



Portfolio readjustments of the hard-headed kind

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THIS EDITION

Portfolio readjustments of the hard-headed kind

Welcome to the latest edition of Stocktake, which comes after a memorable summer, pointing the way to a period of continued uncertainty. August, as I have mentioned before, can be a dangerous month in the markets; historically foretelling of an Autumn crisis.

The UK Exchange Rate Mechanism crisis, the Russia Crisis and the Banking crisis all began in the thin volume of August. This time there is a crisis of debt; but more than that, there is a crisis of growth and stock markets have experienced their biggest falls since the 2008 credit crunch as a result. Amid such turmoil, and while the professionals have taken flight, figures from Selftrade show that private investors have been taking advantage of equity market falls, buying quality into this falling market at a buy to sell ratio of 3:1. The environment for hard-headed portfolio readjustment, then, is apposite.

The problem for markets is not simply lower growth than expected – although this is enough to erode valuations. More fundamentally, the crisis is one of uncertainty. The big questions remain unresolved and markets appear unconvinced at the actions of politicians, in Europe and the United States, to adequately tackle these issues. The most obvious of these are the respective debt crises in the Eurozone and the USA. The Franco-German alliance together with the ECB have calmed nerves a little with respect to Spanish or Italian default but remain some distance from the favoured option of issuing German backed 'Eurozone bonds'. For those with a strong constitution, buying into the debt of these countries promises very good returns – albeit at heightened risk. Meanwhile, the USA has come to a political accommodation on the debt ceiling but shows only minimal enthusiasm about reducing its \$14 trillion burden. Given where we are in the presidential election cycle, no structural progress is likely to take place for about eighteen months.

These pale into insignificance against the biggest question of them all: from where is economic growth now coming? After all, budget deficits look a whole lot less threatening when the economy is expanding. But a raft of gloomy economic data has suggested

a global slowdown. And our age of austerity means there is neither the political appetite nor indeed the financial reserves for demand to be stimulated by government spending. This was the prescription as credit crunched in 2008. Today, government can only rely on the less forceful supply side measures – the likes of tax cuts and slashing red tape. Well almost. The weakening of commodity prices (especially oil and food) means that inflationary pressures should ease. This could allow policymakers to enter into a further bout of quantitative easing – that is governments printing cash and buying up its own debt. It would be another economic experiment which could have implications for inflation in the longer term.

Nevertheless, many analysts are hopeful that another recession can be avoided. After all, many companies are now recession hardened having cut the fat and survived last time around. And a lot of companies have built up reserves worth trillions of dollars. Indeed, ratings agency Moodys reported that the 1600 US companies it follows are holding a staggering \$1.2 trillion in the bank. And as many commentators wryly observed, the tech giant Apple actually has more reserves than the US government. This means that even if there were to be another banking sector credit crunch, the contagion might be more muted. More importantly when the funds are spent, it should mean the creation of jobs, growth and corporate activity... eventually! The problem is one of chicken and egg. Companies will invest once the rest of us do likewise.

Investors choosing to buy in this market then are investing in this more positive version of the future. And while capital growth is elusive, company results remain much healthier than they were three years ago. This means potential dividend returns which should never be ignored. Astonishingly, two thirds of the Dow now yield better than the 10 year Treasuries. ■

Take control of your financial future with a SIPP

NATALIE OLIVER, HEAD OF MARKETING AT POINTON YORK

In the first of our introductions Natalie Oliver of Pointon York offers a beginners' guide to Self-Invested Personal Pensions.

Finding a way to save for your future can be daunting, especially when more traditional pension schemes have not performed well. But sooner or later you will need to take control of your retirement and a particularly attractive way to do this is through a Self-Invested Personal Pension (SIPP).

What is a SIPP?

A Self-Invested Personal Pension (SIPP) is a flexible type of personal pension that gives you the freedom to choose where to invest your pension savings. It is not a new thing, in fact the SIPP was introduced more than 20 years ago and the main difference from more traditional pensions is the investment flexibility. Ultimately a SIPP puts you in control and gives you more options from which to choose.

What are the benefits of a SIPP?

There are all kinds of benefits to a SIPP but the main attraction is the flexibility coupled with tax relief, so it is easy to see why it appeals to investors who want control. A SIPP can also be a good way to consolidate your pension schemes but it is always wise to check penalties and costs associated with transferring out.

What can I invest in?

Depending on the trustee you select and type of SIPP you open the investment choice can vary, so always check what is and isn't allowed. Below are the main types of investments that can be held in a SIPP.

- Unit trusts, Open Ended Investment Companies (OEICs) and investment trusts*
- Stocks and shares in this country and abroad*
- Deposit accounts
- Insurance funds
- Warrants
- Hedge Funds
- Exchange Traded Funds
- Futures and Options
- Unquoted shares (subject to certain restrictions)
- Commercial property, including shops, offices, warehouses, industrial units, hotels / hotel rooms (provided certain conditions are met) and agricultural land
- Joint or syndicated commercial property investments

* If the underlying investments include residential property certain conditions must be met.

What are the charges?

Charges can vary greatly from provider to provider, and the type of SIPP you choose can also have a big impact on what fees you will pay. In general, annual administration charges range between £200 - £700 and many schemes have a set-up cost too. For SIPPs with restricted investment choice you can expect to pay, on average, between £100 - £200 for the annual administration. Don't forget that the underlying investments you choose will normally carry transaction charges from your broker and if you have a financial adviser, you will need to pay for their services. It is worth doing your own research to find a provider that suits your needs with the charges appropriate to your investment level.

