

Cancel All Holidays

I'm depressed to say that my holiday correlation to negative market performance appears now to be proven beyond any reasonable doubt! I had previously hoped that I was serving my clients well by taking a break every 3 months with the aim of returning to the offices refreshed, full of energy and with new ideas.

Unfortunately it now appears that every time I go away a major market event also occurs. Although, it would be difficult to find any week in the last year or so when a major market event hasn't occurred!

During client reviews over the last few months and within our market commentaries we have been stating that we were reassured that the FTSE 100 seemed to have set itself a floor at about the 4,000 level. Each time it closed below it, it quickly bounced back, often rising to test the 4,500 level, before falling back again.

I had communicated my hope that this pattern would continue and provide a period of stability whilst we could all take stock prior to the market recovery.

However we also had the fear that if the FTSE closed below 4,000 at any period of time then it could test new lows and fall perhaps even as low as the March 2003 level of 3,300.

At the time of dictating the market is at 3,662. This is a fall of around 9% from the level of 4,018 around which it was hovering when I went away on the 19 February, and a fall of 15% from the 4,300 level on the 9 February.

The US market has fared even worse and fallen 17% over the same time period. We often talk of emotions vs. logic and it is testing times such as these that our emotions scream at us to take the illogical action and quit the market. It is times like these that we listen to the bearish views of Nicola Horlick and David Kauders (who only ever invests in government bonds) and ignore the positive views of Neil Woodford, Anthony Bolton and Warren Buffett.

We have said previously we believe that any falls are likely to be short lived and that the markets still fundamentally represent good value for money.



Time Period of Money

The way that we have structured our portfolios means that most of our clients do not have a need to sell any of their equities for at the very least 10 years and, in all probability, 20+ years.

This means that the current "selling price" of the market should not affect your life today. The only real concern should be what the price will be when you need access to the money.

The Fixed Interest portion of your portfolios will be holding up well. Over the last month it was fractionally positive, while stock markets fell over 7%. We often focus on equity markets, but equities are less than 50% of most clients' portfolios.

The yield on the market remains strong, with the FTSE Allshare currently paying 5.5% income. The yields on bonds and on our UK Large Companies portfolio are even higher, and for most people the income yields on their portfolio should be in excess of their income requirement.

Therefore the capital value can fluctuate and won't make any practical difference to your lifestyle as long as the income remains solid. That is the logical approach and my favourite all time investment quote is worth reconsidering at this time:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information. What is needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework." - Warren Buffett.

Convention vs. Conviction

Another quote I came across this week is: **“The conventional view serves to protect us from the painful job of thinking.”**

We haven't always followed the conventional view. In the past we have recommended selling equities at 6,500 to which we met much resistance. When we told clients to switch everything out of property we were thought to be panic selling.

At the moment the conventional view is to panic sell all assets. We don't agree and I am sorry that this has caused short term discomfort. However, we are being logical by looking at the long term value in markets rather than listening to short term noise.

At your next meeting your adviser will work with you to set notional maturity dates for different portions of your portfolio so that you can judge the performance of each fund over the correct timescale. These dates will range from one through to 10 years and will form an important part of your reviews going forwards.

We will also establish the time period until you need access to your equity portion so that you can judge the risk accordingly. For the majority of portfolios this will be between 10 and 20 years but for many of you it will actually be indefinite. This is due to the low level income that most clients require relative to the value of their assets.

We will require your help in doing this as we will need to accurately identify the amount of income and capital that you will need from your portfolios going forward. There has never been a more important time to do this and so we will be sending you questionnaires for completion prior to your next meeting.

We can also model various outcomes for you looking at different levels of income from your absolute minimum through to your dream scenario.

I truly believe that every one of our clients portfolios are in a position to provide them with all of their needs in the short and long term. Therefore, despite the all encompassing fear you can be confident that markets will recover.

I hope that by completing this process we can demonstrate this to you.

Some of you may think that you do not have time for the markets to recover, perhaps due to your age, and in some circumstances we can take advantage of death benefit guarantees.

However our experience of people inheriting money has been that they have largely left it invested for their own retirement needs. It is usually capital that they have not relied upon in their own planning, although it has been a welcome boost.

A Platform on Which to Build

We are now migrating the majority of our clients' assets onto wrap platforms with Nucleus, and now with 7IM. Both of these are ideal for a seamless transition to the next generation. In most cases, assets would not even need to be sold and can simply be re-registered into the names of the beneficiaries.

We are also now purchasing income units on these platforms wherever possible. This means you can truly judge the level of income that is being produced from your portfolio vs. the capital growth or losses in the short term. It should provide your income requirements, and in some cases generate enough cash to allow us to buy into whatever asset class we feel is best value when we come to re-balance.

This is undoubtedly the worst financial crisis that most people are ever likely to experience in their life time. By definition almost everyone is likely to experience at least one during their lifetime (such as the 1930s and 1970s).

