Alan Boswell Financial Planners

Investment Philosophy

ALAN BOSWELL Financial Planners

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An investment philosophy is the overall set of principles or strategies that guides and steers our investment decisions; it helps us to simplify a complex industry and allows us to concentrate on our relationships with our clients, safe in the knowledge that we're doing our best to protect and grow their assets.

While investment performance hinges on many factors beyond our control, notably the return on markets, we can control other factors. These are the ones we deem the most important in creating and managing a portfolio such as: the type of funds invested in, the cost of the investments; and what we look for when choosing the investment companies we do business with.

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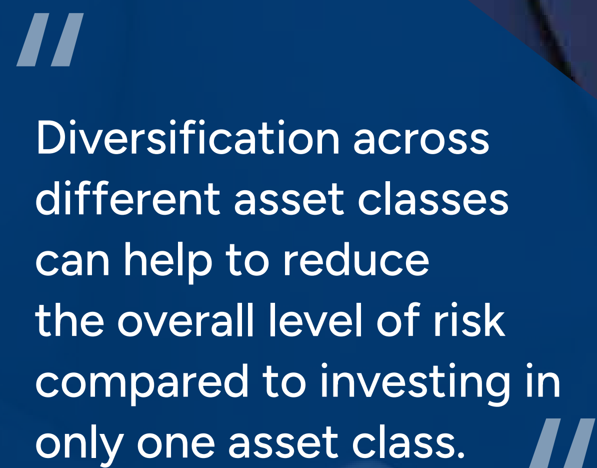
ALAN BOSWELL
Financial Planners

Our investment philosophy

We provide independent advice	We choose to remain independent because we believe that it is important that we are not restricted in any way at the point we recommend a fund or product to our clients.
We believe in diversification	One of the most important views to arise from portfolio theory is that investors should avoid concentrated sources of risk by holding a diversified portfolio. There are three primary factors that influence portfolio performance: asset allocation; stock selection; and market timing. Diversification of an investment portfolio across asset classes that perform differently under various market conditions and events should help to reduce the overall level of risk compared with a portfolio which invests wholly into one asset class, e.g. shares. An effective combination of different asset classes can significantly reduce the risk of a portfolio, without reducing its potential for growth.
We believe that cost is important	Although the cheapest option might not prove to be the most suitable, we do believe that cost is a critical factor in selecting a product or investment fund, as it has a demonstrable impact on investment returns. Therefore, we will consider this alongside other factors such as the financial strength and service provided. In addition, every time an investment cost is bought or sold, costs are incurred. Some but not all of these costs are expressed in the on-going charge stated by the fund manager. As not all charges are included, it is important to also consider portfolio turnover (which is the amount of trading undertaken by the fund manager). This is expressed by the Portfolio Turnover Rate and the cost of this is often hidden but it impacts on investment returns.
Environment, Social and Governance (ESG)	If considering environmental, social and governance (ESG) factors is important to you, we will factor this in when making an investment recommendation. From an environmental point of view, investment managers may look for companies that manage environmental issues well generally, whereas others may favour companies concentrating on specific issues such as clean energy or waste management. Examples of how social issues can be incorporated into an investment strategy include working conditions and human rights. From a governance point of view, investment managers may focus on the standards companies employ to run their business. You may be looking for an investment manager that uses their position as an investor to encourage the companies they invest in to improve their ESG practices or considers ESG issues as part of their investment research and decision making. Or you may wish to exclude certain investments from a fund or portfolio. We will discuss your preferences with you and agree how to incorporate them into the investment solution we recommended.



"Diversification across different asset classes can help to reduce the overall level of risk compared to investing in only one asset class."

Neil Marsden, Chartered Financial Planner

Financial planning and risk

Types of risk

When we talk about risk, it is important to understand that when making financial decisions the potential risks involved could include, but are not restricted to the following:

Capital risk	The risk of getting back less than you invested or losing some of the return already received.
Income risk	The risk that the level of income achieved is less than expected / required.
Liquidity risk	Not being able to access your money when you need it.

When investing you need to take into account risk and the impact that this could have on your ability to achieve your financial goals.

Risk profiling

Prior to making recommendations to you, we will undertake a process called 'risk profiling' in order to determine an appropriate investment strategy.

In order to assess the risk required we will need to understand your goals, income and expenses and your assets and liabilities, both current and anticipated. We can then try to understand the investment return that you might need to meet your current and future needs. We also need to establish your capacity for loss, which is your ability to manage financially should a capital loss occur.

In addition to assessing the risk required and your capacity for loss (both of which are financial calculations) we also need to understand your risk tolerance, which is psychological and is how you feel about taking risk e.g. you might consider it important for your investments to maintain their purchasing power and that any fall in their value would make you feel uncomfortable.

