

# Using savings and investments to beat inflation

**W**ith interest rates remaining at record lows, it has never been more important to make your money work as hard as possible.

This issue has been compounded in recent years because inflation has been outstripping interest rates, meaning that anyone who has left money in a low interest account may have seen the buying power of their money decrease.

December marks the fourth anniversary of the Consumer Price Index last being below the Bank of England's target of 2%. If you had left £10 000 deposited in a typical instant access account paying just 0.1% interest since December 2009, the effects of inflation would mean that your money would be worth the equivalent of £8808 in today's value.

This is why it is so important to make sure that you are not letting large sums of money build up in low interest accounts over a long period of time and consider other forms of savings and investments.

## Using individual savings accounts

Cash individual savings accounts will generally have better rates of return than a regular current account. They act like a normal savings account and allow you to access your money easily. An added benefit is that you do not pay income or capital gains tax on any growth your money makes, as you might with other savings products.

However, because of these tax benefits there are limits to how much you can save into a cash individual savings account each year. For 2013/14 this is £5760.

You should review the interest rates you are getting on your cash individual savings account each year. Companies often draw customers in with headline rates that are not maintained in subsequent years, so it is worth taking the time to compare accounts and transfer your money if there are better deals available.

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Cash individual savings accounts are generally useful if you are saving for the short term, for something like a car or a holiday for example. If you are saving for the longer term – 5 years or more – then a stocks and shares individual savings account might be more appropriate.

You are allowed to invest a maximum of £11 520 into a shares individual savings account for 2013/14, or £5760 if you have already used your full cash individual savings account allowance.

Stocks and shares individual savings accounts offer a good middle ground if you feel that investing directly in the stock market is too risky. They are invested in a range of investment funds that are professionally managed by experts.

Some providers may sell stocks and shares individual savings accounts that are linked to their with-profits funds. These funds are designed to smooth out the highs and lows of the stock market, avoiding any volatility with the intention of providing more consistent returns. With-profits products are attractive to those who want to invest in stocks and shares but are concerned about the volatility of the markets.

Historically, shares-based investments have provided better returns than cash investments. Barclays Capital Equity Gilt Study 2013 provides data on the annual returns from equities, government bonds and cash in the UK going back to 1899. It shows that if shares are held for 10 years, there is a 90% probability of them outperforming cash and a 79% probability of them outperforming gilts. However, past performance is not a guide to future performance.

## Fixed interest investments

Fixed interest investments, sometimes also known as bonds, are generally considered a lower-risk asset class than shares. Bonds are issued by governments and companies to raise new capital for investment, for example. They pay interest for a fixed period of time and, at the end of this period, the value of the bond debt is paid back to you in full. Government bonds are often referred to as gilts and these are

generally a more secure investment than corporate bonds as there is less danger that the government will not be able to repay your debt.

## Property

Investing in bricks and mortar, whether to live in or use as a buy-to-let investment, remains popular. Despite the slump in recent years, house prices have risen by an average of 27% nationally since 2003. However, as there are no guaranteed returns, buying property should be viewed as a long-term investment.

## Diversifying your investment

The returns from shares, bonds, property and cash are only loosely linked and perform differently in different market conditions. It is a good idea to spread your investments over a number of different options so you are not dependent on any one type. If one class of investment performs poorly, another may perform stronger during the same period.

A managed fund effectively creates such a portfolio mix as these are managed by professional fund managers. They are also split into various risk categories allowing you to pick the most suitable for you. Some people are happy to go for a higher risk investment in the hope of achieving higher rewards, while others prefer the option of more reliable returns.

Whatever you decide, it is important to remember that with all shares-based investments there is the chance you will get out less than you put in.

## Conclusions

While inflation appears to be falling back towards its 2% target, it has been suggested that the Bank of England may not raise interest rates until 2015.

For as long as inflation is outstripping the growth on your savings and investments the value of your money will be eroding, so talk to a financial adviser to make sure you are getting the best returns possible. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.