Things to bear in mind

- Investment is your risk. The value of investments can go down as well as up and you may get back less than you invested, there may also be additional costs associated with buying and selling.
- Tax rules may change in the future which could affect the amount of tax relief you could receive on your pension savings.
- Any money you contribute or transfer to your SIPP cannot be accessed until you are aged 55.
- Most providers will charge fees or earn money from the underlying funds. You should ensure that the fees are appropriate to your level of saving.
- If you are transferring from another pension scheme you should check for any penalty fees or any loss of guarantees or entitlements.

Take control of your financial future with a SIPP – cont'd

Is a SIPP for me?

SIPPs were originally aimed at people with larger pension pots, but technology has seen the development of lower cost SIPPs, which means they are now more widely available. Most providers do not impose minimum investment levels but a good rule of thumb is a minimum investment of £50,000 or an annual contribution of £5,000, which can be in the form of regular monthly contributions or a single contribution. A SIPP will be suited to someone who can actively manage their portfolio, is comfortable with investment decisions and wants the flexibility to invest in asset classes that cannot be held in more traditional pension schemes. If you decide to run your SIPP without a financial adviser, then you will need to take responsibility for your investment choices, managing your portfolio, and the risks associated with this, which means putting in the hours to carry out research and keep up-to-date with the markets. Those who feel a SIPP is right for them but are not confident at actively running their scheme or making investment decisions should seek financial advice.

Do I need financial advice?

Ultimately it is up to you. If you are a confident investor then you may feel comfortable taking control of your own retirement plans. However, it is very important that before proceeding with any financial decision you ensure you understand the risks involved. If you are in any doubt about your decision then you should seek financial advice.

How do I take my pension?

SIPPs also offer a range of options when you retire and allow you to keep your money invested for longer, taking an income when the time is right for you. Recent legislative changes have made SIPPs even more attractive; there is no longer a requirement to buy an annuity by age 75, and the added option of flexible drawdown presents a new way to take your pension. Drawing money from your pension can be a complex area and to ensure you get the most out of your retirement income it is a good idea to seek financial advice.

Disclaimer

The information contained in the article should not be construed as personal advice. Pointon York is not soliciting any action based on the contents. It has been written based on our understanding of the current legislation governing pensions. Pointon York does not give advice. ■

Websites you might find useful

www.pensionsadvisoryservice.org.uk

This is the website of The Pensions Advisory Service, an independent non-profit organisation that provides free information and guidance on pensions.

www.direct.gov.uk

This is a government website which provides information about all public services, with areas dedicated to pensions and retirement planning.

www.hmrc.gov.uk

This is the website of HM Revenue & Customs, which provides details of the tax legislation surrounding pensions.

www.unbiased.co.uk

If you need to find a financial adviser, you can use this website to locate one in your area.

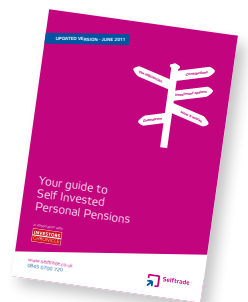
www.moneyadvice.service.org.uk

This is the website run by the UK's Consumer Financial Education Body to provide impartial information on money matters.

www.thepensionservice.gov.uk

This is a government website that offers a pension tracing service. This could be useful if you want to find old pensions or consolidate schemes in your SIPP.

To read further information about SIPPs, [download the free SIPP Guide](#) produced in conjunction with the Investors Chronicle and available from the Selftrade website.



How to get the best out of your SIPP

RICHARD MATTISON IS BUSINESS DEVELOPMENT DIRECTOR AT THE JAMES HAY PARTNERSHIP

Richard Mattison of James Hay casts an expert eye over the Self-Invested Personal Pensions market in the second of our introductory articles.

Now more than ever, investors need to look closely at what's on offer in what is a crowded SIPP marketplace. Clearly, investors will wish to keep costs to a minimum so look for a flexible SIPP offering a wide range of investment options that has a low, or better still, no set up fee and a competitive annual administration fee. And of course with future regulatory changes on the horizon from the FSA in mind, transparency when it comes to adviser fees and product charges.

Another feature to consider is what you want to use your SIPP for. A sometimes bewildering array of investment choices is available but if you do not think you will need to access the most complex of these (such as commercial property, unregulated funds, unquoted shares or gold bullion) then you can look for a lower cost SIPP which does not include these as investment options.

Sharedealing

A top class online share dealing service facility supporting the SIPP is a must, allowing investors to buy and sell UK and overseas equities, ETFs, investment trusts, REITs, gilts and other fixed interest investments. For example, our own James Hay iSipp offers execution-only share dealing through Selftrade.

And until 31st December, Selftrade is offering commission free trading for all new James Hay iSIPP accounts, with the number of free trades capped at 100.

Make sure you choose a provider that excels in service and administration. A full relationship-managed process, whereby every client is allocated an individual point of contact, is a practical and efficient model.

The Experts

Investors planning to establish a SIPP may need to consult a financial adviser, to make the right choice, get the structure right and to make sure that they are getting the best out of it. It is worth noting here that under the Retail Distribution Review (RDR) due to be introduced by the Financial Services Authority in 2012, advisers will no longer be remunerated by commission and will charge fees like an accountant or solicitor. In this way you will know exactly what you are paying for your advice and there will be no bias towards high commission generating products.

