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SHARES LISTED ON AIM CAN NOW BE HELD IN ISAs

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Do-it-yourself investors received a boost this week as the Government removed a long-standing restriction on holding AIM-listed shares in Individual Savings Accounts (ISAs). Now, for the first time, investors with the confidence to pick individual shares for their ISAs are able to invest in companies listed on the London Stock Exchange's (LSE) Alternative Investment Market (AIM).

The prohibition on holding AIM shares in an ISA never made much sense because there was no restriction on holding them in a Self-Invested Personal Pension (SIPP). An investor could get the same tax advantages by putting their AIM shares in their SIPP while using their ISA allowance for investment in companies listed on the LSE's Main Market.

AIM has always been popular with do-it-yourself investors because it offers them a chance to get in on the ground floor, investing early in dynamic growth companies that might rise in value many times over. The potential rewards are high but that means the risks can be too.

Those risks were one of the reasons the Government kept AIM shares out of ISAs until now. But its desire to ensure that SMEs have sufficient access to funding means it is now happy to ease up a bit on investor protection. It sees AIM investors as a potential source of the cash that banks are still loath to provide.

So now we are able to invest in companies such as Majestic Wine, ASOS and many other less well-known AIM companies in our ISAs. "Can" is not the same as "should", though.

So what are the pros and cons of the new rules?

Firstly, the latest move actually makes AIM shares one of the most tax-advantaged of all investments. In most cases, they are already exempt from inheritance tax. From next year, investors won't have to pay the 0.5% stamp duty on the purchase of AIM shares. And the new rules now add income tax and capital gains tax emptions to the list of benefits.

So investing in individual AIM shares makes sense from a tax perspective but should investors really be picking AIM investments for themselves? What are the risks of AIM investing?

The principal concern is that the listing requirements on AIM are less strict than on the Main Market. For example, they can get away with a shorter track record of audited results. That makes AIM attractive for young, unproven companies but can increase the risks for investors.

AIM has also tended to attract a fair proportion of small companies in the riskier technology or natural resources areas of the market. Again, this can mean potential gains but a significant risk of loss too. For some investors, that is a chance they are happy to take, perhaps with just a small proportion of their overall portfolio.

AIM is stock market investing that's red in tooth and claw. The winners, such as ASOS, up from 3p in 2003 to £50 recently, have made fortunes, however, there have been big losers too.

I think it is only fair that investors can now invest in AIM shares in a tax-efficient way. But they need to keep their eyes wide open.