The Press and Journal Monday, September 2, 2013

MONEY

HIGHER-RISK INVESTMENTS: Both halves of Scottish football's Old Firm are listed on the Alternative Investment Market

Taking gamble on Aim not for the faint-hearted

Isas: Added tax advantages for investor but stocks more risky

BY BARRY O'NEILL

Increased choice is normally a good thing.

A recent relaxation of the rules surrounding the types of equities that can be held in stocks and shares individual savings accounts (Isas) should, however, be treated with caution by most investors.

Investors can now hold the shares of companies listed on the Alternative Investment Market (Aim) in their stocks and shares Isa.

Launched in 1995, Aim is part of the Stock Exchange and is the market where more than 1,000 small and growing companies are listed.

More than half of these have a market capitalisation of less than £25million and many do not pay a dividend to investors, who instead hope for stellar share price growth to recompense them for the additional risks.

Aim has struggled when compared to the main market since its launch.

The wide variety of companies listed on Aim include online retailers, exploration and production (E&P) firms, miners and interestingly, both Old Firm football teams which should give you an indication of the risks involved.

The most highly traded stocks on Aim tend to be the mining and E&P stocks.

Isas already confer generous tax breaks on investors in freedom from capital gains tax and an exemption from any further income tax on dividends. Qualifying Aim stocks come with an additional tax break because they are exempt from inheritance tax (IHT) once an investor has held the shares for at least two years.

Investors who have diligently used the maximum annual Isa allowance since they were launched, and that of their predecessor, the personal equity plan, will now have several hundred thousand pounds invested, which could be helping to create a sizeable IHT liability.

Altering your investment strategy to populate your Isas with Aim-listed stocks simply to escape 40% IHT after two years is a dangerous tactic given the poor performance of the majority of companies on this market. Some stocks have lost more than 40% in value, so it would be a classic example of the tax tail wagging the investment dog.

The concept of a virtually tax-free investment is understandably attractive and for very experienced and sophisticated investors, holding Aim stocks in an Isa could well be appropriate.

However, the additional risks involved with the higher volatility associated with Aim stocks means they are definitely not for everyone.

Barry O'Neill: Aim "not for everyone"

■ Barry O'Neill is investment director at Carbon Financial Partners