

PRESS ARTICLE

STRUCTURED INVESTMENTS AND DEPOSITS | OCTOBER 2011

With inflation currently higher than deposit interest rates and investment markets so volatile at the moment, investors are increasingly looking at alternative ways of investing their capital.

One option is to consider Structured Products which offer growth or income potential that is linked to stock market performance, usually via an index such as the FTSE 100. The amount of income you can receive is normally capped.

Structured Products typically have a fixed term of between three and six years and can be held within a variety of product wrappers including ISAs (many plans allow ISA transfers), a Direct Investment or even as an asset held in a Self Invested Personal Pension Plan (SIPP). There are two types of Structured Products, a Structured Deposit Plan and a Structured Investment Plan, and it is important to distinguish between them.

A Structured Deposit aims to protect your capital and is designed to return your initial investment whatever happens to the stock market over the fixed term.

For example, a recent issue of a Structured Deposit Plan offered a fixed return of 15.5% at the end of three years if the FTSE 100 was higher at maturity than the starting level. The aim was to offer the opportunity for growth in excess of cash deposits with capital protection over the term.

The growth or income on a Structured Deposit will be taxed at income tax rates, whereas the tax applicable to Structured Investments will be Capital Gains Tax (CGT).

Structured Deposits benefit from the same level of protection offered by the Financial Services Compensation Scheme (FSCS) as other Bank Deposits, whereas a Structured Investment Product is not covered by the FSCS.

The capital protection of a Structured Investment Plan is provided by a Bank and the return of the capital at maturity is dependent on the Bank being solvent at that time. The financial strength of the Bank providing the protection is therefore an important factor when choosing a Structured Investment Plan

Structured Investments expose your capital to risk, but often have a 'safety net' feature, meaning the stock market can fall by a specific percentage without affecting the capital return. As your capital is at risk, Structured Investments offer the potential for a higher return than Structured Deposits. However, an investor could lose all or a substantial portion of their investment. Structured Products are only suitable for individuals with a good strong cash position and an established core investment portfolio. They should form a reasonably small part of an investors overall portfolio and it is vitally important to ensure that there is not over exposure to one particular provider.

It is also extremely important to have a meaningful understanding of the plan and the product provider to ensure you are comfortable with the proposition.

Currently there are hundreds of options in the Structured Product market, so it is imperative that any providers and propositions being recommended have been researched and reviewed thoroughly to ensure both the provider and the plan are suitable for the individual's circumstances.