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THE TIMES

Why a stocks and shares Isa is the perfect gift for a baby
Released: 04.09.21
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Violet is five months old — a good age to start investing in the market, says her devoted uncle David Brenchley.

It's always exciting when you can welcome a new baby to the family. This was certainly the case with the birth of my niece, Violet, 20 weeks ago. Her arrival was particularly meaningful because it came ten months after my father died.

My brother and his family live a three-hour train journey from me, so I've made it down to see them only twice, but the trips have been memorable.

At points during our get-togethers my thoughts have turned to practical matters. I suggested that we set up a Junior Isa (Jisa) so that Violet has a nest egg for when she turns 18. My brother and sister-inlaw were keen, so I'm starting things off. You'd think that for someone who writes and reads a lot about investing, building a pot would be fairly simple. But when it involves the people you love it becomes more complicated.

Jisas are tax-free savings accounts that can be set up by parents or guardians for children under 18. A total of £9,000 can be paid in to a Jisa in the 2021-22 tax year, and anyone can contribute.

Once the child turns 16 control of the account automatically passes to them, and they can withdraw money once they turn 18. That's why it's important to educate them about financial matters if the hope is that some of the money remains invested.

Cash or stocks and shares?
Question No 1 was whether we should set up a cash Jisa, a stocks and shares Jisa or a combination of the two, and it was the easiest for me to answer.

People in the UK are much more likely to stick their savings into cash products, which pay a fixed amount of interest each year or month. Just shy of £1 billion was paid into Jisas in the 2019-20 tax year, 61 per cent of which was put in cash accounts.

It could be argued that a cash account is sensible for more risk-averse people who don't feel comfortable putting their relative's savings in potential jeopardy by investing in shares. But in going for the theoretically risk-free option, savers with cash Jisas would have missed out on more than £1.2 billion in returns compared with investors in stocks and shares Jisas since they were launched a decade ago, according to Quilter, a wealth manager.

Quilter's findings were based on cash Jisas earning 2 per cent interest, compared with the returns of a passive fund that tracked a global stock market index, which would have made an annualised return of 11 per cent.

Jim Adams from the personal finance website Boring Money said that thinking of cash as a safe asset was "a gross underestimation of inflation risk, and an overestimation of the risk of losing money in the stock market".

The best cash Jisa pays 2.5 per cent from Dudley Building Society, according to the website Money Saving Expert, although that is on balances over £2,500 and can be opened only in branch or by post, so it is not ideal for me. Tesco Bank pays 2.25 per cent and can be opened with £1 online or by phone.

Whatever the rate of your cash Jisa, you will lose money in real terms if it is below the rate of inflation, which is rising. “You can be almost certain that a stocks and shares Jisa will perform better than cash long-term, and there’s a strong probability that your child will be significantly better off,” Adams said.

Fortunately, we are getting better at embracing investing. In the 2018-19 tax year £419 million was paid in to stocks and shares Jisas — 44 per cent of the total put into Jisas. That’s close to five times more than the £99 million invested in stocks and shares Jisas in 2012-13, — 25 per cent of the total put in to Jisas that tax year.

What you will pay
Having decided to go for a stocks and shares Jisa, the next thing I have to grapple with is charges.

Fidelity’s Jisa has no platform charges, which Adams said would be a saving of £30 to £100 on a Jisa worth £10,000. AJ Bell Youinvest charges a 0.25 per cent custody fee for holding shares and funds, which is respectable. Both allow you to make regular investments of as little as £25 a month and charge £1.50 for each purchase. The fees are higher for lump sum investments.

Vanguard has a 0.15 per cent account fee, but there are no charges for buying or selling investments. The only funds available to invest in are Vanguard’s own, admittedly high-quality funds, and the minimum regular monthly investment you can make is £100.

Interactive Investor’s Jisa is better for keen traders and those looking to build a portfolio of shares because its charging structure has benefits when you make more than ten trades a year.

“It is really worth doing your homework here and taking the time to do the sums and work out which company is cost-effective,” Adams said. “Most people open a Jisa for their children when they’re quite young, which means it will be years until they can access the money. Over a long time, even small costs really make a big difference to the value of their investment.”

What to invest in?
For most investors with little knowledge of investments or less time to manage them, drip-feeding cash every month into a fund that simply tracks an index of global businesses would build up a sufficient pot over the years.

Since I’m planning to oversee Violet’s stocks and shares Jisa, however, I asked the professionals what I should invest in for the best, not too risky, long-term returns.

Most of the funds they suggested are actively managed, by a human stockpicker, and globally orientated, holding shares in companies from around the world. James Carthew from the information website QuotedData, suggested Alliance Trust and RIT Capital as “solid global investment trusts that aren’t too risky”. Alliance Trust has a “multi-manager” approach, meaning it farms out its money to third-party fund managers.

Daniel Pereira from the consultancy Square Mile suggested Artemis Global Select fund — the managers of which run Mid Wynd International, for investment trust fans — and the T Rowe Price

Global Focused Growth Equity fund. Both invest in fast-growing companies, the former with a focus on themes such as automation and healthcare costs, the latter with an aggressive performance objective that makes it “best suited for investors with an appetite for risk”.

Considering the 18 years that Violet’s Jisa will be invested for, a more adventurous fund could be a good choice. Drip-feeding money into the fund, say, every month would be important here, so that you spread your investment and ensure you are not doing all your buying at a bad time.

“The key is to make no attempt to time markets,” Carthew said. “Pound cost averaging [putting away a set amount each month] can work wonders, especially in periods when everyone is running for the hills.” He picked out Herald Investment Trust as a strong long-term performer. It invests in smaller companies around the world with a bias towards British businesses.

Single sectors can be volatile and are best used within the context of a diversified portfolio. However, James Cliff, an investment director at Tyndall, thinks that the technology sector could be a shrewd choice.

He suggested the investment trusts Allianz Technology and Polar Capital Technology as options, although warned that the entry point today may prove as poor as it was in the mid-1990s, when funds like them slumped as much as 80 per cent.

Cliff included the £19 billion Scottish Mortgage Investment Trust in those tech names, while Juliet Schooling Latter from the research group FundCalibre picked the Baillie Gifford’s Global Discovery fund.

Investment in companies working to combat climate change should become more significant over the next two decades — and help the world that Violet grows up in to be more secure. Ninety One’s Global Environment fund and Pictet Global Environmental Opportunities are two options.

Violet’s best of the bunch

Contributions to Violet’s Junior Isa are likely to total £50 a month, with the possibility of ad hoc top-ups. With the £25 a month minimum for regular investments with Fidelity and AJ Bell, we’ll be able to start with only one or two funds.

The sensible option would be a fund that tracks an index of the largest listed companies from around the world, such as the Legal & General International Index Trust, that way your savings are not in the hands of a human who has the capacity to make mistakes.

However, a few best-in-class stockpickers have given investors returns much higher than the indexes they are compared with.

T Rowe Price’s Global Focused Growth Equity has been a strong performer. Its longest-running UK share class is up 468 per cent over ten years versus the tracker fund’s 268 per cent.

The £27.7 billion Fundsmith Equity fund is an amateur saver favourite and is up 510 per cent over the past decade. It holds 29 stocks and its manager, Terry Smith, rarely adds new holdings or sells existing ones.

A strong subs bench of Scottish Mortgage, Ninety One Global Environment and Smithson, which invests in medium-sized companies and is run by Fundsmith, could be added further down the line.