Title:
Child Trust Funds - Take a Long Term View

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Summary:
Andrew Hagger Head of News and Press at Moneyfacts.co.uk looks at the performance of Child Trust Funds, one year on.

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Article Body:
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April 6 2006 marked the first birthday for the Child Trust Fund (CTF), and there are undoubtedly some mums and dads out there who are feeling pretty smug with the performance of the investment that they have chosen.

One year on from launch, those who have opted for one of the riskier options will have seen their initial £250 deposit grow to over £370 if they had opted for the F & C Global Smaller Companies investment trust. This level of growth dwarfs the returns for cash based investments where parents will have seen their £250 become approximately £262 during the last 12 months.

Although the cash return may seem small beer when compared with the dramatic increases seen in some of the equity based CTFs, the situation could have been worse, i.e. they could have been one of the half a million parents who have failed to use their voucher to open an account, thus depriving their siblings of any return whatsoever.

For those who have failed to open an account, it is worth remembering that Gordon Brown confirmed in his recent budget that the Government would contribute a further £250 (up to £500 in some cases) to your chosen fund on your child’s seventh birthday.

Both Abbey and Nationwide BS report that over 60% of CTFs opened have been cash based; however when parents see the types of return that have been made in some of the non-stakeholder equity based funds, they may be tempted to switch.

However a word of caution before anyone hastily decides to make the move. The funds that offer the potential for greater returns are also those that in more turbulent times are the funds that could lose the most money, so don't be blinded by just one year's performance, think of the CTF for what they are – a long term savings and investment account.

There is a middle ground that falls somewhere between the cash and investment trust CTFs, namely stakeholder equity based funds that will offer potential of higher returns than cash CTF, but less risky than the non-stakeholder investment trusts.

If you are in doubt about what is the best option for your child's savings, time spent now discussing with an independent financial adviser could prove to have been a worthwhile exercise when your son or daughter gains access to their nest egg on their 18th birthday.