MONEY
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Ways to make a profit in 2008

It may be shaping up as a difficult year, but taking some sound advice could still make it a profitable one, says **Niall Brady**

A SLOWING economy, turmoil on credit markets and volatile investment conditions will make money management a tricky business in the next 12 months. To help our readers, The Sunday Times assembled a round table of experts to give their 2008 picks.

Current accounts

Interest on credit balances is the latest weapon in the battle for customers, and Allied Irish Banks, Bank of Ireland and Halifax are offering tempting rates to those who stay in the black.

Gerard Sheehy of investand save.ie, an online discount broker, warned that high-yield deposit accounts were a better bet, especially as banks cap the interest they pay on current accounts. "Halifax, for example, pays out on a maximum balance of €2,000, and to earn €158 per annum after tax the customer has to maintain an average balance of €2,000 at all times," he said.

Neil Brooks of TAB Investment Services, and co-author of the TAB Guide to Money, Pensions and Tax 2008, believes Permanent TSB and National Irish Bank have the best current accounts, with free banking for most everyday transactions.

"Some of Permanent TSB's charges are lower, but NIB wins hands down for the quality of its e-banking," he said.

David McCarthy, managing director of McCarthy & Associates financial consultants in Galway, tipped Ulster Bank, one of the few banks that give automatic free banking to qualifying customers without the need to ask. "It is one of the first free banking arrangements available, despite the fact that Ulster Bank charges in excess of 11% interest on overdrawn balances," he said.

save more than €500 in interest compared with more expensive lenders.

Brooks advised those who need flexibility to consider Rabodirect's current account, which offers a line of credit that borrowers can dip into as the need arises. Interest rates range from 8.15% for credit lines of between €20,000 and €50,000 to 9.5% for lines of less than €10,000.

"It is the most straightforward personal loan on the market, because it offers a revolving credit facility, which means you can speed up or slow down your payments and apply for top-ups," he said.

Sheehy advised those borrowing large amounts to stick with a banker who knows them. "My preference is to deal with my personal bankers, who are AIB and Permanent TSB, because they understand my banking needs," he said. "Lenders such as Tesco would not."

Savings

Five banks pay 7% interest or more to those saving month by month. First Active, though, pips the rest by offering 7.15%. Croke said: "No fees or charges, and access to your funds at any time, together with being able to track your balance online, makes this an excellent choice."

Gary Mahood, who is teaching an adult education course entitled Your Money — Let's Sort It at University College Dublin from January 19, warned savers to consider access to their money as well as the interest paid on it. Anglo Irish Bank and Halifax, for example, are among those paying 7% on regular savings, but they may penalise those who make withdrawals.

McCarthy said that too many savers leave lump sums in easy

Fergal Phillips

Bank on uncertainty: O'Driscoll was going to cash in her SSIA and take the family on a trip, but the gloomy financial environment has encourage her to keep saving in a First Active account

Credit cards

Even though interest charges have dropped, credit cards remain one of the most expensive ways of borrowing. Sheehy said only those who can pay off the balance every month should shop with plastic. "My own card is from Permanent TSB and I've no idea what the interest rate is – it's irrelevant because I clear the balance every month," he said.

Brooks tipped Halifax for those who struggle with their credit card bills. "Its interest rate of 9.5% is one of the lowest available and new customers pay no interest for the first six months," he said.

Liam Croke, a financial and mortgage adviser and author of Your Money – Your Life, urged cardholders to use these interest-free offers to climb out of debt. Ulster Bank, for example, offers 0% interest for up to nine months, after which any remaining debt could be switched to Halifax to get another six months interest free. "That's 15 months of no interest, during which all the payments you make are reducing what you owe rather than being eaten up by interest," he said.

Loans

Tesco Personal Finance charged the lowest rates of interest for all loan types in a recent survey by the Financial Regulator. Croke said those borrowing €10,000 over three years from Tesco could access deposits when they could earn more by locking up their money for fixed periods. "Most people could afford to give 30 days' notice before withdrawing their savings," he said. "By doing so, they could earn up to 4.5% gross interest."

Mortgages

Those with equity in their homes can make big savings by switching to loan-to-value (LTV) mortgages, where the rate of interest depends on the relationship between the amount they owe and the value of their homes.

Brendan Burgess, founder of askaboutmoney.com, an online discussion board, said NIB offered the best deals, including a rate of 4.5% variable if the LTV is under 50%.

Mahood advised those with older mortgages to put pressure on their lenders for similar deals. "Most mortgages sold more than five years ago are not competitive by today's standards," he said. "All you have to do in many cases is ask your existing lender and it will give you an LTV deal. That's a considerable saving on mortgages of over €250,000."

Liam Ferguson of Ferguson & Associates, a mortgage broker, warned that the best home loan offers, including LTV deals, could fall victim to the continuing credit crunch. Permanent TSB, Ulster Bank and First Active have already adjusted their rates, with AIB and Bank of Scotland set to follow in the coming weeks.

"If you're considering switching to a more competitive tracker mortgage, now would be a good time to do it, before more lenders withdraw or increase their rates," Ferguson said.

Life insurance and mortgage protection

Most people could save a fortune by looking around for insurance cover, rather than taking whatever is offered by their mortgage provider. Croke said the savings might not look substantial at first glance. A 37-year-old man, for example, would pay €50.08 a month for mortgage protection of €450,000 from Caledonian Life, the cheapest provider in this case.

"The most expensive premium, from Canada Life, is €61.45 per month, so there's not a big gap between the best and the worst," he said. "If you calculate the difference over the life of a 30-year-mortgage, though, it becomes a little bigger – €4,092 bigger."

Sheehy said the savings were even greater when cover is bought through discount brokers because they share with their customers the commissions they get from the insurance companies. "You can save in the region of 50% of the first year's cost by going to a discount broker," he said.

Investments

Spreading risk will be the key to success in 2008, because there is so much uncertainty in investment markets.

Eamon Porter of Aspire Wealth Management, an authorised adviser, recommended Acorn Life's managed growth fund for those who want to spread their money across a broad sweep of world stock markets.

"It's one of the more conventional equity funds that I have recommended for many years due to its consistent returns," he said. "The fund is managed by HSBC, which has a huge global presence."

Ferguson advised that the risk involved in stocks and shares should be balanced by investing in other assets. He tipped the Innovator fund from KBC Asset Management, which invests in alternative energy, water, emerging markets and commodities. Ferguson also recommended the European commercial property fund from Hibernian. "I wouldn't recommend either of these funds as a suitable home for all of a client's portfolio, but as a counterbalance to their existing investments," he said.

McCarthy also tipped the Hibernian fund as a way that property diehards could spread their investments beyond Ireland and Britain.

Mahood believes that low-cost index-tracking funds, which follow stock markets rather than trying to beat them, are the best bet. "The average person investing for the long term, who is willing to risk their capital in the pursuit of higher returns, should invest in a low-cost fund," he said. "They should also stick with the euro-zone to cut out foreign exchange risk." He recommended Eagle Star and Quinn Life because of their low charges.

Pensions

Generous tax incentives make pensions the best way of saving for the future. Only a small fraction of workers, though, make full use of them. McCarthy said: "I would advise those in employment to consider making additional voluntary contributions (AVCs) to their pension schemes in 2008." He suggested investing through a multi-manager fund, where the money is managed by a number of different investment experts.

Sheehy said those willing to undertake their own pension research could make big savings by investing through execution-only brokers, who offer no advice. "If you want to spend time in order to save money, the best deal you can get is through an execution-only service," he said. "You do the research on what is most suitable for your needs and you are rewarded with thousands of euros in savings on charges."