Ovation

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Investing for Income

The reduction in interest rates over the past few years has made it harder to earn an income through investments. Chris Budd, Managing Director of Ovation Finance looks at a how you to spread your risks and protect your income.

Developing an investment portfolio to produce an income, whether for school fees or to cover retirement, requires planning. The portfolio needs to be spread across a range of areas generally cash, bonds, property & shares and investments with potential for growth should be part of this balanced portfolio.

Whilst the income required depends on your outgoings, most of us want a steady, reliable income which means adopting a realistic approach to the risk you are prepared to take. The "rule of thumb" is the higher potential returns, the greater the risk. Here are a few investment options.

Investing through Cash & Bonds
More cautious investors should have the majority of their money held in lower risk assets, like cash & bonds. Cash deposits with banks or building societies are, theoretically, secure but to get the best out of these accounts you need to be vigilant and check your provider is offering the best rates of interest. Internet accounts are a good way to keep track of these investments.

Gilts and Corporate Bonds can offer a higher rate of return that straight savings accounts and offer potential capital repayment and interest. But balance the improved returns with a possible loss of security. Bonds follow the investment rule of thumb, the higher the promised interest, the higher the risk – look at the security rating, AAA Bonds are deemed most secure. Bonds are affected by interest rates, so expect some fluctuation. Investing in Corporate Bonds through Units Trusts and open-ended investment companies (Oeic) can help to reduce the risk.

Commercial and residential property
Property has become a popular inclusion in investment portfolios it is just another form of investment. You should calculate a realistic yield expectation then compare this with other types of investments.

Buy to Let carries risks and unless you pay an agent to look after the property, you will have to be prepared to deal with the vagaries of being a landlord. Make sure you allow for voids between lets, absconding tenants and repairs and maintenance.

Commercial property provides an alternative to residential investment. Yields on commercial property tend to be steadier than those of residential, although the entry level is far higher. Investing as part of a pooled resource helps spread your risk. It can even be possible to use your pension fund to invest in commercial property.

Stocks offer a medium to high risk and can provide both income and capital growth, Equity Income Funds are one way to invest. In recent years, returns have been low, but comparisons over a longer period demonstrate this investment can often produce a greater return than the safer forms of investment, as long as you are prepared to accept some risk.

Whatever you do, my advice would be to talk to an independent source and make sure you understand the positive and negative aspects of any investment. We have a refreshingly open and straightforward approach to investing for income. By stripping out the jargon we help you make sense of the available options and being fee based we can provide a completely unbiased appraisal of your situation.

However you decide to invest, there are a few golden rules; spread your assets so you can meet your risk and income; defend against capital erosion; make sure your investments are held in the lowest tax payers name, and in the most tax efficient environment (such as Individual Savings Accounts, or ISAs); be aware of the risks involved and don't be greedy, be realistic.

And if all else fails, the lottery is always a possibility, it's a high risk, but what else can you get for a £1 nowadays.

Call us and benefit from a free initial consultation, on 0117 942 4333.

This article is for general information only. Remember past performance is not a guide to future performance and investments can go up as well as down. If you have any doubts in respect of your own personal circumstances you should a full review with an independent financial adviser to get their help and remember, don't leave it to the last minute next year!

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