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Life Is Nicer With An ISA

The Individual Savings Accounts (ISA) was introduced in April 1999 to replace its predecessors, the Personal Equity Plan (PEP) and the Tax Exempt Special Savings Account (TESSA). It's important to understand that PEPs, ISAs or TESSAs are not actually investments themselves, but rather "wrappers" surrounding an investment. The TESSA wrapped cash based investments, and the PEP wrapped equity investments. Now, the ISA can offer a mixture of the two via either the mini ISA route which can include up to £3,000 in a tax free savings account and up to £4,000 in a stocks and shares investment, or the maxi stocks and shares ISA route which has allowance of up to £7,000 each tax year.

As the end of the tax year approaches, many investors rush to make use of their ISA allowance before its too late. But how do you pick the most appropriate one?

Before taking the plunge, there are a number of considerations to be made. Firstly, how much are you looking to invest and what access do you expect to require. If you need regular access to the money, it may be more appropriate to take the mini ISA route and invest £3,000 in cash. That still leaves £4,000 that could be invested into a mini stocks and shares ISA, but the cash element is available for emergencies or specific short term spending.

For the money that is not required so readily, the next consideration is the objective of the investment – do you want to invest for growth or are you more interested in investing for income. Perhaps a mixture of the two?

You should also think about how much risk you are prepared to take with the money. As a general rule, the longer you are prepared to leave the money invested, the greater the risk you can take, as the short-term volatility will become less pronounced. However, it is not always necessary to take a higher level of risk – there is plenty of choice to meet every individuals risk appetite.

The mini ISA into a cash fund is obviously the lowest risk. Increase risk slightly, and you could consider fixed interest funds lower risk funds, albeit this introduces the possibility of unit prices going down as well as up. Next, corporate bond funds are slightly higher risk, more than fixed interest or gilts, but less than stocks and shares.

Increasing risk further, and you will need to consider stocks and shares funds, perhaps a UK All Companies fund. Going overseas introduces currency risk, so Global Equity funds will be slightly higher risk.

At the high risk end of the spectrum are the specialist funds, such as Japan, Emerging Markets, and Technology. These funds are not for the faint hearted and, whilst they can provide high returns, there is also the chance of big losses.

It's always a good idea to review your ISA portfolio regularly, especially before adding this years allowance. Your current investments should also have a bearing on your ISA choice – it's important to maintain a well diversified investment portfolio that meets your objectives rather than plumping for last years best performer, even if it's inappropriate.

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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