# OUR APPROACH TO INVESTMENT MANAGEMENT

It is important to understand how your adviser approaches the purchase and management of your investment funds. These notes are designed to briefly explain the Swallow Financial Planning methodology.

**HEADING** **PAGE NUMBER**

1. ASSET ALLOCATION .......... 2
1.1 Client Risk Profiles .......... 2
1.2 The Period of Investment .......... 2
1.3 Short Term Liabilities .......... 2
2. ACTIVE OR PASSIVE MANAGEMENT .......... 3
3. INDEX TYPES .......... 3
3.1 Index Providers .......... 3
3.2 Equity Index Types .......... 3
3.2.1 Total Market .......... 3
3.2.2 Regional / Country Specific .......... 3
3.2.3 Size .......... 3
3.2.4 Sector .......... 4
3.2.5 Factor Funds .......... 4
3.3 Fixed Interest .......... 4
3.3.1 Aggregate .......... 4
3.3.2 Government Bond .......... 4
3.3.3 Corporate Bond .......... 4
3.3.4 Index Linked .......... 4
4. MARKET SECTORS .......... 5
4.1 Client Choice .......... 5
4.2 Emerging Markets .......... 5
4.3 Momentum Factor .......... 5
4.4 Size Factor .......... 5
4.5 Value Factor .......... 6
4.6 Value Stock .......... 6
5. MARKET TIMING .......... 6
6. INVESTMENT REVIEWS .......... 7
7. FURTHER EXPLANATIONS .......... 7

**Registered Office:**
25 St Helen's Street, Ipswich, Suffolk IP4 1HH
Tel: 01473 384858

**London Office:**
10 Margaret Street, London, W1W 8RL
Tel: 020 3755 3235

Swallow Financial Investment Management Ltd is an appointed representative of Swallow Financial Planning LLP which is authorised and regulated by the Financial Conduct Authority. The firm is registered in England. No. 8031580
www.swallow-financial.co.uk

# 1. ASSET ALLOCATION

Asset allocation is the key to long-term performance. We explain our views on this in much greater detail within our An Introduction To Asset Allocation' notes. Our approach to investment management is geared to the asset allocation of your investments based around:

- Your capacity and desire to take risks to generate better returns.
- Your need to take risk in order to achieve your goals.
- How long the savings / investment period is likely to be.
- The short-term liabilities which you may have.
- The economic and factor outlook.

## 1.1 Client Risk Profiles

We use the Financial Express system of psychometric testing. For further information please see our risk and client profiling notes.

## 1.2 The Period of Investment

Asset backed investments need time to produce consistently better returns than government stock and cash. If your investment horizon is short, the risks of asset backed investment may outweigh the potential benefits of greater returns.

For many retired individuals it would be a mistake to suggest that their investment timeframe ended on their death. Most clients want a regular income and to have sufficient funds to last their lifetime, however for many clients they are custodians of their wealth for the next generation. A long-term investment approach remains relevant in these circumstances.

## 1.3 Short Term Liabilities

You need an emergency reserve held in cash, or cash equivalent, easily accessible funds.

## 2. ACTIVE OR PASSIVE MANAGEMENT

We have a full explanation of why we favour passive investing in our 'Why Passive Investing Is Best' notes, under our investment sub-directory.

## 3. INDEX TYPES

Predominately we use index tracking funds. There are many different types of index, and we try and use this variety to maximize diversification within your portfolio.

### 3.1 Index Providers

To provide exposure to a specific market, we look at what indices are available that reflects the market as widely as possible. In many cases we will choose two different indices from different providers to maximise your exposure and diversification.

The main index providers we use are:

- Barclays Capital
- EURO STOXX
- FTSE
- IBOXX
- MSCI

### 3.2 Equity Index Types

#### 3.2.1 Total Market

For example, MSCI World the world developed market equity index.

#### 3.2.2 Regional / Country Specific

For example, FTSE 100 or MSCI Europe. Typically, a total market index consists of a group of regional and country specific indices.

#### 3.2.3 Size

For example, FTSE 250, EURO STOXX Small.

#### 3.2.4 Sector

For example, iShares FTSE EPRA/NAREIT Developed Market Property fund invests in commercial property shares, the EURO STOXX Banks index is European banks.

#### 3.2.5 Factor Funds

These are funds where the index invests in a segment of the market (see below).

### 3.3 Fixed Interest

#### 3.3.1 Aggregate

A combination of fixed interest for an area, e.g. Barclays Capital Euro Aggregates.

