The Times

The investor who rises early will reap the best returns

14 April 2018
By Mark Atherton

The 2018-19 financial year may have just begun, but it's not too soon to open an Isa to maximise your allowance

It's likely that you have barely recovered from the race to take out an individual savings account (Isa) before the end of the last tax year, yet financial experts are already urging you to invest in this tax year.

The reason, they argue, is that every day you delay investing your Isa money you are missing out on valuable tax breaks. You can invest £20,000 (£40,000 per couple) this year, in a combination of cash, stocks and shares and peer-to-peer lending platforms, and your money will grow free of income tax and capital gains tax.

The benefits of early investment

By investing at the start of each tax year you can build up a much bigger lump sum than if you wait until the last minute, says Ed Monk, an associate director of personal investing at Fidelity International, a fund manager.

Fidelity has compared how two Isa investors would have fared over the past ten years if one invested on the first day of each tax year and the other on the last day.

Investor A, who put the full annual allowance into the FTSE all-share index on day one of each tax year, would have seen their investment of £123,560 grow to £180,298.

Investor B, who each year put the same amount into the index, but waited until day 364, would have £170,128 after ten years — a difference of more than £10,000.

"As our analysis shows, it's the early bird investor who earns the best returns," Mr Monk says. "By using your allowance at the start of each tax year you have more time to reap the rewards of compounding your investment returns over time."

Jason Hollands of Tilney Group, a wealth manager, says that in 14 of the past 20 years the UK stock market has delivered a positive return from the start of April to the end of March, so the odds favour investing early if you can.

Bull markets particularly suit early bird investors, explains Adrian Lowcock, the investment director at Architas, a multimanager.

He says that if markets rise throughout a financial year, those who invest earlier get in at a lower level. They will also have the benefit of extra dividends on that investment, and those dividends would be paid free of income tax within an Isa.

He says that making a decision to invest at the start of each tax year also avoids the uncertainty created if investors don't have a definite plan, but instead make a guess each year about when is the best time to enter the market.

Regular monthly investment

One problem with the early bird approach is that not everyone can afford it. A sum of £20,000 is not far short of what someone on the average income in the UK would receive annually after deductions, so they couldn't possibly afford to put it all into an Isa. Even if they were paid twice or three times the average they would struggle to stump up £20,000 at the start of the tax year.

What they could do, Mr Lowcock says, is drip-feed money into an Isa by making a monthly investment.

"This method is particularly useful during volatile markets as it smoothes out the cost of investing by averaging out the price over time and, most importantly, regular saving is a good discipline and suits most people," he says.

Fidelity has calculated that someone who had put the maximum permitted amount into an Isa investing in the FTSE all-share for the past ten years, but who did so through regular monthly investments rather than a lump sum, would have an investment worth £176,962. This is only £3,336 less than Investor A in the earlier example, and almost £7,000 more than Investor B.

Look at the bigger picture

Never look at one year's Isa allowance in isolation, says Patrick Connolly of Chase de Vere, the financial planner. Before making a fresh Isa investment consider your existing holdings and your other investments. You should also consider your investment time frame and attitude to risk.

If your time horizon has dwindled to less than five years you may want to put more into cash, because if you invest in the stock market and it falls in value you will have little time to claw back your losses.

You could consider putting more money into other investments such as bonds and property.

However, if you can afford to take a long-term view and be prepared for some risk, it makes sense to top up your share-based investments. Mr Connolly says you should aim to pick new investments that complement your existing ones, filling in the gaps where you are underweight.

Mr Hollands says: "Racing against an end-of-year deadline can lead to poor investment decisions as you are more concerned about simply getting your money invested rather than investing it wisely.

"By investing at the start of the year you have the luxury of time and can afford to think holistically about reshaping your portfolio. If you leave it to the last minute, it's often a case of 'invest in haste — repent at leisure'."

The experts' picks

Unit trusts

Laith Khalaf of Hargreaves Lansdown likes Eden Tree Higher Income and Newton Real Return. "The Eden Tree fund has a focus on income and value, with a long-term 'buy and hold' approach. The Newton fund aims to provide a healthy income, while protecting capital as much as possible."

Jason Hollands of Tilney Group picks Fidelity Emerging Markets and the Schroder Asia Alpha Plus fund. "The Fidelity fund looks for stocks that are in good financial shape and have the potential to grow earnings. The Schroder fund holds almost a third of its money in China and invests in Chinese internet giants."

Investment trusts

Ewan Lovett-Turner of Numis Securities picks **RIT Capital** and Troy Income & Growth. He says RIT's managers are keen on wealth preservation and aim to ride market upswings. The Troy trust focuses on quality defensive stocks with sustainable dividend growth.

Innes Urquhart of Winterflood Securities goes for the F&C investment trust and Temple Bar. "F&C is a good way of gaining exposure to global stock markets. Temple Bar has a good long-term track record, thanks to it looking for cheaply valued stocks that others have rejected."

Exchange-traded funds

Peter Sleep of Seven Investment Management highlights the Barclays Global Aggregate Bond Index ETF, which invests in high-quality government and corporate bonds.

Justin Modray of Candid Financial Advice likes the iShares FTSE 100 ETF. He says: "It is a cheap-as-chips tracker with an annual charge of 0.07 per cent, which offers exposure to the largest companies on the UK stock exchange."