Money Observer

Beginner investors: the funds to buy at six different life stages

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By Jennifer Hill

Not all new investors are in the same boat. Jennifer Hill looks at priorities and simple DIY solutions for six hypothetical investors in a range of circumstances.

Buy low and sell high is an often-quoted investment maxim – and although timing markets is notoriously difficult, this is arguably a good time to be putting money to work.

The coronavirus epidemic and oil price war has battered global stock and bond markets over the past couple of months, sending the Vix, the US equity market fear gauge, soaring. It spiked to 83 in mid-March, up from a normal range of 10-20. Strong returns have historically followed such occasions, though, with the S&P 500 index returning an average of 25% in the 12 months after the Vix has previously exceeded 33.

Those who adhere to some simple investment rules – ignore the 'noise', stick to your long-term strategy and utilise available tax breaks – stand to profit. But where should you start? Not all beginners are created equally, and it is important to invest in a way that is appropriate to your circumstances and objectives.

We spoke to a range of investment experts to outline simple DIY solutions for six hypothetical investors in different situations going it alone for the first time.

Fraser, 20-something

Saving regularly into an Isa

Fraser is a 20-something advertising creative living in London. He isn't yet a homeowner, although he aspires to be, and spends a lot on rent. He wants to dip a toe into the markets. His parents are long-term investors and have suggested he gets an Isa. They have impressed on him the benefits of pound-cost averaging (investing regularly to smooth out peaks and troughs) and of compounding returns over time.

He wants to commit a small regular amount – £25 is typically the minimum on investment platforms – and plans to review and increase his monthly investment as his finances permit.

His long-term outlook means his risk profile is adventurous and he should focus on equities to generate the best possible returns over that multi-decade timeframe. As a dyed-in-the-wool millennial, Fraser is concerned about the environmental and social impact of his investments, so an investment aligned with the United Nations' sustainable development goals might fit the bill.

Sam Buckingham, a 26-year-old investment manager at Canaccord Genuity Wealth Management in London, is a kindred spirit. "Fraser needs to give some thought to what the mega trends will be and what investments will benefit," he says.

He recommends Montanaro Better World, which invests in smaller companies helping to solve some of the world's major problems, and Fidelity Sustainable Water & Waste, which focuses on water and waste management companies that should benefit from global population growth, urbanisation and wealth creation.

Another option for Fraser is Climate Assets, which invests in five themes related to climate change and is one of Money Observer's Rated Funds.

Lucy and Stuart, 30s

Saving for school fees

Stuart and Lucy are in their mid-30s and work in the financial sector in Edinburgh. Lucy is expecting their first child, a boy, and they are keen to have the option of giving their son a private education, either from primary or secondary school. They have recently received bonuses from their employers and would like to use some of this money for that purpose.

They will look to draw on the money in the next five to 10 years, so it is important that they avoid the worst of the market's ups and downs while still producing a decent return to meet their objective. School fees have a habit of rising, so an inflation-beating return is desirable.

Rob Morgan, an investment analyst at Charles Stanley Direct, points to a medium investment timeframe like theirs being "one of the trickier" investment scenarios. It necessitates balancing the higher potential returns from equities with the ballast of lower-risk assets such as bonds.

Fortunately, there are lots of ways a novice investor can access such a half-way house. Mixed asset funds offer a one-stop-shop for a diversified portfolio.

One such option for Lucy and Stuart is Miton Global Opportunities investment trust, a Rated Fund since 2019. Investment trusts can trade at more or less than the value of their underlying assets, and this trust of investment trusts aims to exploit inefficiencies in the pricing of the trusts in its portfolio.

Nick Greenwood, its manager since 2004, likes volatility because it creates opportunities for him; there has been plenty of that lately, so he is likely to be spoilt for choice in coming months.

Morgan suggests combining two other investment trusts, Personal Assets and RIT Capital Partners, which also sit in the flexible investment sector and "would provide a diverse underlying portfolio through management teams focused on long-term wealth preservation".

Lisa, 42

Investing an inheritance for the next generation

Lisa's late father left £10,000 to each of his grandchildren, including her children Ben, 12, and Mia, eight. Ben has a child trust fund (CTF) into which the government paid £250. It is a cash account, like 70% of CTFs, and worth £284. Mia was born after the CTF was replaced by the junior Isa (Jisa), which does not attract a government contribution.

The poor return on Ben's CTF shows that cash has not kept pace with inflation due to low interest rates. Lisa wants to achieve a higher return. She knows she will have to take on more risk but is nervous about stock market volatility.

She wants to transfer Ben's CTF to a Jisa to achieve greater investment choice and better value and will open one for Mia too. She understands that the assets will belong to the children, who can withdraw them from age 18. The potentially relatively short investment timeframe is another reason for her taking an easy-does-it approach to investment.

