

## With-profits funds about to make comeback?

With-profits funds had suffered a decline in popularity over the last decade due to stock market uncertainty and doubts about the value of the product. However, now could be the ideal time for savvy investors to reconsider investing in them, according to some financial experts.

Traditionally the way that most Britons invest, when seeking higher returns from those offered by putting cash into building society or bank saving accounts, with-profit funds offer an appealing simplicity. Now, the news on average five year with-profits bonds is that it returning approximately £35,000 on an initial £25,000 investment. Despite the current worries over the financial markets those returns are significantly higher than at this point last year.

The beauty of with-profit funds, according to the marketing blurb, is that they are stable investments giving a 'smoothed' return over time. A smoothed return results from holding back profits in years of good investment growth and using them to top up bonuses during years of poor returns. So, the product grows at a faster rate in poor years, and less fast than it should in boom years smoothing out the return across the entire period of the investment.

There are currently an estimated 20 million UK savers who are using with-profits as the bedrock for their savings. Their savings are being channelled into a variety of the [best life assurance](#) funds, endowments, bonds and pensions that they can find, and they will be hoping for a much better return than simply putting the money in an interest-bearing account.

A type of pooled investment fund, with-profits schemes are normally run by mutual societies or insurance companies and many insurance products are tied into certain schemes, which normally offer some degree of life insurance cover.

The popularity of with-profits took a dip after the turn of the century, but prior to that were considered the safest way of saving for retirement or other major life events such as university fees. They lost their appeal over a lack of transparency, with bonuses added according to the calculation of faceless insurance company actuaries. In addition, many funds invested heavily in the first dot-com boom and subsequently performed poorly following its collapse.

But, now the tables are turning and with-profits funds are re-emerging as a good way to ensure the best long term returns. Investors in short-term stocks have been warned off by market volatility and low interest rates are making bank and building society accounts even less attractive. Perhaps now is the time for with-profits to make a profitable comeback?

### About the Author

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