Advocate

This month's question

Do you agree with allowing Aim shares in Isas?

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YES

Michael Horseman, managing director, Cockburn Lucas

Allowing Aim shares in Isas opens up a new asset class opportunity that previously wasn't available. What I am getting particularly excited about is, whether or not by allowing Aim shares through the Isa route, we are also going to be allowing for business property relief (BPR) to be attached.

If so, it offers another unique opportunity – the possibility of mitigating inheritance tax (IHT).

If therefore we are linking the existing service and allowing an investment via an Isa structure, we have not only got the combined benefits of an Isa – no capital gains tax (CGT) or income tax reporting – but we will also have IHT benefits. It's a big deal.

And I can't see why that won't happen. Aim shares are already BPR qualifying, so I don't see how you can de-qualify them from an Isa. There is potential for a significant increase in the ownership of Aim assets.

However, we must not let the tax tail wag the investment dog. Risk has to be assessed. Some people have built substantial amounts in Isa accounts, so if we can own Aim shares, it surely has got to be a welcome benefit from the perspective of asset diversification.

We outsource our Aim selection, but my advice would depend on the suitability of the structure.

I see it as a benefit, although the Aim market is a risky place to invest. It is a secondary market with less regulation, higher volatility and it is a smaller cap market. For the right type of client, allowing an extra asset class is going to be good news.

NO

Martin Bamford, managing director, Informed Choice

It is generally a bad idea for the vast majority of retail investors. These are investments that can be best categorised as risky or very risky. They are an investment in smaller companies, which tend to be more volatile and the light-touch regulation applied to Aim adds more risk to the equation.

Investors might remember US securities regulator Roel Campos criticising Aim back in 2007 for creating a "casino". He suggested that 30 per cent of issuers listed on Aim are gone within a year.

They may also remember Langbar International, the biggest share fraud on the exchange to date which swindled investors out of £375m. The London Stock Exchange has tightened things up, but the regulatory system is far from that of the main market.

Research has found investors might not even be well rewarded for the added risk. The market tends to underperform smaller companies represented by the FTSE Small Cap index. This is because Aim shares tend to carry the wrong sort of risk, which increases the downside but does not reward the upside. No sensible investor would expose their portfolio to stocks which came with all the risk but little reward.

There are high levels of liquidity risk when investing in Aim shares. Most retail investors want to be able to realise their portfolio value quickly, which makes reasonably illiquid stocks such as AIM shares the wrong choice.

For most retail investors, this added Isa flexibility is something that should be quickly dismissed.