

In search of income

Is your cash struggling to keep pace with inflation?

The current low interest rates are good news for mortgage repayments but not so good if you are relying on your savings to produce an income. If you are a saver rather than a borrower, you will have noticed the interest you are receiving has fallen some way in recent years.

Emergency fund

Savers who have seen their savings lose ground to inflation will benefit from reassessing the role of cash in their portfolios. Cash is important to meet short-term purchases and as an emergency fund – 6 to 12 months' worth of expenditure is common. Cash deposits also work well if you're concerned about the prospects for markets or need your money back within five years, as stock market investments are for the long term.

However, with interest rates remaining at historic lows, cash is struggling to keep pace with inflation at present, particularly after tax. Therefore it may not be wise to hold too much cash if you are able to accept that your capital and income is not guaranteed and will fluctuate in value.

Generating income

Generating an income from your investments is often an important requirement for people who are retired or approaching retirement, those who need to supplement their salary or those with a relatively short investment timeframe.

It is important that you seek professional advice when looking to invest for income as any solution needs to take account of your existing savings and investment portfolio and your attitude to investment risk. The following all offer alternative ways of producing an income from your savings; however, they all carry more risk to your capital than leaving it on deposit.

Equity income funds – these funds invest in shares of companies that tend to pay higher dividends on a regular basis for the purpose of providing an income.

Government bonds, or gilts – because most government loan stock is considered as safe an asset as you can get, the returns are lower than corporate bonds because of the lower risk.

Guaranteed income bonds – these offer a fixed income over a fixed period, usually up to five years. They often offer a capital guarantee as well, provided you hold them until maturity.

ALTHOUGH INTEREST ON YOUR CURRENT DEPOSITS MAY BE AT AN ALL-TIME LOW, YOUR CAPITAL IS, AT LEAST, RELATIVELY SAFE. THEREFORE, BEFORE YOU SACRIFICE ANY SAFETY IN A SEARCH FOR INCOME, YOU SHOULD OBTAIN PROFESSIONAL FINANCIAL ADVICE. TO DISCUSS YOUR OPTIONS PLEASE CONTACT US.

The value of investments and the income from them can go down as well as up and you may not get back your original investment. Past performance is not an indication of future performance. Tax benefits may vary as a result of statutory change and their value will depend on individual circumstances. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts.

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