Should you take a risk in search of better ***returns***?

Words | Michael Deering

Rock-bottom interest rates and high inflation mean that savers who keep their money in the bank will see its true value eroded. Any investment that offers the chance of better returns exposes your capital to risk.

It is three years since the Bank of England took the drastic decision to cut the official cost of borrowing to 0.5%. Given the severity of the economic crisis at the time, few savers would have expected rates to rise again shortly afterwards, but few would also have expected the Bank Rate to remain at its 300-year record for so long.

Economists believe that the Bank of England Monetary Policy Committee who set interest rates will leave the base rate at current levels for the foreseeable future and in fact provide a further stimulus of £50 billion for the nation's struggling economy as it flirts with recession. As the rate of inflation falls towards the pre-determined target of 2% so the argument for higher interest rates weakens further.

However with returns on traditional Bank deposits only reaching around 3% and inflation still running at 4.2%, it doesn't take a rocket scientist to work out the purchasing power of your pound will weaken significantly over time after you have paid income tax on your savings.

Not surprisingly therefore many savers are having to consider taking on more risk to receive a meaningful income and this is the biggest dilemma for savers who , not unreasonably, do not want to lose a penny of their hard-earned cash.

It is really a case of risk management and significantly higher returns are available to investors if risk is properly controlled and managed. A well balanced portfolio of top quality stocks and bonds could give a return in excess of 5% with the added potential for an increase in capital value over the longer term.

Bearing in mind most of us will have worked long and hard to establish our savings, an equity strategy may be considered high risk. However, the reality is that savers rarely touch their capital and whilst share prices will rise and fall over time, you can expect a company's profits to grow resulting in enhanced income and capital returns. Global stocks will survive in the long term despite the toughest of economic environments.

You should consider at least talking to a stockbroker to discuss the strategy that most suits your circumstances and you may be pleasantly surprised at the options that are available.

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