Begin

Saver or Investor? Should you be both?

Your Questions Answered

Bank of Ireland

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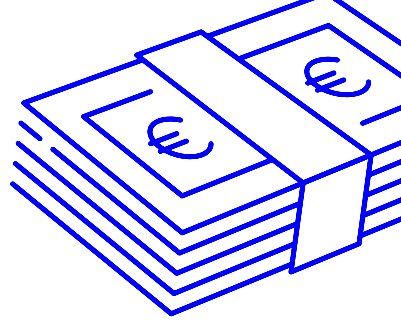


Earlier this year, we hosted a new webinar called **Saver or Investor? Should you be both?** to help our customers understand more about the world of investing and how they can be used as a longer term savings tool. Our aim was to educate people about investments to improve their financial wellbeing and to enable them to make better financial decisions for their financial future.

Our webinar was an unprecedented success. With so many viewers joining us for the webinar, we just couldn't get through all the questions on the day with over 130 submitted. So as a follow-up, we have collated this **Saver or Investor? Should you be both?** FAQ guide which captures the questions from the webinar that we didn't get a chance to answer.

What is the 50/30/20 rule?

The 50/30/20 rule is a simple way of managing your money, after tax, by setting aside: 50% of your take home income for needs, 30% of your take home income for wants 20% of your take home income for savings. You may need to readjust the 50/30/20 approach from time to time. Perhaps you'll sacrifice some spending on wants or saving to cover off the essentials that you NEED to pay for.

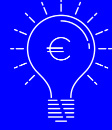
Do you have a primer on investing with stocks?

Our view is that stocks generate the best long term return for our investors so long as you have a well-diversified portfolio - in other words, don't put all your eggs in one basket and to invest for a period of 5-7 years or more. While we said it may be the best return on your money, there are ups and downs along the way and time allows your investment the opportunity to grow, but also if it suffers from losses that it has the time to rebound from losses again. Generally, in history, when investments have been put aside for that time horizon, they tend to generate a return that beats other ways of saving including deposits and very importantly keeps them growing ahead of inflation.

What investments do you recommend for first time investors?

Really it's the same suite as it is for novice investors as it is for everybody else. The key thing is to link what you want from your money to your own investment goals and your attitude to risk. We determine your attitude to

> "Setting goals is the first step in turning the invisible into the visible"
>
> ***Tony Robbins***



risk with a scientific set of questions, how you answer the questions will determine where on a scale of 1-7 you feel comfortable. There is no wrong answer here and everyone is different. 1 is a more cautious type of person and 7 is more of a risk taker. The funds you can choose to invest in depends on where you are on that scale. We have lots of funds to choose from under each category.

Some first time investors prefer the idea of putting their toe in the water with a smaller amount or to phase their money into investments over time – so instead of putting all of their money in now they might put a little in now and some later in the year etc. or alternatively some will use regular saving products to actually achieve that.

What ratio split do you recommend between savings and investments particularly for those people around retiring age?

Really we don't tend to recommend a split for those but what we do suggest is that you calculate an amount for your short term spending, then your medium term spending and we do have suggested rules of thumb around saving for an emergency fund. Once that is done anything above and beyond that is for an investment fund, only after you have catered for all those needs.

For those around retiring age, your emergency fund – instead of being a function of your income, (usually what we'd suggest is 3-6 months income) we suggest instead measuring it by what you're spending in retirement, so let's say 12 months spending might be what you put into your emergency fund. Generally for those nearing retirement, if you're in good health, there is every chance that you will live for decades ahead and achieving good growth on your money is also very important. So it is key that you find that trade-off between growing your money and the level of risk that you are comfortable with, bearing in mind that your longer time horizon may be significant.

Is there an option to have monthly savings plan that can then be invested into stocks and shares

Yes, there is and again the choice is very wide for investors. You can set up a regular savings plan when you start an investment online with us from as little as €100 per month. You can choose to invest in a global basket of shares or in a specific market like the US or even in a more diversified basket that has shares, bonds, property and cash in the mix.

Again this is linked to your attitude to risk and what tends to generate a decent return for you over time.

A monthly savings plan is very much about what goals you want to achieve, what level of growth you're looking for and what journey you want during that time.

I've recently moved to Dublin and started working for a private company. Can I invest in Ireland now?

