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Some saving options to consider

In the run up to end of last tax year, with the usual whirlwind of marketing activity by banking and investment companies, it occurred to me that in the personal investment market there are a number of products we read a lot about but don't actually see that much.

Some of these products don't get recommended by advisers either because they are deemed too complicated for private investors or, in the worst cases, because they do not generate commission.

The most obvious example under the “you don't see those anymore” category is National Savings products. Let's be clear, their reputation for being uncompetitive is, I'm afraid, largely justified. When compared like for like with the open market, their rates on savings products can generally be beaten. This is perhaps to be expected - they are backed by the government and that rock solid backing comes at a cost. But there is a danger of ignoring some interesting opportunities amongst the National Savings range.

Take Premium Bonds, which continue to be their most popular product by a long way. We have a number of clients who use Premium Bonds as part of the “low risk” portion of their portfolio. The capital protection and accessibility of the funds means they can be used as an emergency account, with a chance of winning the odd prize (possibly a million but more likely the odd £50).

Average returns are not to be sniffed at either, particularly for the Higher Rate taxpayer. They currently hover around the 3.6% mark. This doesn't sound a lot but when you consider that it is tax free: this equates roughly to a 6% interest rate for Higher Rate taxpayers, which compares favourably with the best available rates for savings accounts. That said, if your Cash ISA allowance is available, the untaxed benefits are vastly better than the average returns from Premium Bonds, which are incompatible with the ISA wrapper, so from this perspective Cash ISAs should be your first port of call.

Savings certificates, another popular NS&I product, also offer tax-free returns. Providing you hold them for their full term they can provide competitive rates of interest for the Higher Rate taxpayer. The index-linked version is particularly popular, and provides a hedge against inflation by offering a guaranteed rate of interest above the Retail Prices Index over three or five years.

On the other side of the equation, you have products which are relatively new and therefore little understood by the personal investment market at large. The "product of the day" in this category is probably Exchange Traded Funds (ETFs). Similar to an index-tracking pooled fund, an ETF is designed to reflect the performance of a chosen index, which is achieved through holding a diversified basket of assets. These assets could be in any sector; popular options at the moment include UK property, private equity and water.

ETFs track an index rather than being actively managed and do not have the administration costs of an open ended fund like a Unit Trust, which has to constantly create and cash in units. They are therefore cheap (total expense rations are usually under 0.5% a year).

However, they are not without their drawbacks. For example, since ETFs are closed-ended products, like investment trusts. They are traded like shares, and their price behaves like that of a share, fluctuating throughout the trading day. They therefore theoretically have an added element of risk by virtue of their structure when compared with a Unit Trust. Also, many ETFs are registered in Dublin and so their dividends do not receive tax credits. This means that if you hold them outside an ISA or PEP, you'll have additional tax to pay compared to Unit and Investment Trusts.

Of course, in the end the choice comes down to your objectives and risk profile, and your adviser should always make sure any product recommended to you is consistent with these. However, as diversification is key to making sure your returns are consistent, you should also make sure they are considering all the available options.

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