THE TIMES

Who wants to be an Isa millionaire?

Investing your annual allowance in the stock market can pay off, and a fund supermarket may be the place to start

Anyone wanting to make the most of the chance to build up a tax-free nest egg has only eight weeks to use this year's Isa allowance of £15,240 before the April 5 deadline.

It's an opportunity that could have lucrative consequences. Fidelity, the fund manager, has calculated that investing in a stocks and shares Isa every year for the next 22 years and five months could make you a millionaire. Assuming that your money grew by 5 per cent annually, and that you put in the full allowance each year (it rises to £20,000 in April), you could be sitting on seven figures by 2039.

Although this sounds tempting, many people are put off stocks and shares by the chore of selecting suitable funds. The answer is to use a fund supermarket (also known as a platform) where you can select a range for your needs or buy an off-the-shelf selection. These services are on the rise, as shown by Legal & General Investment Management's appointment of Helena Morrissey as the head of personal investing. Mrs Morrissey, the former chief executive at Newton investment, will establish a platform to help small investors to choose funds "in the same way that we use Amazon to access books".

Off the shelf

Fund supermarkets offer a smorgasbord of investment opportunities, says Adrian Lowcock, the investment director of Architas, the multimanager group. "Before these supermarkets existed, investors tended to go to a different investment group and buy a fund or two from each for their Isa. Fund supermarkets offer a wider variety of products and investors can view all their holdings in one place."

Narrow the choice

You need to be clear about what you are looking for, says Justin Modray, the founder of comparefundplatforms. com. "You need to decide if you want only unit trusts or unit trusts plus shares, investment trusts and exchange-traded funds [ETFs]. Some fund supermarkets cater only for unit trusts."

Check the costs

There are basically two charging models, says Mr Modray. Some, such as Hargreaves Lansdown, the largest fund supermarket for private investors, charge a percentage annual fee where the cost depends on the size of your portfolio. Others, such as Interactive Investor, charge a fixed annual fee. On top of this are dealing charges of about £10 a time, for buying and selling shares, investment trusts and ETFs.

Supermarkets that charge an annual percentage fee don't normally charge for dealing in funds, though ones that charge a flat annual fee usually do. You need to work out which method is best for you.

Mr Modray says: "People with a large portfolio of, say, £100,000 or more who tend to be infrequent traders are better off with a fixed annual fee, such as the £80 per year levied by Interactive Investor. If you have a more modest portfolio and/or you trade frequently, you would be better off with a platform that charges a percentage fee. Among the cheapest is Charles Stanley Direct, with an annual charge of 0.25 per cent."

Some discount brokers, such as Chelsea Financial Services, provide a considerable amount of research and will offer model portfolios, but because they don't have their own fund supermarket, investors have to pay a double annual charge. In Chelsea's case this is 0.4 per cent for its services and 0.2 per cent for the Cofunds supermarket it uses, making 0.6 per cent before adding the cost of funds purchased.

However, Mr Modray says charges aren't the only consideration. If one supermarket has lower fees, but its website is difficult to navigate, a novice investor might be better off paying more to gain better support.

Get some guidance

A number of fund supermarkets, including Bestinvest (part of the Tilney Group) and Hargreaves Lansdown, will offer starter portfolios, which first-time investors can adopt until they gain confidence to make their own selections (or get an adviser to do so). Mr Lowcock says there are several types; an income portfolio might suit someone nearing retirement, while a growth portfolio might suit younger investors. Those who want to be less actively involved could select multimanager funds. These invest in a range of other funds, so you are effectively delegating the responsibility for fund selection to a professional manager. The downside of this is that you end up paying two sets of fees, one to the manager doing the selecting and another to the funds selected. If you are happy to go the DIY route there is no shortage of information to help with decision-making. Most fund supermarkets and specialist websites, such as those run by Trustnet and Morningstar, have a vast amount of information on funds' holdings, their performance, investment style, and the track record of their managers.

Mr Lowcock says some fund supermarkets offer services that are especially valuable to inexperienced investors. For example, Willis Owen offers a Fantasy Fund Manager game where people can select an imaginary portfolio and see how it performs without risking a penny. Bestinvest has a tool that can analyse your portfolio and give you a risk rating for each fund. It also has some of the most extensive information on the track records of fund managers.

The top models

A number of fund supermarkets, and discount brokers, offer examples of model portfolios to copy and use.

● Charles Stanley Direct's **income portfolio** consists of CF Woodford Equity Income, JO Hambro Equity Income, River & Mercantile UK Equity Income, Standard Life UK Equity Income, and Perpetual Income & Growth investment trust.

● Chelsea Financial Services' **balanced growth portfolio** features AXA Framlington American Growth, AXA Framlington UK Select Opportunities, Henderson Strategic Bond, Henderson UK Absolute Return, Liontrust Special Situations, and Threadneedle European Select.

● Danny Cox, of Hargreaves Lansdown, suggests the following portfolio for a **medium-risk investor**: CF Woodford Equity Income, Pyrford Global Total Return, RIT Capital Partners investment trust, River & Mercantile UK Dynamic Equity, and Lindsell Train Global Equity.

● Fidelity's selections for a **medium-risk investor** are Artemis Income, Majedie UK Equity, JO Hambro UK Dynamic, BlackRock Continental European, Fidelity Institutional UK Aggregate Bond, Fidelity Strategic Bond, and Bloomberg Commodities Index.

● Bestinvest's suggestions for a **medium-risk investor** are Evenlode Income, Liontrust Special Situations, Vanguard S&P 500 UCITS Sterling ETF, Threadneedle European Select, CF Morant Wright Nippon Yield, Pacific Assets investment trust, JP Morgan Emerging Markets investment trust, Invesco Perpetual Global Targeted Returns.

Back to basics

● In this tax year you can invest up to £15,240 in an Isa.
● The annual Isa allowance is per individual, so a couple can put £30,480 into Isas this year.
● You can invest the full amount in either a stocks and shares Isa, or a cash Isa, or you can split your money between the two, provided you do not exceed the allowance.
● You can transfer money from stocks and shares Isas into cash Isas, or from cash to stocks and shares.
● Your money builds up free of income tax and capital gains tax, and there is no tax to pay when you withdraw your money.
● Isa investors can bequeath their accounts to spouses or civil partners, and these beneficiaries can continue to run the Isas without any loss of tax benefits.
● A final bonus is that you don't have to declare your Isa investments on your tax return.