However I am confident that our clients will not need to adapt their lifestyle in any way and that they can continue to enjoy the retirement that they have worked so hard to achieve.

I know that the temptation is to project forward the current losses into future years and create a fictional Armageddon style scenario. However I would urge you to remember that the greatest rises come after the greatest falls. As detailed in my last briefing, re-balancing into a falling market would have still delivered profits during the 1970s, as indeed would a simple buy and hold strategy.



Our Achievements and Our Mistakes

Our portfolio construction principles have continued to serve us well during this crisis. This means we have entirely avoided catastrophic loss and allowed your incomes to be maintained as explained above.

Our fund selection in our Fixed Interest portfolios has dramatically reduced losses, and our exclusion of Commercial Property from our portfolios has, in most cases, not only avoided losses but it has avoided lock ins. Even our individual fund switches have all proved positive as has our recent inclusion of an Alternative Equity portfolio.

However there are always things that you look back on and wish you had done slightly differently. Arrogance is a dangerous trait for any investment adviser and it is always beneficial to look at your own performance with very critical eyes.

If arrogance is bad then stubbornness is even worse. Another favourite of my investment quotes is from the economist John Maynard Keynes who stated:



"When the facts change sir, so does my mind, what do you do?"

Clearly when things change we need to be quick on our feet and change accordingly.

One of our greatest frustrations is our recommendation to invest into Global Property Shares, originally classed as Alternative Equity.

Global Property was designed to be a lower risk asset class, which was likely to perform in line with the Equity markets in the short term but it should lose far less in a market downturn due to the underlying value of the properties. Unfortunately this hasn't proved to be the case and the asset class has proven far more volatile than we originally anticipated.

Due to the volatility and correlation to equities, we are re-classifying this as Speculative Equity. Whilst we would recommend adventurous investors retain the funds we advise more cautious investors reduce their holdings. Your adviser will provide individual recommendations at your next review.

Equity Purchase Recommendation

I suffer from double think on our recommendation to buy into the Equity market at 5,600. Clearly, had we suspected that the credit crunch was going to be this severe we would not have made that recommendation. However I believe that everyone is now wishing that they had the benefit of foresight and they fully understood and were prepared for the impact of the crisis.

When reviewing this decision again we believe it was logical as the markets appeared fairly valued. The facts changed subsequently, and had those facts been apparent then, our minds would have changed.

You could certainly get better value than 5,600 now. However, given a five year view we believe those that bought in at this level will do well out of that decision. Our view on rebalancing is to buy in after a market correction, classed as a 10% fall. We allowed a margin for error and a fall to 5,600 represented a 15% correction.

On an individual fund level, of the 40+ funds on our recommended list, the only ones where we think we made a mistake are the Skandia Best Ideas funds which seemed a great concept.

They have turned out to be higher risk than we originally anticipated and this has reinforced an old lesson that concepts that are great in theory don't always work out in reality. So out of those three decisions (Global Property, buying Equities at 5,600 and Skandia's Best ideas) we believe only two can be classed as errors of judgement.

We will never eliminate all "errors" in such a subjective industry. Our focus is on making sure our correct decisions outweigh those errors.

A Crisis

This is, after all, a crisis and my own definition of a crisis is "something to be endured, something that was not expected or anticipated, but that we must get through nevertheless."

A crisis is OK, as long as you can learn from it and get to the other side. The best way to act in a crisis is calmly and logically and to work as a team. To use a sailing analogy, we may be way off course, we may be going through a hurricane, but as long as the boat and crew are intact and we know what actions we need to take and we will get through it in the end.

The alternative course is to panic, reverse course, sail straight back into the hurricane again, accuse the rest of the crew and the captain of being idiots and go down below to sulk.

The dictionary definition of crisis is:

1. a crucial stage or turning point in the course of something
2. an unstable period, one of extreme trouble or danger.

Incidentally, the Chinese (Mandarin) character for the word crisis is made of up two separate parts. The first of which means danger.

The other means opportunity.



Our Interests Aligned With Yours

I would like to reiterate that our fee structure ensures our interests are always entirely aligned with yours. As your portfolios have fallen in value in the last week, so has our business income. As your portfolios have fallen so has the value of our company and, as you would expect, there will be no bonuses or pay rises for the staff and there will be pay reductions for the partners.

However, overall as a company I am pleased to say we have remained in good shape. The poor performance of our competitors aligned with the mistrust of banks is making it easier and easier for us to win new clients.

The recommendations you have been making recently to your friends and colleagues have been greatly appreciated and we will shortly be announcing the launch of our Referral Rewards scheme so that we can show our appreciation in a more tangible way.

Many thanks for your continued support.

Colin Lawson CertPFS
Managing Partner

P.S

On a personal note, I have recently received an invitation to a friend's 50th birthday party. She has battled and survived cancer twice in the last ten years, and the invitation was simply headed: "Life isn't about waiting for the storm to pass, it's about learning to dance in the rain." What an amazing attitude.