How to make a wise investment: what the experts say

IN the wake of the ISTC disaster many investors have concerns about how secure their assets are, *Niall Brady* answers some of their questions.

Aren't bonds a safe bet?
Bonds are often seen as a safe haven between low-yielding deposits and risky equities. They pay fixed returns — useful for those seeking a steady income — and their values do not fluctuate as much as stocks and shares.

Investors, though, tend to take too much for granted, according to Bernard Walsh, the head of investments at Bank of Ireland Life. "Bonds are not a bad idea, when they are part of a balanced portfolio, but investors do not understand the reasons for holding them or what drives returns," he said.

Bonds issued by companies — or banks in the case of ISTC — are the riskiest. Those issued by governments are safer, but not entirely risk-free. Governments have been known to default on their debts, as happened in Russia in 1998. Bonds can also lose their value when interest rates are rising.

Walsh advises investors to examine the credit rating of the bonds they are buying, ensuring they are of investment grade. He also recommends spreading the risk across a range of bond issuers, rather than betting everything on a single investment such as ISTC.

"People do not realise they can lose money on bonds," said Walsh. "They're traded in the same way as equities, so their values can go up and down. There's also the risk of default, even with sovereign bonds."

How can I protect myself against mis-selling?
Mary O'Dea, the consumer director at the Financial Regulator, urges investors to do more homework. "Determine your attitude to risk — how much money could you afford to lose if things went wrong?" she said. "The higher the return on offer, the more risk you can expect. If you are not prepared to risk anything, find out how much of your investments are guaranteed and who is providing the guarantee."

Too many people invest blindly in what advisers are selling and then hope for the best. "The worst thing you could do is invest on a leap of faith," said O'Dea. "Never invest in a product you do not understand — find out how it makes money and gives a financial return. Remember, there is no such thing as a stupid question — do not take an adviser's answers at face value."

She recommends that investors should not put all of their money in a single product, adding that financial advisers should also be on their guard to stop clients making this mistake. O'Dea said: "They should determine their clients' financial situations and only sell them products that are suitable."

Investment sounds complicated — isn't my money safer in the bank?
There is nothing riskier than deposits because, with inflation running ahead of most deposit rates, savers are guaranteed to lose the value of their money over time.

"There is no risk-free option for your money," said Burgess. "Over the long term, though, a well diversified equity fund with low charges offers the best chance of making a return with the lowest level of risk."

Who can I trust for investment advice?
Most advice is free, with advisers getting commission for the products they sell rather than payment from their clients. This puts undue pressure on advisers to make a sale — otherwise they are working for nothing.

Eamon Porter, an authorised adviser at Aspire Wealth Management, said: "Advisers who charge a fee for their time rather than taking commissions have a different mindset — they get paid whether they make a sale or not."

The financial services ombudsman also warns against relying on advice from friends or family, saying professional advisers are best placed to help investors make sound choices.