Simon Goldthorpe, a director of wealth management firm Beaufort Asset Management is one of the professionals who uses SIPPs for his clients. He says, "SIPPs are an excellent tax efficient investment vehicle for those looking to accumulate wealth by growing their investment portfolios.

We advise our clients to make the most of the tax breaks SIPPs offer, so unlike a traditional portfolio, where dividends are taxed more highly than capital gains, for most clients, one does not need to take this into account when establishing a SIPP. Whilst we agree that the investments selected are more important than any tax concerns, clearly it is net of tax returns that clients are interested in and therefore in a SIPP you have more freedom to follow this philosophy than outside one. In the current climate this may allow clients using a SIPP to take advantage of the returns that more defensive, high yield stocks produce."

SIPPs, then, have become a vital part of the investor toolkit and the information and advice is out there to support the right decisions.

Please remember that investments, and any income from them, can fall in value as well as rise and you may get back less than you invested. The extent of any tax benefits will vary according to the individuals circumstances. The levels and bases of taxation may also change. If you're unsure whether a SIPP is right for you, we recommend you seek independent advice. ■

£100 off participating SIPP Trustees' fees
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with Selftrade (terms apply)

[Find out more >](#)

Investing for children

HELEN PRIDHAM IS A FINANCIAL JOURNALIST

Saving for children and grandchildren has become a priority for many adults reports Helen Pridham.

Most of us recognise that without a nest egg, children will face an up-hill struggle when they reach adulthood; coping with student debt, trying to save for a deposit to get onto the housing ladder and setting money aside for a pension.

Both this government and the last have agreed that investing for children is something that should be encouraged. Labour introduced the Child Trust Fund (CTF), which provided parents with a series of £250 vouchers that they could invest on their child's behalf and top up with their own savings. In a more difficult economic climate, the current administration has decided to replace the CTF scheme with Junior ISAs. There are no hand-outs with these accounts but money invested will grow free of tax until the child reaches 18.

Junior ISAs

Junior ISAs will be available from 1 November to all children who weren't eligible for CTFs - that is those born after 3 January 2011 and before September 2002 who are under 18. Parents, family and friends will be able to contribute up to £3,600 a year to the schemes. The limit on CTFs is also rising to £3,600.

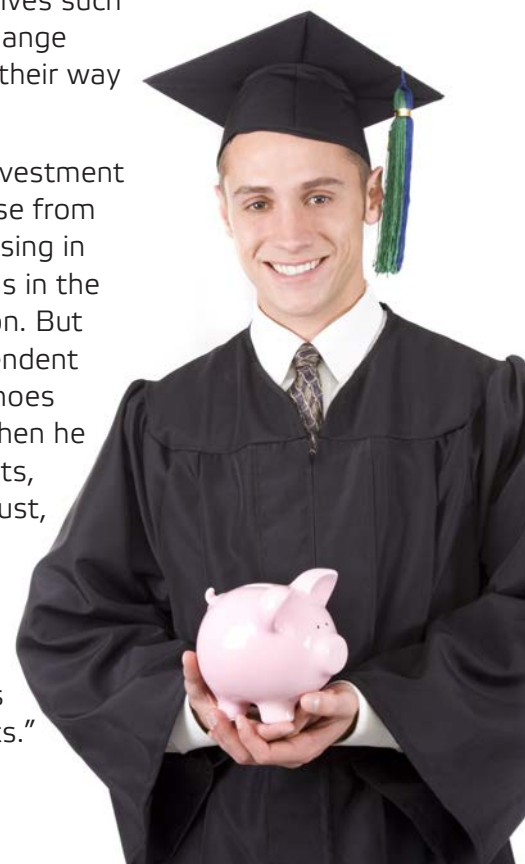
Parents who want to set up a Junior ISA will have the option of a cash deposit or a stocks and shares account. The most appropriate option could depend on the timescale. If an account is being set up for a baby, the money will be invested for at least 18 years, so it is important that it is put into assets where there is an opportunity for growth and certainly to beat inflation. Historically, shares have outpaced cash accounts and inflation

over the long term. Barclays Capital, which has been comparing returns from different investments for over 100 years, has calculated that over an investment period of 18 years shares are 99% likely to outperform cash.

Investment Trusts

Although some people are reluctant to take risks with investments for their children, Annabel Brodie-Smith, communications director at the Association of Investment Companies (AIC), points out that there are ways of reducing risk through diversification. She says "Investment trusts invest in portfolios of 50 to 200 shares so they are less risky than investing in single individual companies. Another worry is investing at the wrong time but if you make monthly savings this risk is also minimised." Elsewhere, collectives such as unit trusts, OEICs and exchange traded funds are likely to find their way into these accounts.

There are a large number of investment trusts and unit trusts to choose from investing in the UK, or specialising in overseas stockmarkets such as in the fast growing Asia Pacific region. But Richard Wadsworth, of independent financial advisers Fitzallan, echoes the views of many advisers when he says "For children's investments, a global growth investment trust, such as Foreign & Colonial or Scottish Mortgage, is often a good idea as it will provide them with exposure to all of the world's important markets including the emerging markets."



Investing for children – cont'd

Although Junior ISAs will work in a similar way to the adult variety, parents won't be able to take out a new ISA for their children with a new provider each tax year, though the investment can be transferred to a new provider any time. So choosing a Junior ISA with a provider which gives access to a wide range of investments may be the best option.

