Sound advice is essential for effective investment

Paul McCarville

The events of 2007 will almost certainly make people more receptive to the advice to diversify. I do not mean simply reducing the huge bias towards property or Irish equities here by directing new savings or pension contributions elsewhere – many Irish people are already heavily involved in property. Investors need to undertake significant and potentially radical restructuring of their portfolios.

Diversification is also an issue within equity portfolios. It never ceases to amaze me, when asked to review portfolios, just how frequently the same names appear – owning AIB, BOI and Anglo shares is not really diversification!

Recently, we have seen a number of funds launched which attempt to offer such diversification, and where the investor's money is not all invested with the "in-house" manager. These present an improved investment proposition.

On the other hand, there are products to avoid. Given the recent market crisis and the associated rise in risk aversion, I expect to see quite a number of structured/guaranteed products launched in the coming months. Most of these represent poor value.

Between the loss of income on the underlying stock or index, limits to up-side participation and averaging in the final period, what the investor is sacrificing in exchange for capital protection is almost invariably too high. There are some investors whom they suit but, for most, the trade-off is not attractive.

Most of the money which is invested in such products goes into a form of deposit, something the investor can do independently. The "excitement" provided by the option element can be generated elsewhere in the portfolio (eg, through concentrated equity or geared equity).

My next piece of advice concerns tax. For most investors, the 'Gross Roll Up' basis of taxation which applies to funds (unit-linked and unit trusts being the prevalent varieties) will be more tax-efficient than direct holdings.

While many people had bad experiences with such funds in years gone by, the charging structures have become much more transparent in recent years. The fact that dividends are taxable at the investor's marginal tax rate is quite relevant to investors who favour investing with a bias towards yield.

Investors should look at costs. Are you paying more than you should? Many people are paying the same charges as when they started their portfolio or pension. Most providers accept quite readily that lower charges should apply to bigger amounts – in the funds arena, most providers have equivalent funds – "series" in the jargon – with lower charges, aimed at bigger amounts.

While buying low and selling high is still most people's preferred investment approach, calling tops and bottoms in markets is extraordinarily difficult. Those looking to past performance as a guide are very likely to be disappointed, as there is virtually no evidence of consistency in any aspect of performance

While the fact that something has fallen in price a lot certainly does not guarantee that it is good value, this is far more likely to be the case than for something that has risen sharply. The majority of investors confound reason by preferring the latter. Try not to be one of them!

Lastly, I would recommend that you get a good adviser. The adviser community includes a sub-set who have specialised knowledge of investment markets and products and who are worth seeking out. If you have misgivings about your current adviser's competence or independence, think about changing them – they may be costing you a lot of money.

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