Drewberry

Making sense of

your investment portfolio

COVER excellence AWARDS

Protection Review FINALIST 2014

Protection Review FINALIST 2015

Rated 4.9 / 5 by our clients on the independent review site Reviews.co.uk

REVIEWS

Welcome to Drewberry

Drewberry Wealth is a thriving advice business that aims to guide clients through every stage of their financial lives. We have a passionate team of financial planning experts in our London and Brighton offices, each of whom is focused on making a difference for our clients.

Tom Conner
Director

We set out to provide the highest levels of customer service in our industry and have more five-star reviews than virtually any other adviser in the UK. No less than 98% of our clients say they'd be happy to recommend us.

We run one of the top-rated personal finance websites in the UK and are frequently quoted as experts in our field by the national press.

2014 2015

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How Drewberry can help

At Drewberry Wealth we have experts in all aspects of portfolio investment and management.

Because we analyse your assets alongside your future income needs, your financial ambitions and those of your family, we can create modern, flexible investment portfolios that are tailor-made to your unique needs.

Thanks to our expertise in all aspects of investment we're often asked to provide our views to the national press.

Whatever your circumstances, we can help ensure that you make the most of your hard-earned savings

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Speak to one of our expert advisers today…

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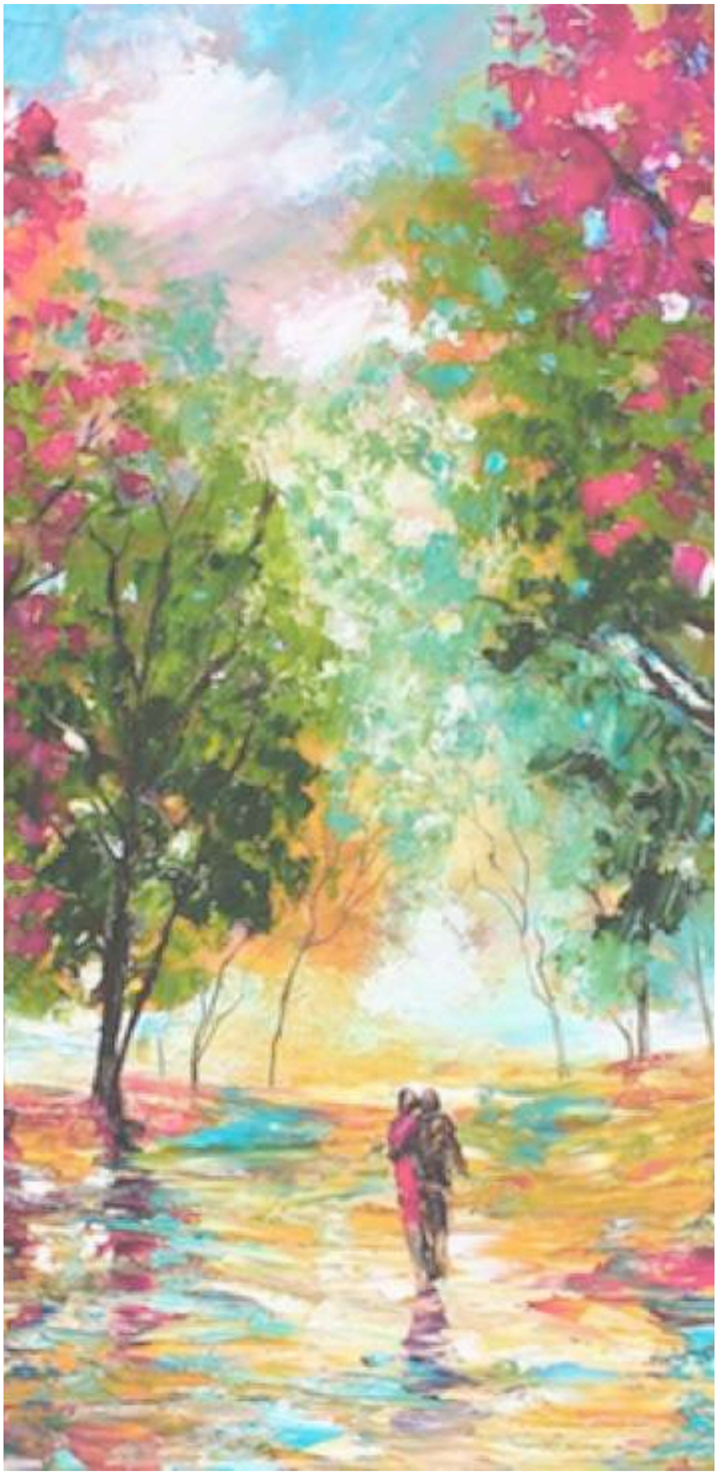

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Time for a change...