Parents of children with CTFs also need to review their accounts. Here, there were parents opted for cash CTFs. Which? magazine has recently highlighted the poor returns being paid on these accounts, with rates as low as 1.1% for a cash CTF from Nationwide. If the rate of interest is below inflation, it means the value of the children's savings is being eroded. Which? executive director Richard Lloyd has called on the Government to allow transfers from CTFs to Junior ISAs.

Cash and Pensions

Cash deposit accounts do have a role for some children. For instance, if the money is likely to be needed in five years or less, the risk of investing in shares might be considered too great. But as with their own accounts, parents will need to keep a close eye on rates and be prepared to switch if necessary.

With CTFs and Junior ISAs, money will pass to a child at 18. But these are not the only way to invest for children. Grandparents who are concerned that their teenage grandchildren may fritter the money away could consider setting up a Junior Self Invested Personal Pension (SIPP). The time horizons for these investments will be truly long term. ■

Stocktake's inflation busting guide

The relentless rise in inflation this year has prompted some investors to reassess their portfolios to protect against price rises eroding the value of their savings, investments and pension pots.

Selftrade research shows that 86% of over 50s are worried about the impact of inflation on their finances. Of the under 50s, a total of 69% say they too are worried about the effects of inflation. And rightly so given that latest figures released by the Bank of England put inflation at 5% by the end of the year.

Interest rates have been at historic lows for a prolonged period and considerably below the level of inflation. As inflation rises, each of our hard earned pounds will buy fewer of the things we need. Add to this Mervyn King's revised GDP forecasts and the outlook is somewhat bleak. It is for this reason that savers and investors will have to make their money work harder - just to maintain its real value.

Traditionally, equities and real assets such as commodities and property have served as a hedge against inflation. Gold in particular has hit the headlines recently as the price of this commodity has soared. And not only because it can be used as a hedge against inflation but also as a safe haven against plummeting equity markets. Unlike cash, gold supply is limited and there has historically been demand for it. But investors should err on the side of caution as it could be an asset bubble primed to burst.

We have put together an inflation busting guide for investors who are feeling the pressure to re-visit portfolio allocations in this inflationary environment. This guide explores some of the options open to investors beyond traditional equity income. We hope you find it useful.

[Download the inflation-busting guide >](#)



REMEMBER: The contribution limit for CTFs is rising to £3,600 from 1 November



Andrew Bell in conversation

ANDREW BELL, CHIEF EXECUTIVE OF WITAN INVESTMENT TRUST, TALKS TO STEPHEN BARBER

How do you go about structuring your portfolio and allocating assets?

Witan is a global growth investment trust, so investors have an expectation that we will be spread across a range of global equity markets. We also have a predominantly UK private investor shareholder base, so a substantial UK presence fits with the area of many of their future spending commitments, as well as helping to underpin our commitment to a growing dividend.

How has your overseas exposure developed?

Witan's benchmark a decade or so ago was 60% UK, 40% World ex-UK. This has gradually evolved to fit the wider range of opportunities outside the UK as relative economic strength migrates from the North Atlantic region to the South Pacific. Our benchmark is now 40% UK, 20% FTSE North America, 20% FTSE Far East and 20% FTSE Europe ex-UK. So, our default asset allocation is now less than 50% UK and within the international component we have a tilt towards the Far East relative to the US.

The benchmark does not dictate our actual geographical allocation but it conveys a sense of where we are likely to invest and is a means of assessing performance. At present, we have a low weighting in Japan, a greater than benchmark allocation to emerging economies and are underweight exposure to the domestic economies of the UK, Europe and North America.

And how would you describe the manager approach?

Our multi-manager approach is driven by a belief that few managers are good at everything all the time, so there is benefit in allocating money to managers' areas of strength and in having a range of managers who may all be good over time but whose ups and downs will not coincide – a smoother relative performance experience should result.

Witan's range of managers has developed since the inception of our multi-manager approach in 2004. We have 11 external managers, all active, covering a range of investment remits as well as a number of direct holdings in collective investments (e.g. listed private equity) which give us exposure to assets outside the remit of conventional equity managers. When we wish to add or replace a manager, a rigorous selection and sifting process is used, pooling knowledge from external fund advisers as well as our own, to whittle a long list down, via a series of interviews, to a final selection. Our allocated mandates mostly range between 5% and 15% of our total portfolio.

When would you reassess holdings and weightings?

The external managers to whom our stock-picking is outsourced continually reassess their portfolios as part of their active management brief. Witan monitors the overall shape of the portfolio (stock and sector concentrations as well as geographic weights) using management information systems from the custodian who holds our portfolios. Although the style is to take a long term view of investment prospects we are also able to react to shorter term opportunities created by volatile markets or by changes in circumstances which alter previously held views.

Andrew Bell started work in the City in 1987, prior to which he had worked in the oil industry for 8 years. Over the following 23 years he worked in European equities as a strategist for Barclays de Zoete Wedd (BZW), following which he was Co-Head of Investment Trusts at BZW and Credit Suisse First Boston. In 2000 Andrew joined Carr Sheppards (who subsequently became Rensburg Sheppards) where until early 2010 he was a Director and Head of Research. Andrew was appointed as the Chief Executive of Witan Investment Trust PLC on the 8th February 2010.

In conversation

Andrew Bell in conversation – cont'd

How do you manage risk?