Yes, you can invest in Ireland now, we only deal with people who are resident in Ireland under licence.

Is it possible to deposit my money in debt funds through BOI?

The debt funds that we tend to invest in are via the bond market, and we have strategies of investing corporate bonds and in sovereign or government bonds or a combination of both so we have some choice available but we don't operate a private lending investment strategy within our funds.

I would like some advice on investing a sum of money soon to be inherited from the proceeds of the sale of the family home.

One of the things we suggest if you're inheriting a large sum of money and you haven't had experience in the past of dealing with large sums is to first of all take some time over it. Take time to understand what you would like to do with the money. It's always worth looking at the trade off between paying off some debt that you might have and then sitting down and going through a process with us, where we can allocate the money across what you might need in the short, medium and long term and then looking at investing for the longer term as well. So it is about taking into consideration all of your circumstances before you work out what you want to do.

Putting money off the mortgage or into your pension fund. What is best?

One of the great things about putting your money into a pension fund is that you get tax relief on the contribution and if you plan on retiring soon, you won't have to wait too long to get the money back out so if you don't need that money the tax relief (particularly if you're a top rate tax payer) may be a very attractive offer for you.
A lot of people do like the freedom of paying off debt and if your mortgage is close to being paid off and paying for itself, you may wish to continue paying this off as scheduled and benefit from the pension reliefs while they're still available to you while in employment.

With equities at all-time highs, severe volatility, and significant interest rate pressure, is there a well-balanced middle ground strategy which yields an inflation beating return?

Equities have come off their all-time highs and when we look at valuing shares and the stock market in general, we look at the combination of what

companies are earning and the price of those assets. Certainly the earnings have improved substantially, volatility did spike a number of times this year but it has come back down quite noticeably. There is no doubt that interest rates are starting to pick up across the world at the moment. For someone looking for a well-balanced middle ground strategy, we have both passive and active managed strategies that may be of interest that have ways of managing volatility and risk, primarily through diversification. But generally we find people looking for that would have approx.. 50% of their money invested in shares and the rest spread in assets like bonds (corporate and government bonds), some property and alternatives.

Advice for saving for kids education that is relative safe and not high cost

Our advice is to start as early as you can. If you have a lump sum of money you can put away that's terrific but a lot of people like to save for children's education by saving regularly and there is a huge choice in how you invest that money. Generally, if it's a long time between starting saving and your eldest child going into fee paying education, we would recommend that you look to maximise growth for the majority of the time and maybe as you get closer to when you have to start spending that money, that maybe at that point start taking a more cautious approach. There are features within our regular saving product that can help with this such as a target feature and a milestone feature.

Where should one invest a lump sum from the sale of an investment property?

Our starting point when we talk to people about investing is really about a three steps process.

Step 1: Understand where you are – that is breaking down what money is coming in and going out, what you have and what you owe. Also, deciding what you need for your short term – your day to day spending, your medium term - what you think you'll need over the next couple of years as well as and emergency fund, and long term – 5-7 years and how you can get a better return on your money.

Step 2: Looking at your goals and what you're trying to achieve from that money. They can be very specific goals or alternatively it may be something as simple as getting a better return on your money.

Step 3: Design a plan to achieve those goals and deciding what type of journey you want to get you there. This is all about determining your attitude to risk and devising a plan that meets your needs.

Once you've followed these steps and put a plan in place its about sticking to that plan over time but reviewing it every so often and making sure it meets your needs.

What is considered a safe/cautious home for my money when it comes to investing?

The safest place generally to hold your money is on deposit but unfortunately interest rates are low and likely to remain low (albeit with some minor increases) for quite some time. While your money is on deposit, inflation has remained stubbornly high and is likely to remain so. As long as that is the case, the buying power of your money is reducing so we would usually recommend to people that if you can take some of that money and consider investing in longer term strategies, then you may get a better return on a proportion of your money but that generally does involve you taking some level of risk with your money and investing in assets that may fluctuate over time.

For those that only want to safest of assets, unfortunately it's likely that the return will remain low on that money for the foreseeable future.

