBY: £10,000 …?

OLDHAM: 200.

DUGGLEBY: 200, right.

OLDHAM: £10,200. But remember the important thing on this is actually it's not the book value of your shares. In other words, they can be worth that £10,200. It's only when you sell them that you take the gain, and that's what the Inland Revenue, the HMRC will look at. It's crystallised gain. It is not just the rise in the value of your shares.

DUGGLEBY: And if we looked at it in numbers - supposing you were absolutely fantastic and invested £20,000 right at the bottom of the market back in March, you in theory would then have sort of about 30,000 pounds worth. But you could take all that gain tax free, couldn't you, because it's within the limits?

WHYTE: And then if you did have tax to pay on a very small surplus, it would only be 18% rather than what used to be 40%.

DUGGLEBY: Indeed. Right, now then we'll move to Robert in London. Robert?

ROBERT: Yes, thank you very much for taking the call. I invested (more fortunately than anything else) in a number of the banks and Prudential in March last year and they've done extremely well - for example, Barclays at somewhere around 59p and they're now running at something like 300. I'm now thinking of switching my portfolio from that amount of fairly risky investment, given the timing that I made it, to moving to unit trusts that cover the Chinese market. I feel that China's going to be the next leap in terms of increase over the next few months or perhaps year compared with the US or the UK. Any comment?

DUGGLEBY: Yes it's interesting because before the programme started, I was trying to pin the panel … I said I bet we get somebody who rings about China and Gavin was being kind of a bit hedgy about this, weren't you Gavin?

OLDHAM: Well I mean to begin with, I congratulate you on your decisions on the banks. I have to say they are looking a bit lacklustre now for the period looking forward, so it probably is the right time to switch. I have to say one of the very interesting moves over the last few months has been that an old colleague of mine who I was at university with, Tony Bolton at Fidelity, has just gone over to Hong Kong to go and set up a new China fund; and bearing in mind his record in the Special Situations Fund and Fidelity, I'm quite sure that he will do well in that area. But China is a tricky area. You know there's a lot of talk about it being a little bit overheated at the moment and the stock market is really quite high there. So I would say get good advice on China. Don't just go you know in without proper reconnaissance. They always say time spent in reconnaissance is rarely wasted, and that is absolutely true.

DUGGLEBY: Morven?

WHYTE: I think the other point is that for China to do well, the rest of the world has also got to do fairly well because they're such a big exporter of goods. So the idea that China can stand on its own two feet without the support of the likes of America, I think is wrong. I also think that there are some concerns. I don't think it's possibly going to bubble over just yet, but I think there may be some concerns in terms of social unrest in China. And I think also you know the currency's been kept artificially low and that's making imports a lot cheaper for the US.

DUGGLEBY: Could we mix perhaps China with some other similar sort of growth economies, Rob?

BURGEMAN: Well I mean I think the three golden rules of investment are timing, timing and timing, aren't they? And with the runs and the performance that we've seen from the emerging markets in particular over the last 12 months, it would not be unnatural to expect them to pause for breath over the next few months. That's not taking away from the long-term story and long-term attraction of the regions.

DUGGLEBY: We've got a quick call from Ian on a mobile. Ian, your call now.

IAN: Yes, my problem is getting the proceeds of a sale of American stock quickly from the US. I have direct registered shares with a company called Computer Share. I'm sure you're familiar with them. They're insisting on sending me a cheque, which obviously would arrive in dollars, and then to clear that cheque my bank tells me would take up to 6 to 8 weeks. Do you know of any way to shorten that process?

DUGGLEBY: Rob, can you help there?

BURGEMAN: If you were to hold your shares through a broker or other sort of share dealing facility, normally your shares would be dematerialised, which essentially means that the certificates are removed. They're sent over to the States and then put into the electronic trading system, which is the standard facility in the US, and any trades would then ...

IAN: *(over)* They're being sold as market stock. But having been sold as market stock, they send me a cheque which obviously I then …

OLDHAM: Yes and I have to say certainly the stock settlement is one issue; but actually money payment, transmission systems, I mean that sounds absurd that you should have to wait that long for clearing a cheque through and I would take Computer Share to task on that.

DUGGLEBY: Finally a very, very quick one for you, Rob. How safe is a nominee account with a broker?

BURGEMAN: Nominee accounts are typically non-trading companies. Their only role in life and purpose in life is to hold certificates.

DUGGLEBY: Yes, so covered by FSCS, which is …

BURGEMAN: *(over)* Exactly. And most brokers will have standalone insurance policies worth millions of pounds per individual.

DUGGLEBY: But £50,000 is covered.

OLDHAM: And it's worth bearing in mind that not only are they fully, fully reconciled and very, very tightly regulated, but also now you can get your company communications, your report and accounts and invitations to AGMs and that sort of thing provided that you go through a broker who will allow you to opt in for company communications.

DUGGLEBY: Okay, I'm afraid we've run out of time. Many thanks to Morven Whyte from Redmayne Bentley, Rob Burgeman from Brewin Dolphin and Gavin Oldham from the Share Centre. You can get more information on the points we've raised by ringing 0800 044 044 or logging onto the website, bbc.co.uk/moneybox. Paul Lewis will be here with the next edition of the programme on Saturday, and for the next few weeks he'll also be taking your calls on Money Box Live. I'll be back in March.