The multi-manager structure is a key risk diversifier and the managers operate within guidelines limiting individual stock exposure. Our portfolio is diversified by stock, sector, geography as well as manager style. The top 50 stocks cover around 43% of the portfolio, with a long tail of holdings selected by the managers giving protection against individual company misfortunes. We vary our gearing actively at the corporate level, either by raising cash from (or allocating cash to) the managers as opportunity dictates, or by using equity index futures, which can be used to alter the overall level of equity exposure or to change the geographical allocation of the portfolio. Given our aim of growing the dividend, our sources of income are also diversified to mitigate the effect of individual company problems (e.g. BP in 2010). Aside from these investment-focused risk management processes, Witan has the full range of PLC board review structures (e.g. risk map analysis, audit committee and board review of decisions).

What is the single investment you are most proud of making?

Our outsourced structure and the diversified nature of the portfolio reduce the importance of individual stock decisions. Two changes which were well received in 2010 were the move to a 100% active approach (closing down the remainder of our index-tracking exposure) and the decision to manage gearing more actively.

And one you wish you hadn't?

We were a bit early in buying into the private equity company [3i Group](#) in 2010, but I am quietly hopeful that it will come good for us in time.

How might your investment trust fit into private investor portfolios?

Investors looking for a one-stop diversified investment in global equities gain diversification on a number of fronts with global growth trusts, with Witan unique in offering a fully-fledged multi-manager approach. We are also one of a small number of investment trusts with a record of dividend rises stretching back to the 1970s. For investors more inclined to make their own decisions on individual regions, Witan offers transparency, with our geographical approach and top holdings published in our monthly factsheets and the entire portfolio being listed on our website (www.witan.com) every 3 months. So active investors can see what their portfolio looks like on a "look through" basis and make adjustments via other investments. We believe that diversification, corporate governance and transparency make Witan a core investment candidate for private investors.

What is your assessment of current market conditions?

I think recent volatility was an emotional overreaction to a fairly limited change in the economic news. However, confidence is a vital part of economic and market behaviour so the apparent collapse in markets' belief in the ability of politicians on both sides of the Atlantic to resolve current economic problems needs to be addressed. If not, the spread of sovereign debt problems in Europe and a failure to resolve the long-term fiscal sustainability of the US could render current fears of recession self-fulfilling. However, equity markets appear to have priced in a lot of bad news, short of a recession. The sub-par recovery afflicting developed economies (which are

Andrew Bell in conversation – cont'd

dragged back by the debt overhang) is well known but anaemia is not the same as rigor mortis. Looking on the other hand at gold and government bonds, investments often bought as “safe havens” they appear to represent very expensive insurance at present. Their rarefied valuations might rise further if market angst continues but once there is a resolution there appears to be little valuation support. Equities by contrast appear reasonable value but could clearly become cheaper if economies tip back into recession. History supports the idea that returns will be better from buying cheap assets (even if not at the bottom) rather than chasing highly valued assets, hoping to sell when they become even more expensive (dot-com bubble memories can't have faded already, surely).

And what is your longer term outlook?

I think there is a structural shift in the balance of economic strength from developed economies to emerging ones, from North Atlantic to South Pacific. Looking for exposure to companies and markets which will benefit from that shift makes a lot of sense, though one should have an open mind about where those companies may be found. I believe that the developed world will find a way of managing through its debt overhang, although the lack of political leadership in some areas means that sometimes the markets will be volatile. Curiously (though not comfortably), this may be needed to help the process along – irresolute politicians sometimes need an external constraint to force them to agree. Equities appear priced for this troubled outlook and seem likely to give decent, though erratic, returns if the world muddles through. The key risk is of an extended failure of political management, producing an intractable period of stagnation. Whilst possible, this does not appear the likeliest outcome. I am very concerned that investors do not over commit to today's fashionable safe havens such as gold or government bonds. Both appear vulnerable if the current lack of confidence about economies improves and government bonds are likely to give no better than a zero real return from current yield levels. In the 30 years after 1945, gilt investors lost three quarters of their wealth in real terms from inflation which averaged under 5% but exceeded the starting gilt yield.

How should investors approach their portfolio in this environment?

Portfolios need to do a number of things, such as covering known liabilities, the need for a buffer against the unexpected and growing to provide for future needs such as university education and retirement. Everyone needs to understand how their own needs are split between the need for “insurance” and being able to sleep at night and the need for their savings to grow. At present, “safe” assets appear expensive, whereas growth assets appear reasonable value and in some cases cheap. It is important for investors to make their own assessment (or get advice) as to the right mix of assets for them and to take a fundamental view of the longer-term case for holding them. We cannot ignore the emotion in the markets (it has a habit of reminding us rudely when we do) but reacting to market euphoria or depression is likely to lead to precisely the wrong investment decisions – greater confidence as things become more expensive and greater aversion as they fall in price and become cheaper. As Warren Buffett is fond of saying “Be fearful when others are greedy and greedy only when others are fearful” – price is what you pay, value is what you get. ■

Asset Allocation – an ethical dilemma?



KETAN PATEL IS SENIOR INVESTMENT ANALYST AT ECCLESIASTICAL

Appropriate asset allocation is an important part of any investor's financial planning strategy, says Ketan Patel, and increasingly this means an ethical dimension.

Understanding appetite for risk, the aim of the investment, the timescale for achieving it and then reflecting this in a portfolio's asset allocation are key components of a well thought out strategy. As ethical considerations become increasingly important to investors, are they able to continue to maintain their investment strategy? Is there enough information and perhaps most importantly sufficient investment options to asset allocate effectively whilst maintaining their ethical values?

