

5

THINGS TO
CONSIDER

Receiving a financial windfall

Are you unsure what to do with a large cash lump sum? Here are five key things to think about.

1 Don't let your lump sum 'rot'

Many people opt to hold large amounts of cash in low-interest bank accounts, where its purchasing power is eroded if the interest earned is below inflation.



Tip: Cash is designed to fulfil short-term needs. Money that can be held for the longer term can expect a superior return if it's invested in more suitable long-term assets, such as stocks and bonds.

2 Optimise tax breaks

Make the most of tax-efficient pensions and ISAs, which both provide a valuable shelter against income tax and capital gains tax, allowing your investments to grow tax-free. A couple can move substantial amounts into these tax shelters via disciplined use of their annual allowances.



Tip: You may be able to top up a pension by up to £200,000, depending on your use of annual allowances in the past three tax years.

3 Mortgage costs vs. investment returns

Evaluate the pros and cons of paying down your mortgage debt, investing the money, or a combination of both.



Tip: Property assets are not as liquid as an investment portfolio, and can often dominate household net wealth, making you susceptible to house price movements.

4 Investment strategy

If you opt to invest your lump sum it's important to evaluate your attitude to risk to determine an appropriate asset mix – eg. shares vs. bonds.



Tip: Exposure to risks can be reduced via diversification, the process of spreading your money across different asset classes by geography and sectors.

5 Watch out for investment fees

You can't predict market movements, but you can control investment costs and charges. Paying excessive fees is akin to 'driving with the handbrake on'.



Tip: Ensure you're getting value for money. Even a relatively small difference in annual investment fees can have a major impact on your long-term returns.





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