Investing in volatile times

They say that stock markets often climb a wall of worry and what we've seen over the last number of years really emphasises this point. We saw following the outbreak of Covid-19 a sharp sell off in riskier assets like shares but as the world started to deal with the crisis and as vaccines started to be created we saw the markets respond and recover very quickly. More recently, we've seen sell off in markets because of the Russian invasion of Ukraine and much of those losses have been recovered already. Over time we've seen many challenges to markets but for those that can ride out the ups and downs along the way, they're likely to benefit from returns that are ahead of inflation and deposits. Uncertainty will always remain but it is about the mix that you have in your fund that can deliver that smoother journey over time. So there are a broad range of strategies that don't necessarily mean putting all of your money in shares and that can mean that the level of volatility within your investment can be reduced somewhat.

Markets are about timing - a severe drop when you want to cash out can kill your investment...what's the advice here?

This is one of the fundamental lessons of investing. It's about time in the market as opposed to timing the market. History has shown us that it has been a real challenge for most people and that it is impossible to predict the very best and worst days. There is a saying that no one rings a bell at the very top or the very bottom of the market and that means that it is impossible to know the best days or the worst days but what we do know is the best days are quite hard to predict and sometimes will happen after a fall. It is about time in the markets, not timing them that tends to generate the best outcomes for you.

I've cash to invest but looking to use it to buy a house when the market turns. As we don't know when that will happen I don't know if I should invest it or save it and have it when needed. What should I do?

Absolutely save it and have it available when needed. The stock markets over time tend to generate returns but they are unpredictable and they can go through bouts of selling off sharply and that could be just at the time when you're looking to buy. It would be our view that stock markets are not a home for short term money.

At 60 is it too late for long term investing?

Our recommended time horizon is 5-7 years or more and certainly at 60, you can look forward to decades ahead. We sometimes find that people start to take a more cautious approach to investing when in fact, they may need their money to grow and deliver a return for them for many years to come. So you should go through the process of identifying your attitude to risk, identify what you're comfortable with and evaluating over time if it's still meeting your needs. Getting advice is key here. Get advice and then make an informed decision about what to do with your money. We do have a specialist team in place that are equipped to support more senior customers and make sure they get advice that is tailored to their needs. Just ask in branch or on the phone to speak to a Wealth Advisor and our team will be happy to point you in the right direction.

Buying a house in 2022 - worth doing now or is it better to wait another 1 or 2 years?

Good question. There are two ways of answering this. First, buying a home is about time and timing. On the matter of time, what I mean is that a person may have reached a time in their life that they want a place of their own. In this case, what I would say is that if they have the means and can find a suitable property then go for it. Who knows, circumstances could change, perhaps they may not have the means they have presently in a year or two. If the time is right and this is what they feel they want in the long term, then now is the right time.

The second consideration is timing and this has more to do with the cost of the property and also, perhaps locating the 'right' property. But in the main, most people are just thinking of price and on that, I would say that it is very difficult to predict what prices will be like in the future. And with interest rates expected to be nudged upward by the ECB (Eurpean Central Bank) , the cost of finance will increase also. This brings me back to my original point, if the time is right, if the applicant can secure a mortgage, perhaps avail of the HTB scheme, locate a suitable property then they are in a positive place. From a financial wellbeing perspective, they might want to strike while the iron is hot!

Should you use savings to pay off mortgage (6 years left) or invest that money instead?

Again, another really good question. To answer this depends on the situation the mortgage holder is in. For example, if they have a tracker mortgage, then the financial benefit of paying down the mortgage using those extra funds will be minimal as the cost of that mortgage is minimal to begin with. If on the other hand they have an expensive mortgage, they might want to look to refinance then perhaps explore the benefits of paying down the mortgage. Remember, they can use the Bank of Ireland 'Overpayment Calculator' to work out their own savings. Of course, if they have a fixed rate mortgage presently, the flexibility to pay down that loan is limited (normally about 10% of the repayment / capital). When it comes to investing, there are two options here. Pension and non-pension. A pension is a really tax-efficient way to build a retirement nest egg quickly and very effectively. In the non-pension space, there are a growing number of options in the market that can generate very positive rates of returns. From a financial perspective, the maths usually favours paying into the pension as opposed to paying down the mortgage!

Would I be better to pay off my mortgage with my savings or invest in home improvements?