Shortly after the Brexit decision in 2016, the Bank of England base rate hit at an all-time low of just 0.25%. With annual UK inflation ticking up to 2.3% by the end of March 2017, the value of cash held on deposit is actually declining in real terms, year in and year out.

The problem isn't new. The aftermath of 2008's Credit Crunch, which saw central banks around the world resort to 'quantitative easing' as a way to pump new money into financial markets, effectively put pay to UK savings rates.

As a result the 'real' return on cash – ie the return you receive after the impact of inflation – has been negative in the UK ever since 2008.

The 'search' begins

Not surprisingly, the onset of record low interest rates around the world triggered investors of all kinds to look for better returns.

This migration to higher-risk assets has been labelled 'the search for yield' and it's been one of the most influential forces driving global markets since the onset of the financial crisis.

Even so, a great many UK savers have yet to adapt to this new paradigm. Most Britons (93%), still have a deposit account of one kind or another.

Altogether there's something like £700 billion salted away in such accounts with the vast majority of these savings declining in real terms every year.

Making your money work harder

The first step on the ladder for those who need their savings to do more than just lose ground against inflation is to understand the role that risk plays in generating investment returns.

The next, is to get to grips with how this risk can be usefully diversified across different asset classes.

Time for a change…

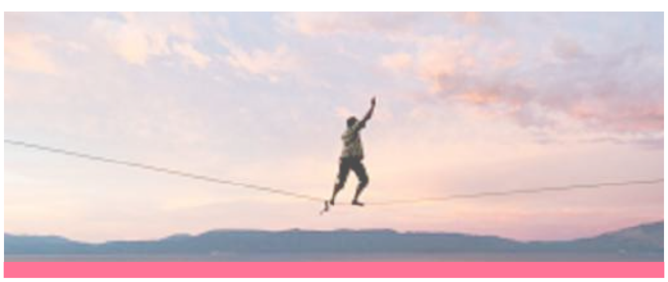
For most UK deposit investors, the risk-bearing asset classes they need to consider are equities, government and corporate bonds, commercial property, commodities and currencies.

Mind your step

Of course, each of these asset classes presents greater risk than keeping your money in cash. At least with cash held on deposit your original investment is never at risk.

Although it may lose ground against inflation, your capital is always safe. The same cannot be said of 'risk assets' such as equities, bonds and property.

If you're considering investing in risk assets for the first time, this handy guide will help you get started building your first investment portfolio.



1. Getting off the mark

It sounds obvious, but you shouldn't invest purely on the strength of an advert you saw online, or a tip from a friend.

An investment should be researched to assess the quality of the managers running it and its track record. You should also assess whether it will fulfil a set need such as capital growth, income generation or capital preservation.

Never forget that past performance is no guide to future returns.

A portfolio of investments should be designed to take account of your objectives and individual risk tolerances. Your portfolio should also include investments whose returns are uncorrelated.

When building your first investment portfolio there are a number of questions to consider long before you start to review investments.

These include:

- For how long are you planning to invest?
- How much risk are you prepared to take?
- Are you investing for growth, income or capital preservation?
- What investment wrappers will be most useful for your needs?
- What are the tax implications?

You should answer the above questions carefully right at the outset.

Understanding investment risk

We know from historical research that there's a correlation between the level of investment risk an individual is prepared to take and the returns they can expect to achieve, over the medium to longer term.

As a general rule, the higher the level of risk you're prepared to take, the higher the investment returns you should expect to achieve over time.

However, greater investment risk means coping with the 'peaks' and 'troughs' in price movements that accompany investment.

In practice, this means that investors considering high-risk investments need to ensure they have a sufficient timeframe available to allow the underlying investments to recover should they fall in value.

Your personal tolerances

The most difficult task is identifying your own risk tolerance and objectives and then matching these to a suitably structured portfolio of investments.

Investments such as equities, commercial property, bonds and cash are distinct 'asset classes' with their own 'risk profiles'.

Cash is deemed to be the lowest risk and provides the lowest level of returns. Shares in individual companies (equities) represent the highest risk but have the highest potential for return. Meanwhile, bonds and property fall between these two extremes.

History lessons

Historically, periods of uncertainty in global stock markets have been characterised by share price falls and a corresponding increase in the value of lower-risk investments.

Likewise, when stock markets are rising, the performance of lower-risk investments tends to slow as investors look to take on more risk.

Your portfolio needs to be spread geographically to include exposure to leading overseas companies.

A globally diversified portfolio will have exposure to the UK, North America, Europe and Asia as well as holdings in emerging economies like India, Latin America and China.

