

Guide to regular savings plans

Whether you are able to invest a significant sum or only a small amount, making regular savings is one of the most effective methods of building a nest egg for the future.

Where you choose to invest your regular savings depends on your timescale and attitude to risk. If time is short or you are not willing to take any risk, a simple easy access savings account is worth considering. You will get your original investment back, plus interest, and you will be able to access your money. This is a simple way of saving regular lump sums, although returns will be limited.

If you hope for higher returns and can afford to tie your money up for at least five years, the stock market offers better growth potential. Regular saving into a unit or investment trust or an open-ended investment company (OEIC), for example, not only avoids the risk of bad timing - putting a lump sum in just before prices fall - but it also removes the stress of trying to second guess stock market movements.

Unit trusts, investment trusts and OEICs are pooled funds which offer relatively cheap and convenient ways for investors to gain exposure to the stock market. They diminish, but cannot eliminate, the risk inherent in bonds and equities by diversification, as your money is spread over dozens of stocks and shares.

How to make the market work for you

So, with some smart, strategic investing, it is possible to avoid the worst of any turmoil in the stock market and make it work for you. If prices fall, your fixed monthly investment buys more units or shares. Of course, if prices rise, you buy less. However, thanks to a statistical wrinkle known as pound-cost averaging, over any given time period your average purchase price per unit or share will actually be lower than the average market price. Regular saving in this way helps to smooth out the peaks and troughs of market fluctuations, and their potential negative impact on your portfolio.

Pooled funds offer smaller investors greater diversification. They will invest in anything from 30 to 150 companies at one time. This reduces the risk that, if one company goes bust, it will dramatically affect the performance of the fund.

There are literally thousands of different funds available to cater for investors varying objectives. To maximise your geographical diversification you may want to consider a global fund. These give you exposure to every market in the world, with the fund manager making decisions about where you should invest. It can also be worth spreading your investment across different asset classes too.



Funds of funds are also worth considering because these invest in other funds rather than directly into companies. The fund manager will monitor the individual funds and when one starts to under-perform they will consider selling it and replacing it with another one.

Who offers regular savings plans?

Nearly all investment providers offer regular savings plans that allow regular investing month by month. But it is worth making sure that you understand the terms and conditions of the plans you are considering, as they can be costly, with complicated fees and charges that can devour your potential returns.

Regular savings plans can be encompassed within Individual Savings Accounts (ISAs) and personal pensions, as well as self-invested personal pensions (SIPPs). In ISAs, all capital gains are free from tax and there is no further tax to pay on income, even for higher-rate taxpayers, although the tax credit on dividend payments cannot be reclaimed.

A SIPP offers many of the same benefits, but you are also granted tax relief at your marginal or highest rate of tax on your contributions, making regular saving particularly attractive. But do remember that regular saving under a pension umbrella will lock up your savings until you come to take the pension.

A child-proof future

The longer your investment time scale, the greater investment risk you may be prepared to take. For example, if saving for your child with a Child Trust Fund, you may have a horizon of up to 18 years, so you may initially invest in more speculative funds than with a shorter timescale.

Regular saving is a great way of preparing for your child's future. Whether you put your money into a deposit account or a stock market-based investment, you will benefit from a compound effect. As interest or growth on your investment is added to your savings, you benefit from growth on this as well as on your original investment. Over time, this compounding effect can make a significant difference to your saving.

It is important to remember though that the value of stock market plans can go down as well as up and there is no guarantee that you will receive back the amount invested. There is a trade-off between the degree of risk taken and the potential level of return; the higher the degree of risk the higher the potential return, but also the greater the possibility of losing money.

Regular savings plans do not have to make a significant dent in your pocket - unless you want them to! Easy access deposit accounts may be opened with a minimum investment of £1 while pooled stock market funds may require a minimum regular investment of £25. Be aware, however, that some funds may require much higher regular payments, in some cases as much as £250 a month.

Some people prefer to let experts invest for them through a discretionary portfolio service if they have a large amount to invest. Whatever savings vehicle you choose, saving regularly is a fantastic habit to get into and can certainly give your financial future a worthwhile boost.