



interactive
investor
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Interactive Investor comments on Portfolio Management

Rebecca O’Keeffe, Head of Investment for Interactive Investor said:

“Stock market volatility presents ample opportunities for those in the mood for trading. The recent volatility in the market may put off some investors but making regular payments can remove some of the risk. Investors should on the whole try and avoid a knee-jerk sell that may seem a good idea at the time, but that you may regret. There may be short term volatility and even periods of prolonged pain, but if you can ride out the investment scare stories, then the chances are you’ll be financially much better off. This credit crunch has wiped on average 10-20% off share prices - and in the case of some share prices, significantly more. If you have the time horizon, even if the market does drop more, you will almost certainly reap the long-term benefits.

“If you’re investing for the long term, you will almost always lose out more by taking less risk than you will by taking more. Historically, the best returns are gained when risk-aversion is at its highest and investors are fearful of the markets.

“Interestingly in half of all cases the best and worst days on the market are separated by no more than 12 days. This is backed up by the market’s recent performance, which means you really do need to keep your eye on the ball. In an ideal world this could allow you to react on a daily basis, however for most of us, it simply means that selling off after a bad day means that you miss any possible bounce.

“It’s very difficult to time the market right - though undoubtedly very profitable if you can! Investing on a regular basis means you are dealing with manageable amounts and eliminating some of the market timing. Regular investments can be set up through a direct debit, or some brokers, fund supermarkets or investment houses will take a lump sum from you and feed it into the chosen product over a year. Interactive Investor’s portfolio builder service offers free share dealing until the end of June and for just £1.50 thereafter - allowing you to start a great financial habit.

“A ‘buy and hold approach’ is often recommended - however far too many people take this literally and simply never review their holdings. There are plenty of available tools and research available, such as Fund Filters - which provide a detailed analysis of the past performance, fund holdings, yield, sector and geographic weightings and highlight the associated risks of each type of fund. Reviewing your current investments and their performance, both on a relative and absolute

performance is essential for you to maximise the potential return. You should aim to do this on at least a six monthly basis and you could adopt a traffic light system for your holdings - where your investments are good, being monitored and need to be sold.

“According to the IMA, trackers funds achieved huge inflows in March after five quarters of outflows. In any market an index tracker is simply a play on the overall market and an indication of investor sentiment. In volatile markets, more investors will choose the active management route - both to avoid certain sectors and to hopefully avail themselves of the discretionary choices fund managers make. Over the longer term there are a range of arguments to be made about the markets being generally efficient and that active management doesn't pay. However, I defy anyone to suggest that the markets have been efficient over the last year!

“I have yet to find an Index fund that tops any performance chart over any time period (net of fees). However, an index fund does generally give you far more consistency. If you really are going for the 'buy and hold' option then an index fund may be for you. However, if you're going to take an active interest in your investments, then active management - especially in volatile markets - gives you the capacity to outperform.

“But above all, be sure you use your tax allowances. A stocks and shares ISA and a SIPP are simply wrappers. You can invest in almost all the same shares and funds that you would do outside of a tax wrapper, however the tax efficient benefits are invaluable. A pension contribution for a higher rate tax payer gives you a 66% return before you start investing (£10,000 from a £6,000 contribution) - and the costs are low - if any. Interactive Investor charges no ISA administration fees or inactivity fees and the SIPP charge for a portfolio of less than £50k is just £75 + vat p.a.

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For further information please contact Priya Shah or Tony Cox at Linstock Communications on 020 7089 2080

About Interactive Investor

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