#### 3.3.2 Government Bond

For example, FTSE UK Gilts All Stock.

#### 3.3.3 Corporate Bond

For example, iBoxx £ Liquid Corporates.

#### 3.3.4 Index Linked

For example, Barclays Capital UK Government Inflation-Linked Bond Index.

Often the different indices have different stock and / or parts of the market, so we will often split an investment between one or more index alternatives. Likewise, with fixed interest you can have long or short terms to maturities.

## 4. MARKET SECTORS

In any investment market there are different sectors, e.g. large companies, medium sized firms and smaller companies. The following are some of the factors we take into account when investing on your behalf:

### 4.1 Client Choice

As long as we can value the investment electronically, we are happy to facilitate you choosing your own collective investments. The Transact platform makes buying and selling easy and we can incorporate your 'fun money' with our regular reviews if required.

### 4.2 Emerging Markets

Emerging markets tend to outperform their established industrial competitors, but the rules of risk and reward are still there, so we alter our allocations according to your risk profile.

### 4.3 Momentum Factor

In certain markets momentum stock do very well.

Momentum equities are stock which, when compared to other securities, have relatively strong recent past performance. Past performance is assessed in terms of both non risk-adjusted and risk-adjusted return, over the shorter (approximately 6-months) and intermediate (approximately 12-months) periods prior to the acquisition of the securities by the fund.

### 4.4 Size Factor

Research by Dimensional fund managers shows that the average returns of smaller stock are about 1.5% pa better than large stock (1957 to 2008). At the same time, however, smaller stock has much greater volatility so dependent upon personal risk profiles we will include smaller stock within our passive portfolios.

### 4.5 Value Factor

Again, there is empirical evidence that stock which has a high book value in relation to their market value will outperform those with a higher market price to book value. The return from the top 30% book to value stock typically is around 5% better a year than low book to value stock (London Business School 1957 to 2008).

### 4.6 Value Stock

Value shares have underperformed in the last 10 years giving way to the tech giants and growth stocks. These produce little or no dividend yield and their price is related to their potential growth in the years ahead. Growth has done remarkably well in recent years.

## 5. MARKET TIMING

Most investors (and advisers) pick stock by looking in the rear-view mirror. What happened yesterday often has little bearing on what will happen tomorrow.

Much has been written about market timing and certainly, during 2008 you would have been much better off in cash than to remain fully invested. 2008 is, perhaps, the exception that proves the rule. The following statistics from Fidelity (1987 to 2002) show a more normal pattern:

| | Always Invested | Missed 10 Best Days | Missed 40 Best Days |
|---|---|---|---|
| UK All-share | 9.40% | 6.30% | 0.60% |
| S&P 500 (USA) | 8.36% | 5.20% | (1.50%) |
| Dax (Germany) | 7.30% | 2.70% | (6.20%) |
| CAC (France) | 10.70% | 6.50% | (1.70%) |
| Hang Seng (Hong Kong) | 9.80% | 3.20% | (4.00%) |

On the other hand, of course, one could produce an equally good graph to show how much better you would have performed had you missed the 10 and 40 worse days in the market. The problem is we do not know when these days will be until after the event!

Whilst we are always happy to phase investments onto the market over, say, 6 months to reduce the initial volatility of asset backed funds, once invested we believe if your asset allocation is right let the market work for you through good and bad.

## 6. INVESTMENT REVIEWS

It should be noted that our asset allocation approach only works if the ratios of assets agreed with you are regularly reviewed and rebalanced. Most experts suggest that the asset allocation needs to be rebalanced at least once a year, although there are arguments for shorter and longer time spans. We shall, therefore, maintain regular reviews with you as part of our ongoing service.

## 7. FURTHER EXPLANATIONS

We have an extensive library of notes similar to this document, on our website under 'Library, Personal Investments'.

Please note that whilst every effort is made to ensure that the information contained within this explanation is correct, these notes are by necessity brief and of a generalised nature. Clients should seek specific personalised advice prior to undertaking any arrangement. These notes are named 08.2021 Our Approach To Investment Management and was last updated in August 2021. Whilst we have done our best to ensure facts are current to this date laws and options are changing constantly so always check before action.

Investments are subject to market risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. Diversification does not ensure a profit or protect against a loss in a declining market. Performance data shown represent past performance, which is not a guarantee of future results. Note that hypothetical illustrations are not exact representations of any particular investment, as you cannot invest directly in an index or fund-group average.

**E.&.O.E.**