

## Q&A

**Q I would like to invest my Isa in a FTSE-100 Tracker but my adviser thinks this could be risky – is he right?**

**A** The main benefit of tracker funds is cost. Since they do not need expensive managers to make investment decisions, they are cheap. Most charge nothing up front and only between 0.3% and 1% a year compared with a traditional fund, where initial costs can be as high as 5% and typically around 1.5% per annum.

Tracker funds attempt to replicate the performance of an index rather than beat it.

Having said that, even if a tracker exactly matches the performance of an index, it will still return less after these charges are taken into account. Traditional fund managers, on the other hand, aim to beat the relevant index but statistically half of them will be below average, sometimes by a wide margin. So you could argue that you have a 0% chance of beating the index with a tracker and a 50% chance with an active fund.

When markets rise, trackers

are among the best performers, but when markets fall, trackers slip down the league tables. In both cases this is because they stay fully invested. In a falling market active managers will often move into cash, but tracker funds don't have this luxury.

The other thing to remember is that the FTSE-100 is now dominated by four main sectors – telecoms, pharmaceuticals, oils and financials – which are having a particularly torrid time at the moment, and by a small number of huge stocks such as BP.

So your IFA may think that

your choice is not very well diversified and therefore risky, and that trackers should be combined with other assets and more traditional funds to create a more balanced portfolio. Funds which follow an index are also less likely to beat active managers in more specialised areas such as Asian markets or smaller companies, and more likely to do so when tracking the better-researched UK and US areas of investing.

**Question answered by Fergus Muirhead, director, VWM Wealth Management, Glasgow.**