2 Asset allocation

Once you understand this concept the next stage is to apply the right 'asset allocation' to your portfolio to provide the required level of risk.

Essentially, asset allocation helps ensure that the mix of different assets is optimal for the level of risk you're prepared to take on.

As this is a dynamic process, based on detailed economic research, the optimal asset allocation for your portfolio will need to be updated every quarter or so, as economic events evolve.

To give some idea of how this works in practice, we would recommend that a medium-risk investment portfolio contain a mix of approximately 60% higher-risk investments like equities or commodities and 40% in lower-risk assets such as bonds, property and cash.

3 Fund screening and selection

Once you know the types of assets you want to include within your new portfolio, you then need to go about finding and selecting the actual investments that include those assets.

For the vast majority of private investors, rather than investing directly in risk assets it makes far more sense to invest in pooled funds that are managed by professional investors.

Such investments are broadly classified as 'collective investment funds' and include unit trusts and OEICS (open-ended investment companies), investment trusts and ETFs.

'Collectives' pool money from investors in a single portfolio that's run by a dedicated fund manager. Every fund manager will have a mandate, which dictates the type of assets they can purchase.

For example, a UK equity income fund will mandate the manager to trading shares in UK dividend-paying companies.

4 Spreading the risk

For each type of asset class within your portfolio you'll need to invest in a number of different funds. Ideally, each fund manager will have their own investment strategy that will react differently to the wider price movements in their sector.

This approach avoids 'having all your eggs in one basket'. By spreading the risk among a number of different approaches you increase the likelihood that you portfolio will perform more consistently in varying market conditions.

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When it comes to choosing individual funds, attention should be paid to the track record of the investment manager; how their strategy has helped drive historical investment performance; and, how they compare with managers of similar funds.

Care should be taken to ensure that any individual manager isn't achieving their returns by taking an excessive level of risk. While this will help the fund's performance in rising markets it's also likely to accelerate losses when markets turn negative.

There are a number of organisations specialising in reviewing and rating collective investment funds but for specific and tailored advice, you should consultant a professional adviser.

5. On-going reviews and rebalancing

Regular, on-going reviews of your new portfolio are essential for a number of reasons. The first is that, over time, the higher-risk segment of your portfolio will tend to grow faster than the lower-risk.

This will disrupt the asset allocation that you established at the outset while gradually pushing up the total risk in your portfolio.

For example, if you invested 60% of your portfolio in higher-risk assets you could easily find that, after a few years, this segment had grown to represent 80% of the portfolio. It would therefore be over-exposed in the event of any adverse market movements.

This means that the weightings in your portfolio need to be 'rebalanced' to their original levels at least once a year in order to maintain the correct risk profile.

More broadly, you'll need to regularly review your portfolio to ensure that the asset allocation and investment strategy remains appropriate to your needs (and to the external investment climate) and that the holdings in your portfolio continue to deliver the level of performance required.

Family income

"At Drewberry Wealth, we take a holistic approach. We analyse every aspect of your finances and your financial ambitions so that we can understand what you're trying to achieve and create the right investment solutions for your needs."

The Drewberry Wealth way…

At Drewberry Wealth we rebalance our clients' portfolios every six months or so. This provides sufficient time for the growth-orientated investments to increase in value but without pushing the total risk in the portfolio too high.

Managing the managers

It's also essential to regularly review the individual funds in your portfolio. This ensures that each fund continues to deliver returns that are in line with expectations; is still being managed according to the same mandate; and, that the same manager is still running the fund (they tend to change jobs every few years).

Lifestyle changes

It's worth remembering that your attitude to risk will inevitably change over time.

The classic example, is the increased risk aversion many feel as they near retirement and the need to preserve the value of what's been accumulated starts to outweigh the need for growth.

In-house resources

Our in-house Investment Committee has constructed a range of investment portfolios, which are managed in line with set risk profiles. The individual funds in each portfolio are traded as and when the committee sees fit.

The portfolios' holdings are reviewed and re-balanced at least every six months, though the committee retains the ability to adjust the portfolios should prevailing market conditions require it.

However, a standardised portfolio will not suit everyone. That's why we're also happy to construct bespoke portfolios that are tailored to a client's individual needs.

How Drewberry can help

Should you require any assistance with starting your own portfolio, Drewberry Wealth is only a phone call away.

Talk to a Drewberry Wealth adviser today on 0208 432 7333

Drewberry Wealth regularly updates all of its ‘Making sense...’ guides to ensure that we offer only the most up-to-date information available. We’ve taken every care to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, at the date of publication: 18 April 2017.

The information contained in this guide does not constitute advice and Drewberry Wealth accepts no liability for any use you may choose to make of it. We always recommend that readers seek professional advice before taking any major financial decision.

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