Certainly, home improvement loans are very popular at the moment. This is partially driven by more people working from home. It's also, in part, the realisation that moving home is extremely challenging presently with so little inventory on the market. So, when it comes to home improvements, borrowers should look to add as much value as possible. These include improvements that will add positively to the home's BER rating as this will add comfort and, future marketability if the need arises. Other areas include bathroom and kitchen upgrades, but only if the present ones are in poor shape. Remember, if the property is ever put on the market, future owners may have their own likes and dislikes when it comes to kitchens and bathrooms.

Interested to know if property is a better investment than long term savings

At present, almost anything is better than long-term savings from a yield perspective. This is as a result of how the ECB prices money at present, it is priced at Zero. So, even if the ECB does increase interest rates in the near future, savers should not expect to see any significant change on the rates of interest paid on their savings accounts. However, on the matter of investment property, it is important to be aware of risks, including rental yield potential, tenant rights, tax treatment of profits / expenses and so forth, these can all change and can have a significant impact on the original assumptions of the potential rate of return (rental yield / capital appreciation / capital gains tax). Plus, when it comes to investment property, buyers will require significant deposits.

What should a company do with the cash it has built up and doesn't need to use for the day to day running of the business.

The first question I would ask is whether or not the excess is coming from seasonal factors or something more fundamental.

1. So, if it is as a result of seasonal factors, I think it would be best to simply keep the cash on reserve as it may be needed during off-season periods to maintain the operation of the company. Remember, having working capital for the business is critical to long-term success so it is really important to protect it when the business has it.
2. If on the other hand the excess funds are being generated as a result of something more fundamental, it would be an opportunity to examine that revenue source and look to see if expansion is possible. For example, if the business is a food manufacturing business, if the extra revenue / cash is as a result of a change in consumer buying behaviour, then this would be a signal to expand to ensure it continues to meet demand (and remain competitive).
3. Also, for some businesses over the last number of years, excess cash has resulted in a lot of share buyback activity. In the case of a small enterprise, it might be an opportunity to examine some debt reduction options.

If one had an outstanding Mortgage €250,000, 10 years left and came in to Inheritance should they clear the outstanding Mortgage

On the separate matter of the inheritance, it really depends on the amount you have received. If it's a relatively modest amount, then you may want to protect the entire amount for day-to-day events or pay for essentials (or even pay off any expensive debt you may have, including credit card debt as the cost of interest can be crippling). However, if the inherited amount is more substantial, you may want to explore some investment options but if you do, try and protect the investment by diversifying the amount invested. There are many investment funds that can be used to achieve this.

Keep saving, invest, or pay off my mortgage?

Good question and really timely.
So, as the European Central Bank is beginning to consider a tightening of monetary policy, it is important to ask what the impact of a rise in interest rates would mean for you. Using a €300,000 mortgage as an example, a quarter-point increase in interest rates would result in about a €40 rise in monthly mortgage repayments. The question for you is what type of mortgage you have. If it is a variable (standard or tracker), you may need to have some extra funds set aside to cover off the rise. If you have a fixed rate mortgage, your repayments will be unaffected during the period it is fixed.

What options, if any exist, for short term cash investments of say 3 - 6 months apart from demand deposits?

In the short term, it is really important you have enough set aside for unexpected expenses, like a car repair, broken heating, etc. Ideally, this should be the equivalent of 3 – 6 months living costs and as mortgage rates are predicted to rise at some point in the future, this fund will be a way of minimising any financial disruption.

Is the insurance cover (€100k limit) per account?

The Deposit Guarantee Scheme covers up to €100,000 per credit institution per customer, this means that all eligible deposits at the same institution are added together in order to determine the level of DGS coverage, which cannot exceed €100k for any individual customer.

If interest rates rise will deposit interest rates rise?

Pricing for deposit products reflects the external interest rate environment, and is continuously reviewed. The application of negative interest rates to large deposits, reflects the current negative interest rate environment. Bank of Ireland will look to reflect any move to a zero or positive interest rate environment in deposit pricing.

Can you tell me is there a deposit account that gives interest and yet is flexible re. immediate access or maybe access without a penalty

Please see following link for savings comparison webpage What type of Saver are you? | Bank of Ireland.

Are there banking costs for saver accounts?

No. Bank of Ireland does not charge fees for savings accounts.

If a bank account is in the names of 3 different individuals does it mean you can have up to €300,000 covered by Government security?