On 6 April 2020, the annual amount which can be sheltered in a Jisa jumped from £4,368 to £9,000. Kay Ingram, a director of national network LEBC Group, suggests Lisa uses the full allowance for each child but parks the money in cash and drip-feeds £750 into financial markets each month. The remaining £1,000 of the inheritance could be invested at the start of the 2021-22 tax year.

Passive funds that Ingram likes are iShares 100 UK Equity Index for a medium-risk approach, and Fidelity Index World for exposure to more volatile markets such as Japan and Hong Kong.

Her active fund recommendations are Royal London Sustainable World and Baillie Gifford Managed, mixed asset funds that have held Money Observer's Rated Fund status since 2013 and 2019, respectively.

Chris, 50

Putting £1,000 into a Sipp for his baby godchild

Chris, a bachelor, has been asked to be godfather to a friend's baby daughter, Belle. He wants to invest £1,000 on her behalf, and to maximise its potential worth – and avoid the prospect of it being squandered at age 18 – he has decided to shelter it in a junior Sipp.

The earliest age at which pension assets can be accessed under current legislation is 55. Given the incredibly long investment timeframe, he can afford to take a lot of risk and put the entire sum in the stock market.

Andy Coles, a chartered financial planner at Reading-based Beaufort Financial, suggests Vanguard LifeStrategy 100% Equity, a fund of index funds. Punchy active fund options that are well suited to Belle include BlackRock Frontiers investment trust, a feature of our Rated Funds and awards since 2013, and Stewart Investors Global Emerging Markets Sustainability, a Rated Fund newcomer in 2020. It could be a good choice given the growing importance of sustainable investment.

Contributions of up to £3,600 per year can also be made into a Sipp for a child aged under 18. This includes tax relief, so the maximum net contribution is £2,880 per year. Control of the pension will pass to Belle at age 18.

As a safeguard against the investment being lost in the mists of time, online record-keeping means investments can easily be traced. As and when the much talked about pensions dashboard comes to fruition, each person's pension plans will be listed in one place.

Brenda, 60

Nearing retirement and moving pensions into a Sipp

Brenda, 60, has spent her career in the hospitality sector, progressing from waitressing in a restaurant to senior manager at a group of hotels. She has five pensions and wants to consolidate them to take greater control in retirement, which she hopes to phase into from age 65.

Two are final salary schemes. She knows it is prudent to take advice on them since transferring will entail giving up potentially valuable benefits, such as a spouse's pension. One has a cash equivalent transfer value of more than £30,000, so consulting a regulated financial adviser with the required specialisms is imperative.

The average 65-year-old woman will live until 86, according to the Office for National Statistics (ONS), so Brenda needs to take a long-term view both in terms of her investment strategy and withdrawals.

She should be mindful of investment costs, which can quickly erode returns. Her total pension assets are not insignificant, so a Sipp provider with flat fees is likely to be cheaper than one that charges a percentage.

Brenda has invested in the default investment strategy of workplace pensions, so another consideration is passive versus active funds. “These will perform differently depending on whether the market is rising or falling, and there are arguments for both,” says

Craig Hendry, managing director of Johnston Carmichael Wealth in Aberdeen. He suggests a 50/50 split between two mixed asset funds, Legal & General Multi-Index 5, which uses passive funds, and BMO MM Lifestyle 5, which takes an active approach.

Another option that could provide a valuable income stream in retirement is Seneca Global Income & Growth, a Rated Fund since 2016, which is diversified across equities, bonds and specialist assets such as music royalties, infrastructure and private equity.

Jim, 65

Moving a workplace pension into drawdown

Jim has worked in engineering all his life. He has saved in his workplace pension for as long as he has been able to. He is now 65 and wants to spend more time working on his wooden creations in his garage. He would also like to visit his daughter in Spain regularly and fulfil a lifelong dream to explore New Zealand. His pension is worth approximately £400,000.

In the earlier years of his retirement, he is likely to need a higher level of income – partly to fulfil his travel ambitions, partly because he will not yet qualify for the state pension, and partly because he is likely to be healthier and to need more to fund his lifestyle. However, he needs to remember that he will need to keep some money back for later in retirement. At age 65, average male life expectancy is 83.64 years according to the Office for National Statistics (ONS) mortality tables, but there is a one in 10 chance of Jim living to 96, so his pension assets might have to last him 30 years or more.

Tamsin Caine, director of financial planning at Greater Manchester-based Smart Financial, advocates buying an annuity to secure enough income to cover his essentials – bills, food and transport – which should be index-linked to keep pace with inflation.

She suggests investing the remainder in a risk-rated passive fund to keep costs low. Jim is a low-to-medium risk investor so Vanguard LifeStrategy 40% Equity fund, which gives 40% exposure to equities and 60% to bonds, could fit the bill.

Active Money Observer’s Rated Funds that could also work well, given their suitability to income-seekers, include Artemis Monthly Distribution, Axa Ethical Distribution and Kames Diversified Monthly Income.