

**Our Investment Philosophy**

*This describes our approach to the provision of investment advice. It outlines our beliefs about investment which forms the foundation of how we manage your money.*

**Our beliefs No. 1**

**Investors should understand the reasons for investing and how their portfolio is designed to meet their goals.** The world of investing can be complex and often not transparent. We believe in keeping things simple. So while there is a lot of science and evidence behind our investment philosophy and process, we are keen that every client understands our recommendations and how they fit with their own financial objectives.

The first step of any investment philosophy is to understand the customer’s needs. We explore this via a conversation with you and look into factors such as your need for capital security, your investment time horizon and your attitude to risk, risk tolerance and capicity for loss.

**Our beliefs No. 2**

**A conversation about risk and its many dimensions is the essential first step when investing.** When it comes to investing, risk and reward are inextricably entwined. Don't let anyone tell you otherwise. All investments involve some degree of risk - it's important that you understand this before you invest.

The reward for taking on risk is the potential for a greater investment return. If you have a financial goal with a long time horizon, you are likely to do better by carefully investing in asset categories with greater risk, like equities, rather than restricting your investments to assets with less risk, like cash. On the other hand, investing solely in cash investments may be appropriate for short-term financial goals. To help understand risk we break it down into four elements:

* **Investment risk.**
* **The need for risk.**
* **Your attitude to risk.**
* **Your ability to tolerate risk / accommodate losses.**

Your ability to tolerate risk is very different to your attitude to risk – understanding this is a key part of our investment process. A conversation with you will help inform decisions about the level of investment risk that needs to be taken and that you can afford to take, rather than simply the maximum amount of risk that you feel happy with.

**Our beliefs No. 3**

**Investing for the long term is very different than saving for the short term.** While there is an understandable desire to keep things safe when investing, the corrosive impact of inflation and thus the value of investing for the long term in more risky assets is compelling.

Real assets such as equities, property and commodities tend to make a better investment than the apparently safer option of cash deposits in the long run, but it isn’t that simple. In the last 50 years Equities have outperformed Gilts.

**Table 1: Real % per annum returns (after inflation) over 50 year’s.**

|  |  |
| --- | --- |
| Asset class | Returns |
| UK Equities | **5.5** |
| Gilts | **2.7** |
| Cash | **1.6** |

*Source: Barclays Research 2013*

But it isn’t the case over every time period – for example over the twelve most recent 10 year periods going back to 1902 (1902 – 1912, 1912 – 1922 etc.) – Equity returns were better than Gilts eight times, whereas Gilts beat Equities four times.

Our view is that basing investment decisions on the longer term historic behaviour of asset classes enables investors to participate in market growth. But that regular review is critical.

**Our beliefs No. 4**

**The bulk of long-term returns come from asset allocation.** Academics will continue to argue about the precise amount of value that comes from strategic asset allocation rather than stock selection, investment style or market timing, but it is widely accepted that asset allocation has the biggest influence over the variance in portfolio returns.

It’s like making a cake. The most important part is making sure you have the right amount of flour, eggs, butter etc. rather than worrying whether the ingredients come from Harrods or the corner shop.

**Our beliefs No. 5**

**Diversification using mainstream asset classes can reduce risk without destroying returns.** Diversification is a strategy that can be neatly summed up by the timeless adage "Don't put all your eggs in one basket." The strategy involves spreading your money among various investments with the intention that if one investment loses money, the other investments may more than make up for those losses.

**Our beliefs No. 6**

**Costs are certain and returns are not – so they deserve your attention.** Costs are certain and fund performance is not. It therefore makes sense to reduce costs wherever it is safe to do so. One of the major issues in fund management is that not all the costs are transparent. Even though TERs are not the whole cost of running a fund, they are a powerful predictor of fund returns. Morningstar (a large global fund ratings agency) conducted analysis in August 2010 to identify the best historic predictors of performance.

The results are remarkably clear:

**“If there is anything in the whole world of mutual funds that you can take to the bank, it’s that expense ratios help you make a better decision”**

Understanding and seeking to reduce costs where safe to do so is a key part of our investment process.

**Our beliefs No. 7**

**Tax and access are important.** Making investment tax efficient is a sensible objective and wherever we can we will try to reduce the tax your investments will pay. Use of pension wrappers and ISAs will assist in this objective.

We may also use new technology platforms, known as wraps or fund supermarkets, to hold your investments. These offer safety, access to your valuations (so you can see how your investments are doing) and tax wrappers (pensions and ISAs for example). They also allow us to move your money between funds cost effectively if we need to in future.

**Our beliefs No. 8**

**Active management and passive strategies can both play a valuable role.** There is a role for active (where the fund manager tries to beat the market, but incurs higher costs) and passive funds (which track the index at low cost) within a well-managed investment portfolio.

Rather than take an evangelical view of one option over the other, we appreciate that there are arguments for both approaches and accordingly we include both strategies in the portfolios we recommend.

**Our beliefs No. 9**

**Investment success comes from the consistent application of a robust process.** There are numerous ways to approach the construction and on-going management of an investment portfolio. Without the application of a robust process, the emotional aspects of investing can prevent investors from making the best decisions. As a firm, we consistently apply a multi-stage investment advice process designed to deliver suitable advice to every client. The outcome is tailored to meet individual objectives but the process itself is always the same.

As with any plan we need to regularly review progress to make sure we are on track. We will discuss and agree with you the best way to achieve this.

**Our beliefs No. 10**

**Success is often about the things you don’t do as much as the things you do.** We have some simple rules that we apply to all portfolios unless the clients specifically request a different approach: No individual bonds / shares. No direct hedge funds. No direct unauthorised funds. Only use funds run by FCA regulated managers. We use expert managers to help assist in selecting risk managed portfolios.

**If you don’t understand anything here please ask us. There is no such thing as a silly question when it comes to looking after your money!**

**Risk Warnings.**

**All investments carry risk. These are a few of the important ones.**

The risk that, the buying power of your capital decreases over time.

The risk that, the growth you experience is variable.

The risk that, you might get back less than you invested.

The risk that, you do not achieve one of your objectives.

***Appendix:***

Three academics, Brinson, Hood and Beebower (1986, Financial Analysts Journal), who studied the performance of 91 large US pension plans between 1974 and 1983, analysed the impact of key decisions made by investment managers: long term asset allocation (i.e. 60% in equities, 40% bonds), stock picking and short term tactical changes to the asset mix. The results concluded that 90% of return and risk in a given fund was determined by the long term asset mix, with both stock picking and short term tactical changes having a negligible impact.