Investors are becoming increasingly sophisticated in their portfolio construction and often use online tools to aid this process. Some investors have traditionally 'stuck with what they know', investing in UK only portfolios or utilising well known star fund managers. Ensuring you know and understand what you are investing in is essential, in fact Warren Buffet the fabled 'Sage of Omaha' is quoted as saying "Never invest in a business you cannot understand" and this edict can be extended to any form of investment. However, investors are becoming increasingly sophisticated, building diverse portfolios, using a range of instruments and assets across geographic areas. This has in part been supported by the enhanced services which access providers like Selftrade offer to investors today.

Investors increasingly want to incorporate their ethical values into their portfolios. This could relate to ensuring good corporate governance following the banking crisis, human

rights issues as globalisation sees more businesses operating in places like China or environmental concerns relating to events such as the BP Deepwater Horizon disaster. Equally, investments are often made with others in mind; children or grandchildren, and a longer term view both financially and ethically is taken. Or it could simply be that as we buy more fair trade products and recycle our tin cans, we also want our investments to reflect our social and environmental values.

Determining whether an individual equity or instrument meets with investors ethical values can be a challenging and laborious process. Even the most sophisticated corporate investors use specialist investment groups such as Ecclesiastical when investing ethically. We have an in-house experienced specialist team that do all the hard work reviewing companies to understand if they meet with our Socially Responsible Investment (SRI) philosophy. Our 'Amity' policy means that we avoid investing in companies heavily involved in activities deemed ethically unsuitable - such as tobacco and armaments production - whilst we pursue investment in companies that are making a positive contribution to the world and society. The strength of our research process and returns has seen us win the Moneyfacts Best Ethical Investment Provider Award for two consecutive years.

We offer four [SRI funds](#) under our 'Amity' banner that cover UK, European and International Equities as well as

Ketan Patel, CFA
Ketan joined Ecclesiastical in October 2003. He began his career on the equity derivatives trading desk at JP Morgan, before moving to Insight Investment as a Global Healthcare Analyst. Today Ket leads the Ecclesiastical investment research team and is an expert in SRI analysis.



Asset Allocation – an ethical dilemma? – cont'd

UK Fixed Interest. In total there are around 70 different ethical or socially responsible funds available to UK investors, covering fixed interest and equities around the world. Between them they provide investors with a broad range of investment choices that can be incorporated into a portfolio. There are websites that provide highlights of the ethical issues with which the fund is concerned. These include yourethicalmoney.org and the soon to launch worldwiseinvestor.com. Meanwhile the ethical fund provider specialists will provide more detail on their websites.

Some investors will opt to invest their entire portfolio on an ethical basis, allocating to different funds depending on their risk profile and goals. When fully allocating ethically, investors need to consider not only what sort of companies a fund will include but also those it excludes and how this might affect their allocation. The often avoided tobacco and armaments companies can be considered defensive holdings. If the investor is allocating defensively they may wish to ensure the ethical fund manager is investing in other sectors that can also be deemed defensive, such as pharmaceuticals and telecommunications. The fund fact sheet often provides good insight into the fund manager's strategy. Equally, due to the nature of the businesses there are few solutions for investing in property and commodities on an ethical basis and this is something the investor may wish to make allowances for.

Other investors may opt to allocate a proportion of their portfolio to ethical funds, perhaps adding an ethical fund to each of their geographic allocations. That way a proportion of their investment is representing their values.

At Ecclesiastical we believe companies that manage their environmental, social and governance (ESG) impacts by adhering to the highest standards, will deliver the greatest shareholder value to investors and society over time. Therefore, incorporating ethical funds into a portfolio may no longer be purely an ethical consideration; it can also be a financial one. With the breadth of options available from a number of specialists, investors can now have the confidence that they can include ethical considerations into their portfolio planning and asset allocation process. ■



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Thank goodness for Bonds!

MARK GLOWREY IS DIRECTOR OF INVESTORS INTELLIGENCE

Mark Glowrey reassesses asset allocation and the benefits of a balanced portfolio.

If there is one lesson to be learnt from this summer's 1987-style crash, it is the merit in having a mixed portfolio. At the time of writing, the **FTSE100** is showing losses of around 20% on a peak-to-trough basis, and that hurts.

Not so bonds. Gilts and the majority of corporate bonds have moved higher on a flight-to-quality rotation. The average corporate bond is now some 4 points higher than levels seen in the spring. Moves in individual instruments have been much greater, with the twenty-year **UK Treasury 4.25% 2032** up over ten points since April.

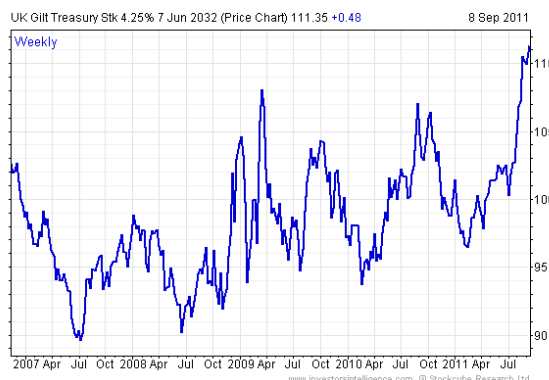
Thus, bonds have proved their worth as a true non-correlated asset class. Even for dyed-in-the-wool equity enthusiasts, the evidence for some fixed income exposure within a portfolio is undeniable. The resulting mixed basket of securities will be less volatile overall, effectively self-hedging itself against many market events. That makes for a less stressful experience for the holder - something we all could do with in the current environment.

