Cool as ISAs

News from Louis Letourneau.
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It's the season to get saving, or so we're told. Louis Letourneau gives you advice on how to get started.

Here comes that time of year again - the 'ISA season', as the marketing gurus will call it - (ISA stands for Individual Savings Account.) Savers have from now until the end of March to claim their ISA allowance, by investing in cash or in equities (stocks and shares). Well, this year I'm not going to follow the hordes and fall for the latest marketing ploy from the fund managers. This year, also, I am going to get myself organised as early as 6th April, and start paying monthly into my ISA from the start of the fiscal year – this makes good financial sense. Having made all these resolutions, what should I do now?

First, look at how much you can afford to put away for the long term. Gay men, in particular, are notorious for spending their money rather than saving it, and when we do save, the majority of us would rather invest in property – in fact, many run-down areas in this country and in the US have been regenerated mainly by gay men and lesbians. Apparently, this is something we do well. The best examples are Key West in Florida and most of Brighton and Hove. But so in love are we with property that we often forget to diversify into other asset classes, such as cash, equities and bonds. Property has produced a fabulous return over the last two decades, but will this last for the long term?

After pensions, investing in an ISA is the next best thing. It's a shelter from tax, especially if you are a higher rate taxpayer, but it can also generate an excellent return tax-free. It's a good idea to use it as complementary to your pension plans – which you know should be in place by now.

There are many ISAs available. If you don't have much to put away, you should opt for a cash ISA with any good building society or bank. Any would do, as long as the interest is in the region of 3.75% to 4%; then you've got a good deal. The maximum you can invest each year is £3000, but hurry, because this is due to reduce to £1000 by 2006. If you can afford to invest for the long term and are not risk-averse, you should consider an equity ISA, with either a maximum of £3000 into a mini equity ISA to run in parallel with your cash ISA, or with a maxi equity ISA which replaces the two previous mini ISAs (cash and equity) – your annual allowance would then climb up to £7000.

Once you contribute to an equity ISA, you should really try to choose a supermarket of funds, especially if you are investing the full amount each year. These super-ISAs offer the flexibility of accessing a large number of funds from different investment houses, allowing you to create a more diversified portfolio. You should seek proper investment advice for this from advisers who understand the market.

But where should you invest this year? Of course, it depends on your attitude to risk and the rest of your portfolio, but there are some areas in the market that are really worth looking at for 2004. There are three major issues to consider this year: the possibility of higher interest rates, depreciation of the US dollar, and a global economic recovery. Firstly, the market is already expecting interest rates to reach around 4.25% by the end of the year. This means that fixed interest and gilt funds are not the best places to be. The exceptions are the funds that invest in high yield corporate bonds and indexed linked gilt funds, because of the likely economic recovery, with some risk of inflation– these should do well in 2004.

Secondly, the depreciation of the US dollar is obviously fuelled by the presidential election, which would keep the dollar high (artificially or not) for the greatest part of the year. My bet is that this will reverse back in 2005, making an investment in funds that invest in dollars very attractive for the long term.

Finally, economists expect 2004 to be a good year for the global economy; therefore, expect good returns from equities, especially in Asia. Some say that this is also a year of stock picking, which means that choosing the right fund manager is even more important than ever. Whatever you decide to do, always seek advice from an independent adviser who specialises in investments.

Happy ISA season.

Louis Letourneau is a Director of Isis Financial Planners Limited. Isis offers truly independent specialist advice to the gay community and can be contacted on 0845 1300 778 and email postbox@gayfinance.info . You can also visit our website at www.gayfinance.info

Louis Letourneau, **MA** is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people living with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.