The Deposit Guarantee Scheme covers up to €100,000 for each customer. Eligible deposits held in joint accounts are typically divided equally among the individual depositors and considered in conjunction with other individual savings for the purposes of the Deposit Guarantee Scheme.

What should we look out for when looking at costs/fees/charges?

Costs can have quite an impact on what your investment delivers for you. We would suggest that what is really important is not necessarily looking for the cheapest solution, but rather the one that offers the best value for money.

There are a number of factors that can make a strategy more expensive than others: actively managed funds usually require more human intervention and research. Hedge funds and absolute return funds often use risk management methods that carry higher costs. Private equity strategies that are in scarce supply or high demand can cost more. If you value a higher level of risk management, then you can see that you may pay a little more for it.

If you buy shares or bonds directly yourself, you may be charged commission by the broker you deal with or their income may be factored into the price you pay for the asset. For tracker bonds, the fees are usually factored into the structure of the product and is usually generated upfront by the provider. For unit funds, you may face some or all of the following:

- **Annual management fee:** A fixed percentage of the value of your investment fund that is taken by the provider each year to pay for managing the fund and other running costs.
- **Bid/offer spread:** The difference between the buying price and the selling units in a fund.
- **Allocation rate:** The percentage of your investment that is used to buy units in a fund. A 98% allocation rate means that for every €100 you invest, €98 is invested and €2 is taken as a charge.
- **Early encashment penalties:** Most of these funds are designed to run your investment for five years or more. This is a fee you may be charged for any money you encash in the first few years. Typically, it reduces from 5% in year one to 1% in year five.

It is important that you understand what the costs are – but what question do you ask? A good question is to ask what the net cost is, another is to ask what is the Total Expenses Ratio or TER.

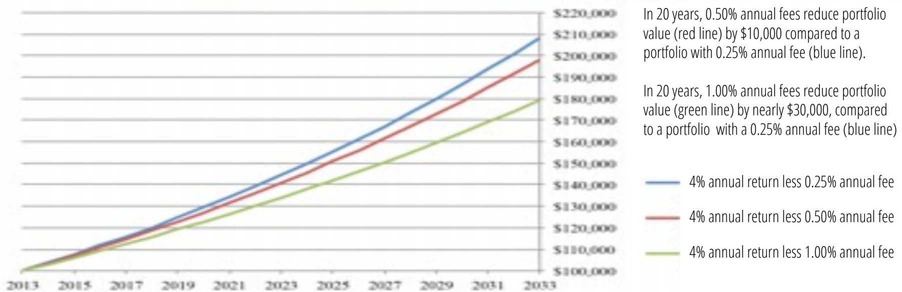
The TER provides a way for the annual costs of running a particular fund to be covered. It takes all of the known costs associated with the fund's operation and expresses them as a single number, generally as a percentage, drawing its basis from the assets associated with the fund. TER includes the management, trading, and legal fees associated with the fund, as well as any audit costs or general operating expenses.

If there are upfront costs associated with your investment, less of your money will have an opportunity to grow. Annual costs limit the growth each year but it is important to remember that as growth compounds, higher costs limit the amount of your money that benefits from any growth. The chart below comes

from the US SEC and shows the impact of charges from 0.25% to 1.0% over 20 years, using a growth rate of 4% p.a. for each. The higher cost strategy, if it delivers the same gross return as the low cost one, will attract higher fees of almost $30,000 over the 20-year time frame.

When evaluating costs, it is worth asking what level of service you will get on an ongoing basis. As we know, investments do go down as well as up and you may want to seek ongoing advice in more volatile times, which may not be available from an ultra-low cost offering. DIY is usually cheaper but sometimes it pays to get advice from professionals.

Portfolio Value From Investing $100,000 Over 20 Years



Source: US SEC Investor Assistance 732-0330

Warning: Past performance is not a reliable guide to future performance.
Warning: These figures are estimates only. They are not a reliable guide to the future performance of this investment.

Next Steps

To find out more:

bankofireland.com/exploreinvesting

01 523 9813*

* Calls may be recorded for service, training, verification and analysis purposes.

Warning: The value of your investment may go down as well as up.

Warning: If you invest in a pension you may lose some or all of the money you invest.

Warning: If you invest in a pension you will not have access to your money until your retirement date.

Warning: Past performance is not a reliable guide to future performance.

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