The benefits of a balanced portfolio cannot be over-stated. The APCIMS (Association of Private Client Investment Managers and stockbrokers) recommends a weighting of 20% in bonds within its "Balanced Portfolio" (see pie chart). This level generally exceeds the average holding of the self-directed investor. I favour the direct investment route and Selftrade customers will find a number of suggestions for holdings on the Fixed Income Microsite (go to [research & education](#)), including the recent well-received new issues from **Places for People** and **Tesco Personal Finance**. The newly-announced index linked bond issue from [National Grid](#) is also worthy of further investigation.

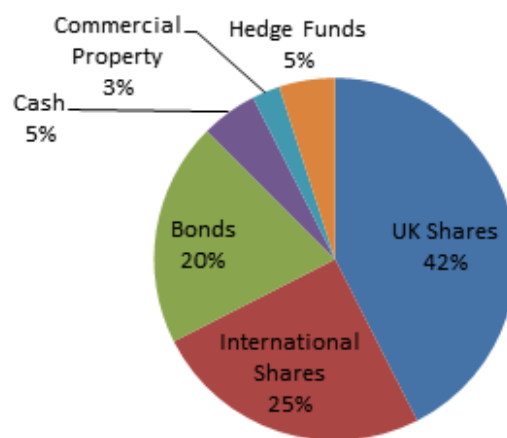
Gold

The other asset class that has proved its worth over the crash is precious metals, notably **gold**. It is tempting to lump in the yellow metal with the general asset class of commodities, but in the current environment, its price behaviour is very different to that seen in oil or industrial metals, both of which have been knocked back by fears of slowing global industrial demand.

Technically, gold maintains its long terms uptrend and appears to be exhibiting its usual pattern of an upward surge following a



APCIMS BALANCED PORTFOLIO



Past performance is not a guide to future performance

Thank goodness for Bonds! – cont'd

multi-month consolidation. Owning gold is now much easier for private investors with the introduction of ETCs (exchange traded commodities). The sterling-quoted Gold Bullion Securities (GBSS) is a popular choice.

The ACPIMS model does not currently have gold as an asset class within its model, but I would take the view that a 5% weighting would be a reasonable addition for any balanced portfolio.

Equities - Buying the dips, and more importantly what to buy on the dips.

In as much as every cloud has a silver lining, the August shakeout has depressed the price of virtually all shares and sectors, not just the bad ones. Thus, logic dictates that there must be some value out there - but where? The classic investor response to a market sell-off is, naturally, caution. This mindset typically leads to bargain hunting in defensive and high yield stocks. But, is this the best idea? Putting on my TA hat, I would opine that the best performers over the past few years have not been conventional value stocks, but rather companies that have shown the ability to create growth.

Such stocks have exhibited consistent uptrends. Examples include [Aggreko](#), [Burberry](#) and [Weir Group](#). There are also many high quality overseas stocks, often associated with technology or internationally-recognised brands (or both) that display similar strongly-trending characteristics. Examples here would be German-listed [BMW](#) and US-listed [Apple](#).

Market neutral funds

In previous editions of Stocktake, I have highlighted the growth of market-neutral funds on direct-investment platforms. Such funds (often referred to by the more generic title of “hedge funds”) were hitherto only available to institutional or high net-worth investors. However, the entry of some of the market-leading investment managers such as Blackrock has opened up this asset class for private investor and APCIMS recommend a holding of between 2.5% and 7.5% within their family of model portfolios.

The idea is certainly appealing – market neutral funds aim to make their return from a series of long and short trades. Effectively, you are investing in the skill of the fund manager and the return should be non-correlated to the general market. Indeed, a skilful fund manager may be able to turn such events as the August crash to the advantage of his investors.

The question is – do they work? Sadly, the results to date have been disappointing. The [Blackrock Absolute Alpha fund](#) has been one of the most popular vehicles with some £1.6 billion under management, but is down 3.4% on the year. This is arguably defensive given the larger falls seen in the FTSE100, but I would suggest that losing less money than the index is not enough. After all one can always hold cash. Such a fund needs to make consistent low-volatility positive returns.

Other funds in this IMA sector have shown better results, but performance in the group is generally inconsistent, with leaders struggling to hold their place from quarter to quarter. Suitable replacement funds for the Blackrock Absolute Alpha include the Cazenove Absolute UK Dynamic, which has shown strong performance over the past twelve months and the Newton Real Return, which has performed well over both 5yr and 3yr periods. These funds “fill the gap” in the IMA non-correlated fund space, and are thus useful from a portfolio construction point of view. But, only time will tell if they are able to deliver consistent returns from this tricky market sector. ■



Global asset views

STEPHEN BARBER SUMMARISES

Consensus views on world markets and sectors drawing expertise from fund management groups.

Analysts' consensus

This quarterly snapshot of consensus views drawn from our panel of fund managers and analysts has turned rather bleak.

Since the last Stocktake, markets have dramatically priced in a more pessimistic view of the future with respect to global economic growth. A slowing United States which had been sluggish to recover from recession has been joined by Europe where Germany and France appear to have stalled. Each of these had been seen as strong and had driven eurozone growth, but have since retreated to flat GDP expansion. The dreaded 'recession' word has once again started to be used and investors globally have taken fright. Such nervousness is reflected in this quarter's consensus views but there continues to be pockets of optimism from the panel. And while fears had been confined to Western economies, there is now growing evidence of a slowdown in the emerging economies of the East. The panel appears to remain broadly positive of this sector, however, and it is one which investors will continue to monitor. It is a similar story when it comes to the mighty

China, the economy which has led global growth for the past couple of years but where policymakers are paranoid about overheating. It is widely anticipated that authorities will tighten monetary policy further, squeezing demand. It all shows how much surplus east and indebted west need each other and how some sort of G20 brokered deal between the two to rebalance the world economy could be our best hope.

