

Passive funds and charges

As well as using selected active fund managers, we are also big fans of "passive" investing such as index tracking funds.

Only the best fund managers can outperform consistently. Active fund management charges can be much higher than passive funds, and so we'll only use active funds where we have real confidence in the manager's ability.

We therefore make use of passive funds to provide the returns from an asset class, but at minimal cost.

There are a few things to take into account when choosing between funds that track the same index, but the main one is cost.

Vanguard are the biggest index tracking provider in the US and they have recently launched a range of funds in the UK. They are offering a FTSE Allshare Tracker at 0.15% per annum.

When compared to our current Allshare tracker (Fidelity Moneybuilder UK Index) at 0.1% per annum, this looks slightly more expensive. However, annual management charges are only part of the picture; there are also underlying costs that need to be paid by the fund, such as dealing and custodian charges.

Funds are obliged to disclose these costs as well as their own fees, and this is called a Total Expense Ratio (TER). The total cost of the Fidelity fund has actually risen slightly, and now stands at 0.3%.

However, the total expense of the Vanguard fund is 0.15% per annum, as they pay the fund administration charges out of their own fees.

Four Factor Focus

By changing some of our existing tracker funds for the Vanguard funds (plus one HSBC tracker fund), we can reduce costs by between 0.15% per annum and 0.3% per annum. This may not sound like much, but it all adds up.

We often talk about our four factor focus. We aim to make a 2% per annum difference to a portfolio by improving performance, reducing tax, reducing risk, and reducing charges. We only need to make a 0.5% difference in each area to add up to this 2% difference. These small differences can have a big impact when compounded over the long term.

Our portfolios are currently being amended to incorporate these new funds. Any new investments will therefore go into these funds.

However, we are not switching funds for existing clients for the time being. A switch of funds means a short period where we are out of the market, which could work against us if markets go up in the meantime. We will therefore change funds as and when we make other changes to your portfolio.

"By changing our existing tracker funds...we can reduce costs by between 0.15% and 0.3% per annum."

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Property update

At our recent investment dinner we presented our views on property whilst Invesco presented their views on equities.

Those who attended will hopefully have a greater understanding as to why we recently suggested that clients may want to consider reducing their equity holdings and invest around 5% of their portfolio in Commercial Property.

We have put our slides on our website for those who are interested. Please go to www.equilibriumam.co.uk and click on "Our views". For those of you reading this electronically you can click [here](#).

We have seen another positive month in the property sector, whilst Fixed Interest returns are now starting to level off.

Most clients have been overweight in Fixed Interest and where that is the case, we are likely to recommend reducing this and allocate this money to Property. For most cautious and balanced clients we suggest moving 5%, meaning they should have around 10% in Property overall. For most adventurous clients, we suggest moving around 10% from Fixed Interest to Property.

We will be discussing this with you in your forthcoming reviews but please get in contact if you would like to take more immediate action.

Award Entries

Once again we have entered the New Breed Adviser awards and we are pleased to announce that we have been shortlisted in all four categories that we entered:

- Best Investment Adviser
- Best Financial Planner
- Best Retirement Planner
- Best Paraplanner (Paula Deary)

We will find out how we've done at the end of October.

Active Service Update

As part of our active service we will now be issuing 6 monthly investment updates, reviewing what has happened over the period, what changes we've made and how that has affected our portfolios.

We will be issuing the first one at the end of October to all our clients, whether or not you are currently using our active service. This should provide a flavour of what we've been doing, our approach to discretionary management and how we see things developing.

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General economic overview

It is generally accepted that we may technically be in a recovery, but it won't seem like it for some time as the effect of redundancies is only just being felt. There is still much debate about the strength of recovery and whether we are likely to see a "double dip" recession or if economic growth will continue.

Interest rates are likely to remain low for some time but the Bank of England may raise them early next year to assure markets that they will keep on top of inflation. In reality, we believe any inflation problem is some way off.

Asset Class Views

<p>Equity Markets</p> <p>Equity markets have increased further which in our view increases the possibility of a setback.</p> <p>Last month we reduced our equity outlook from a +3 to a +2. We had enough concern to reduce our overweight position, but we still think equities are good value on a medium term view. Despite the market continuing to rise last month, our view has not changed.</p>	<p style="font-size: 2em; color: green;">+2</p>
<p>Fixed Interest</p> <p>The rally in corporate bonds continues, whilst gilts have fluctuated up and down. We remain optimistic about investment grade bonds and negative on the outlook for gilts.</p> <p>As the rally has continued we've again reduced our outlook, this time from +3 to a +2 as returns have started to level off. We believe the "easy money" has been made and fund managers will have to be more selective in order to achieve returns and avoid pitfalls. That said we still believe that returns should be positive over the next year or so.</p>	<p style="font-size: 2em; color: green;">+2</p>
<p>Commercial Property</p> <p>Commercial property is now starting to look good value in some areas and we are now starting to invest in this asset class again.</p> <p>We have increased our position in property again this month. We are recommending property funds with high cash levels so they can take advantage of distressed sellers and can manage outflows if they occur.</p>	<p style="font-size: 2em; color: green;">+1</p>
<p>Residential Property</p> <p>House prices fell according to some (but not all) surveys last month after some small monthly rises. We have consistently been saying that we do not believe price rises are sustainable and expect weakness for some time to come.</p> <p>We believe that prices could fall further as the effect of redundancies takes its toll. Access to mortgage lending remains restricted, which in the short term could prevent a recovery.</p>	<p style="font-size: 2em; color: red;">-1</p>

Key:

+ means we are positive about an asset class

- means we are negative about an asset class

= means we are neutral about an asset class - we expect it to behave normally

+5 is most strongly positive, -5 is most strongly negative.

These represent Equilibrium's collective views. There are no guarantees, although we hope to be right more often than wrong. We usually recommend holding at least some funds in all asset classes at all times and adjust weightings to reflect the above views. These are not personal recommendations so please do not take action without speaking to your adviser.