Elston

Elston Insights

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Your client's child trust fund is maturing – what next?

- Choose a platform, choose a fund
- Keep topping up
- Put a date in the diary to speak to an adviser

Some 18 year olds will have their Child Trust Fund maturing. Depending on how their parents had invested it, that could mean a lot or a little start to adult life. Our Head of Research, Henry Cobbe, provides some suggestions as regards next steps for an 18 year old with £29,000 to invest

First of all – I'm sure you've done a big thank you to your parents for having set up, and topped up your CTF to grow it thus far! Everyone had the same starting point with CTFs, but it's the decisions that your parents made that has determined your portfolio thus far.

You should ask your parents' adviser to help you get started, but if you really want to manage your own portfolio for now, rather than take advice, I would encourage you to make a straightforward three-step plan.

1. Choose your platform

Firstly, decide on a platform. Interactive Investor's flat-fee account is great for much larger pots, but your pot size means it's much of a muchness between them and the other well-capitalised providers like Fidelity, AJ Bell and Hargreaves Lansdown. For a detailed analysis of platform fees, take a look at comparefundplatforms.com Using their tool, and assuming £29,000 lump sum ISA, £50 per month top up into 2 funds and no switches (buy and hold!), a like for like comparison suggests Interactive Investor 0.32% annual fees, AJBell 0.35%, Fidelity 0.35% and Hargreaves Lansdown 0.45%. Take a look at each website, decide which you find to be most helpful, and easiest to navigate. Customer service is important too, so try calling their helpdesks and see you find most helpful!

2. Choose your funds

Secondly, decide on which funds, if you have a specific amount that you would ear-mark for the property deposit, and you expect that it's in ten years' time, you could consider using a target date fund, like Vanguard Target Retirement 2030 Fund Acc (0.24% OCF) or Vanguard Target Retirement 2035 Fund Acc (0.24% OCF) for that portion and ear mark that as your "deposit pot". This means that as you get towards the target date, the investment strategy becomes less risky. That way the pot earmarked for your deposit is less exposed to a market shock if there is one in the run-up to you wanting withdraw funds for your deposit.

For the remainder of your pot, as you're lucky enough to have youth on your side, you have what's called high "capacity for risk" in economic terms (not related to your behavioural/emotional "attitude to risk"), so can afford to take risk for long-term investments as the necessary flipside of returns. So for the remainder have a look at low cost global equity index funds such as:

- VANGUARD FTSE GLOBAL ALL CAP INDEX Acc (0.23% OCF)
- HSBC FTSE ALL WORLD INDEX CLASS C Acc (0.13% OCF)

(For those who want to trade in and out of markets rapidly, ETFs are more convenient than index funds. But for "buy and hold" investors, the index fund format is more convenient as it means you can top up any amount from £25 per month. Accumulation units make more sense at your age (income is automatically reinvested).)

3. Keep topping up

Finally – and most importantly – heed the words of Warren Buffet in his advice to retail investors: "*keep topping up through thick and thin, and especially through the thin*". The minimum fund subscription is £25 per month, so set up a regular investment plan into your chosen funds. The power of tax-free compounding is a marvel to behold. If markets have a wobble and you have spare cash, that can be a great time to top up with whatever you can afford.

Lump sum or phased in?

Markets are quite volatile at the moment so once you've got the money into your ISA, make a plan to invest into your chosen funds proportionally in say three or four stages over the rest of the year. That way you are "averaging in" to the market, rather than either getting very lucky (buying at a market low), or very unlucky (buying at a market high). Whilst in the long-run (say 30 years) it won't matter (according to academia), it does make a difference to how you feel about taking the plunge, and can help remove a lot of worry.

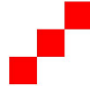
Set a date for review

Make a plan as to when you will check in to your account – monthly, quarterly or annually. You would also need to rethink your strategy if your situation changes, or if your goals change.

Whilst young and care-free you are probably right in your analysis that you may not need an adviser at this stage. But also put a date in your diary to speak to one when you're any or all of 30, in a marriage/civil partnership, or starting a family. A good financial planner will review your situation and make sure that you have all the right things in place: mortgage, will, insurance, consolidated pensions, making the most of tax allowances and a broader plan to achieve your medium and long-term financial goals, whilst squaring off key financial risks.

Good luck with the start of your investing journey!

Notice: Not a personal recommendation. No assessment of suitability. Personal opinions expressed do not reflect the views of the author's employer. Self-directed investors should read the terms and conditions and risk warnings of their selected platform, together with the KIID of any fund they select.



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Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

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