Given the debt crises on both sides of the Atlantic, it is unsurprising that the consensus view of bonds is negative. The irony is of course, that as confidence has dissipated, investors have piled into the quality end of government debt especially, pushing down yields on Gilts to the lowest level since Victoria was Queen. It has been a turbulent summer and investors will watch developments closely to determine the direction of travel ahead of the next Stocktake. ■

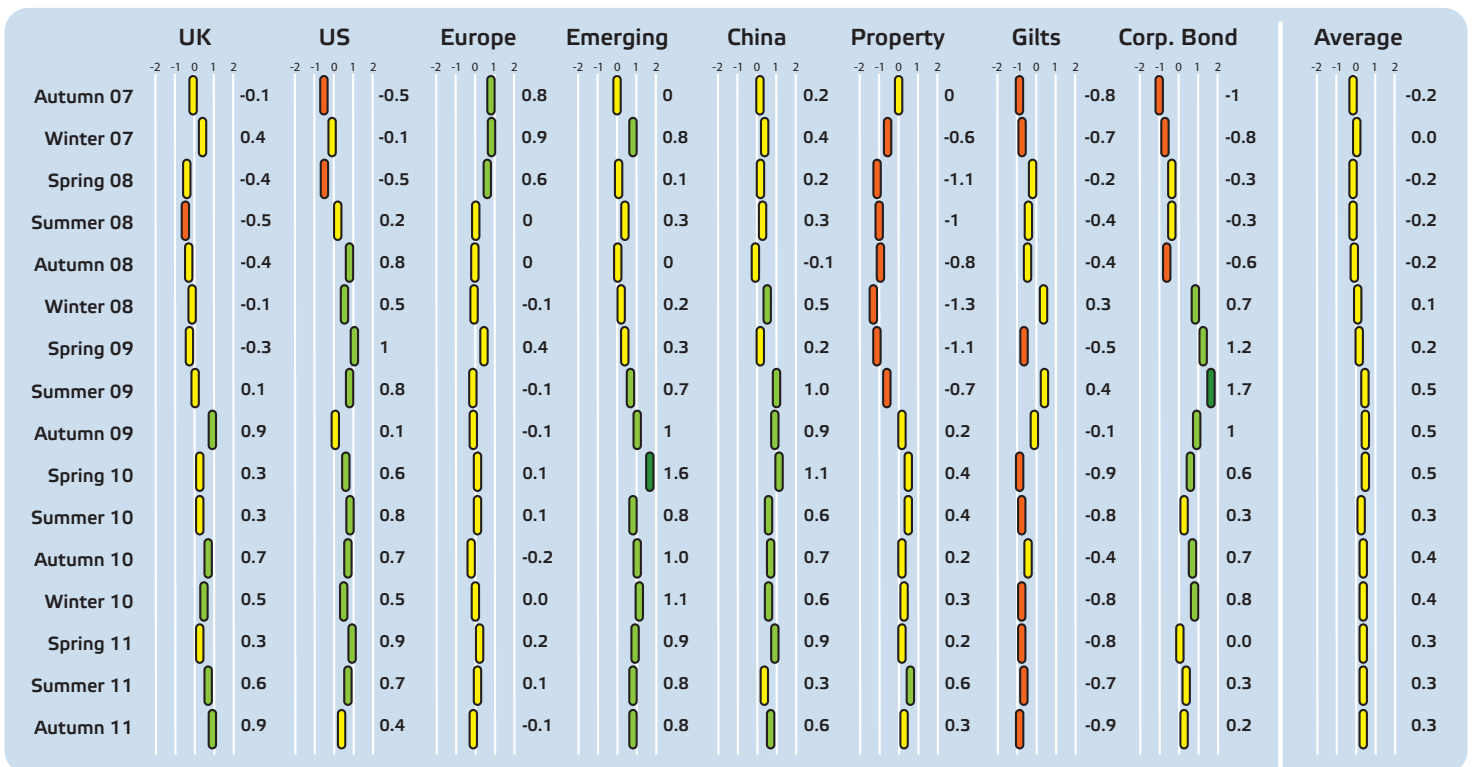




Global asset views – cont'd

| | UK | US | Europe | Emerging | China | Property | Gilts | Corp. Bond |
|--|----|----|--------|----------|-------|----------|-------|------------|
| Aberdeen | 1 | 0 | -1 | 0 | 0 | 1 | -1 | 0 |
| BlackRock | 0 | 0 | -2 | 2 | 1 | 0 | 0 | 0 |
| Henderson/Gartmore | 0 | 0 | 0 | 0 | 0 | 0 | -1 | 1 |
| JP Morgan Asset Management | 1 | 1 | 1 | 1 | 1 | 0 | -1 | 0 |
| M&G | 2 | 1 | 2 | 2 | 2 | 0 | 0 | 0 |
| Selftrade Research | 1 | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Schroders | 0 | 1 | -1 | 0 | -1 | 0 | -1 | 0 |
| Scottish Widows Investment Partnership | 2 | 0 | 0 | 0 | 0 | 2 | -2 | 0 |
| Threadneedle | 1 | 1 | 0 | 1 | 1 | 0 | -2 | 1 |

KEY: ● -2 Negative ● -1 Underweight ● 0 Neutral ● +1 Overweight ● +2 Positive



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