THE ASSET ALLOCATION REPORT

Over many years we have developed a presentation to illustrate where your total investments are now. What changes you might consider to get your investments more aligned with your risk profile and / or objectives.

Within this note we will cover:

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1. INTRODUCTION

The purpose of the asset allocation report is to achieve the highest level of returns based on your desired level of risk and objectives (the so called “efficient frontier”).

We believe that getting the asset mix right has far more effect on your long term returns than choosing the right stock or collective fund. If we can achieve “constancy of purpose” over the longer term then we are certain we can add substantial value to your affairs.

Many clients will have seen that we have developed a comprehensive asset allocation presentation to help us to improve our management (and hopefully the performance) of their overall investment portfolio. These notes are designed to go through the report section by section and explain the data. We recommend you also review the wide range of notes on asset allocation and investments on our website.

2. THE ASSET ALLOCATION PRESENTATION

2.1 Data And Assumptions

The background data we use for asset allocation is from FinaMetrica and Dimensional. The former is a business in Australia which provides risk profile assessment and updating for financial advisers throughout the world. The latter is a large US fund house who have promoted the concept of passive investments. Over the last 30 years they have amassed a massive data base which enables us to show what returns have been. Whilst we accept that past performance is no indicator of future growth it is a start and does give clients a base line to work from.

We do try and update both these data sets at least once a year however this takes weeks of effort so sometimes the data is a little older than this.

2.2 Section (1) The Assets We Are Assessing

This splits your affairs into the funds we manage, your other investments and the cash equivalent of guaranteed pensions.

As we try and include all of your investments we need to show how much you need as an emergency reserve plus what you need for commitments in the short term (i.e. under 5 years) since this should be taken out of the ongoing assessment for the longer term.

2.3 Section (2) Your Current Asset Split

This shows your current asset allocation as assessed by us. We use Financial Express (FE) for our fund data asset splits. Unfortunately many funds are not allocated by FE and many funds such as REITS are allocated as UK equities when we would want to express them as UK commercial property so there is a fair amount of adaptation in the final assessment.

Standard risk profile engines do not have a classification for a “with profits” fund so we show the assets according to the underlying funds.

2.4 Section (3) Your Attitude To Risk

This sets out the ratio of different assets Finametrica perceive is appropriate for your risk profile. The Finametrica model is not as comprehensive as our own adaptation of same so for instance we include commercial property and options, they do not.

We include options and hedge funds as there are times when they are very attractive to clients. When there are no suitable option products available we split this section between the remaining 3 asset forms i.e. UK and international equities and commercial property.

The table compares what Finametrica tells us against where you bare now with and without an allowance for your guaranteed pensions.

2.5 Section (4) Historical Performance

We are always taught that past performance is no guide to the future. However, it is all we have if we are to try and explain how investments would have performed if clients made the choices suggested.

We use data from the Dimensional database and we show here performance over 10 and 20 years. At this time (it does change over the years) the worst years have all been in the last 10 years.

The Standard Deviation column is a mathematical calculation of the expected variance in the return from your funds around the average. If the average was 5% pa and the Standard Deviation was 15% then the returns for 70% of occasions would be in the range +20% to -10%.

It is important to remember this is in ***70%*** of periods, the 2007 crash saw falls of much higher than the norm and you would have seen short term losses of > 35% in some cases.

We have tried to make reasonable assumptions as to charges and taxes in order to get a level playing field for all investment types.

3. KEEPING YOUR ASSET ALLOCATION UP TO DATE

It is fair to say that at different times in the market cycle the different asset classes are likely to perform better than their counterparts. This being the case ***it is essential*** that we regularly review your asset allocation to ensure it still matches your risk profile. By asset allocating properly we are trying to insulate clients (to some extent) from market fluctuations. For instance, if a cautious portfolio has not been reviewed during an equity boom, it will be far too heavily invested in equities when the inevitable market correction occurs. On the other hand, if a high risk portfolio is not reviewed after market falls it will not be sufficiently geared to growth assets to generate the rewards the high risk investor wishes.

We recommend a minimum review of your asset allocations once a year or when you are considering additional investments or asset sales. Put simply, it is a waste of time undertaking asset allocation if they are not reviewed and realigned regularly thereafter.

Another good reason to review your asset allocation is stock risk, i.e. where a particular fund has performed well and now represents too high a proportion of your overall holdings. Finally, of course, it is worth using your annual capital gains tax (CGT) allowance to achieve tax free growth. We have further notes on asset allocation in our Library on the website try searching for:

- Considerations When Reviewing Your Funds
- What Is Risk And How Much Do I Need?
- Client Risk Profiles Explained
- An Introduction To Asset Allocation
- Client Risk Profiles Explained

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 12.2018 The Asset Allocation Report and was last updated in June 2016. 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.

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