

# Our Investment Philosophy

This is our Investment Philosophy which describes our approach to the provision of investment advice. As a firm of Chartered Financial Planners, we firmly believe that:

## **1. Investment success comes from the consistent application of a robust process.**

There are numerous ways to approach the construction and ongoing 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 six-stage investment advice process which will ensure the delivery of suitable advice to every client. The outcome is tailored to meet individual objectives but the process itself is always the same.

## **2. Diversification using mainstream asset classes can reduce risk without destroying returns.**

It is the relationship between cash, fixed interest securities, equities and property (the four main investment asset classes) which determines the level of risk within a portfolio and therefore potential returns. Modern Portfolio Theory explains how blending together different asset classes can result in risk reduction for investors and by understanding how investments tend to be correlated with can create the most efficient portfolios in terms of risk and reward.

## **3. The bulk of long-term returns come from an asset allocation strategy.**

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. This means that investors and their advisers should be devoting the bulk of their time to constructing the most suitable asset allocation model, based on investment objectives and attitude towards investment risk. This is where we focus our attention when delivering investment advice.

## **4. It is possible to add extra value through tactical asset allocation decisions and fund selection.**

Strategic asset allocation is responsible for the bulk of long-term returns, but other factors can also play a role in delivering additional value to the returns from a portfolio. The two factors we believe can add extra value are tactical asset allocation decisions and fund selection. We have a robust process for each of these factors, with tactical decisions made within a defined risk budget and fund selection the result of a detailed quantitative screening process.

## **5. Investment decisions should relate to financial planning objectives.**

Investment advice delivered in isolation is unlikely to be relevant for an individual investor. Giving due consideration of wider financial planning objectives helps to frame any investment decisions within a wider context. When delivering investment advice, we always start with a detailed understanding of financial planning objectives. These can often help inform decisions about the level of investment risk that needs to be taken, rather than simply the maximum amount that can be tolerated by an investor.

# Our Investment Philosophy

## **6. Trying to time the market is a strategy doomed for failure.**

Investment markets often experience periods of volatility and can sometimes look expensive based on historic valuations. We believe that trying to time market entry decisions is a dangerous strategy as the biggest gains tend to happen quickly and are impossible to accurately predict. Market timing is also largely unnecessary when investing with a well diversified portfolio across the different investment asset classes.

## **7. The 'best' funds display consistent risk-adjusted returns combined with low charges.**

With strategic asset allocation forming such an important part of portfolio constructing, selecting suitable funds means looking for funds that will accurately reflect the relevant investment asset class. When we look for suitable funds, we are searching for funds with the potential to deliver consistent risk-adjusted returns combined with low charges. This means we try to avoid funds that take excessive risks to deliver their sometimes sector average beating returns. It also means we consider cost carefully before recommending funds to our clients. This is another robust process which repeated regularly should result in favourable results.

## **8. There might be surprises just around the corner, but history informs the most likely long-term outcome.**

Black Swan Theory tells us that events can be a surprise at the time they occur but can be rationalised by hindsight after the event. Whilst occasional major financial events can have a disproportionate impact on investment portfolios, they tend to have a minimal impact on the performance of a portfolio over the longer term. Rather than always investing with the next big crisis in mind, basing investment decisions on the longer term historic behaviour of asset classes enables investors to participate in market growth.

## **9. Active management and passive strategies can both play a valuable role.**

There is a role for active and passive funds within a well managed investment portfolio. Rather than take an evangelical view of one option over the other, we appreciate that there are strong arguments for both approaches and accordingly we include both strategies in the portfolios we recommend. There are circumstances where an active approach is more favourable than a passive approach, and vice-versa. Discounting one approach entirely is wrong in our opinion.

## **10. Investors should know and understand the reasons for investing in every part of their portfolio.**

The world of investing can be complex, but a lot of this complexity has been created by investment professionals to enable them to extract greater financial rewards from investors or convince sceptical investors to part with their wealth. We believe in keeping things simple. There is a lot of science behind our investment advice process but we want every client to understand why we are making recommendations and how their portfolio is constructed to meet their own financial objectives. We will actively avoid overly complex investment products where the value to the end investor is unclear.