TOWN CLOSE
Financial Planning

Investment strategy

future proofing your finances

YOUR INVESTMENT STRATEGY

This is one of a series of short papers covering various aspects of investing. The others are "Risk", "Diversification" and "Expectations".

Your investment strategy is a key part of your financial plan, but it's the servant, not the master of that plan.

To focus only on investment returns means ignoring about 90% of the value and purpose of a financial plan, namely:

1. To have something to stick to.
2. To know you're ultimately safe.
3. To stop you doing anything daft.

Short-term vs long-term

The starting point is to think in terms of the short-term (0-3 years) and the long-term (3 years+).

Your short-term needs to be nailed down, absolutely as secure as can be. That means working out how much money you need to do everything you want in the next three years.

That will then be covered by a combination (as appropriate to your circumstances) of earnings, pensions, rent and cash. The cash is the last bit to make sure you have enough and a bit extra as an emergency fund.

This cash might be held in the bank, with National Savings, in your ISAs, your pension pots, other investment plans or in the form of a known inheritance. The key is that it's identifiable, easily accessed and secure.

Everything else will be invested via your ISAs, pension pots and investment accounts. This is money we do not think you will need for at least three years. It must therefore be put to work.

Put to work means be given every opportunity to grow by more than inflation. If that's achieved, you'll be able to buy more tomorrow than you can today. That, in turn, means your future lifestyle and income should be as protected as it can be. Being poorer tomorrow than you are today is a terrible result.

This three-year cash buffer will allow the invested side of your strategy to weather the inevitable trials and tribulations, helping us avoid panic selling and keeping your plan on track.

Our investment philosophy is that simple.

Portfolio make up – the long-term invested, non-cash bit

The long-term part of your investment strategy requires a long-term investment perspective and strategy. That means investing in a mix of investments that have, historically, produced the sort of returns you need for your plan to work.

With those thoughts in mind arrive at a mix of bonds and shares, typically 20% bonds and 80% shares. All of them regulated, liquid and safe funds.

There's nothing esoteric, illiquid, unregulated or "alternative" in our portfolio.

This might not be the best investment strategy ever devised, but the number of worse strategies is infinite.

In total you can expect to be invested in about 8,000 companies around the world and about 750 bonds. That's a good level of diversification. The alternative is to look for the needle in the haystack. The amazing investment or manager that turns out to be a superstar.

The chances of that being possible are tiny, therefore we choose to buy the haystack rather than search for the needle.

The share part of the portfolio will be invested in the biggest and best companies in the UK, US, Europe, Japan, the Far East and Emerging Markets. We are interested in the gradual accumulation of the returns earned by all those businesses.

In that way you are capturing and benefitting from global growth, that's the sum total of all the decisions millions of rational human beings make day in and day out. You will share in the success that comes from their ingenuity and enthusiasm.

The bond part will be mainly Government bonds, those being the bonds least correlated to the machinations of shares and the most likely "safe haven" when equities take a serious, prolonged hit.

Historically that has produced the results you need and there's no reason to think that won't continue.

Portfolio review / management

We keep ourselves up to date with the latest developments that might affect investments. Our Investment Committee meets quarterly to discuss the portfolio and any changes that should be considered.

We're not speculating on the future, trying the second guess, for example, which way Brexit might go. That's folly, you simply can't make an investment policy out of it.

Instead we're looking for changes in trends (inflation, interest rates etc.), large market movements (20%+ up or down) and the "temperature" of the investment markets and their participants.

If it's looking too hot or too cold, we may well adjust your portfolio. Most of the time we will be ticking along in the normal or too be expected range of activity.

Now and then though, we will approach the peak of euphoria (think 1999) or the depths of despair (2008/09) both of which presented easily recognised opportunities to take advantage of an investment pendulum that had swung too far one way.

Summary

1. Your financial plan is the master, your investment strategy the servant, not the other way around.
2. Split your money short-term and long-term.
3. Invest long-term to beat inflation.
4. Know the short-term cash means you can ride out any volatility.
5. Don't look for the "needle", buy the "haystack".
6. Keep a proper eye on what's going on and adjust accordingly.