Another key part of the process is establishing your knowledge and experience of financial products. This is an assessment of what your previous experiences have been in relation to various types of financial products and whether you acted with or without advice. This helps us to assess your level of understanding of different products.

To assist us with 'risk profiling' we use software provided by Distribution Technology Ltd. This takes us through the following stages:

Stage 1	**Assess willingness to take risk** This uses psychometric risk profiling to determine the risk that you are willing to take and involves the completion of a questionnaire developed in conjunction with Oxford Risk, who has considerable expertise in this field. The questionnaire is designed to take into account a number of factors such as risk sensitivity, desire for profit, tolerance or ambiguity, outlook, investment time horizon, financial awareness, investment experience and suggestibility, which are all known to be excellent predictors of attitudes to risk.
Stage 2	**Check responses** This considers the consistency of your answers to the questions and will indicate areas where further discussion is required.
Stage 3	**Assess ability to take risk** This is the assessment of your ability to accept investment risk, by exploring the impact that potential losses might have on your financial position. This consists of additional questions that consider your capacity to tolerate losses which could have a material detriment on your standard of living and liquidity requirements; i.e. how likely you are to need access to this investment.
Stage 4	**Select & agree risk level** The software then ranks risk aversion on a scale of one to ten (more on this later) with a score of one being the most averse and ten the least. Once the level of aversion to risk has been agreed with you, we can then consider the best investment strategy to meet your specific objectives and tolerance for risk.

Asset allocation

We believe that asset allocation, i.e. the spread of your investment across different asset classes, broadly determines the results.

Depending on your financial goals, we will use a corresponding investment strategy that produces the most appropriate level of risk and expected return.

How the assets are held over the long term (known as the strategic asset allocation) is a large contributor to the performance of the portfolio.

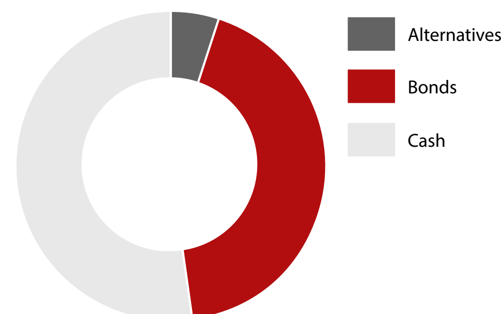
However, this is only part of the picture and so we use strategies that employ tactical asset allocation. This strategy attempts to increase returns by adjusting or tilting the strategic asset allocation to take advantage of short and intermediate term market inefficiencies, with the aim of raising investment performance above the market average.

The theory behind tactical asset allocation is that investor psychology and market forces can lead to the under or over valuation of assets. Tactical asset allocation attempts to increase returns by buying more of the assets (overweighting) that are expected to out-perform on a relative basis and holding a lower proportion (underweighting) of the assets that are expected to underperform.

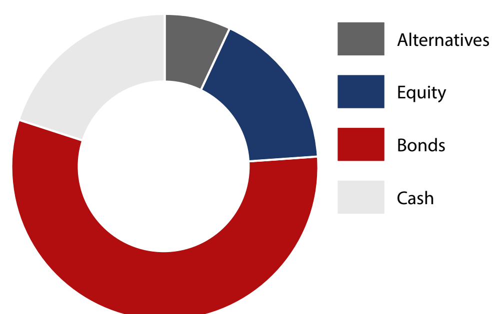
The different levels of investment risk

What follows is an explanation of the different levels of investment risk, together with an example asset allocation.

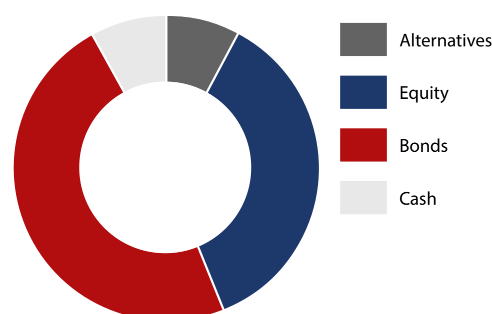
1. **Lowest** – A portfolio for this risk profile will only include cash deposits.



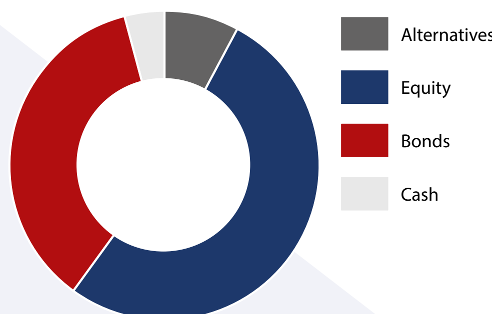
2. **Very low** – A portfolio for this risk profile is most likely to contain mainly low-risk investments, including money market funds and government bonds. It will also be expected to contain some other medium- and high-risk investments, such as sterling corporate bonds, global bonds as well as shares mainly in the UK market.



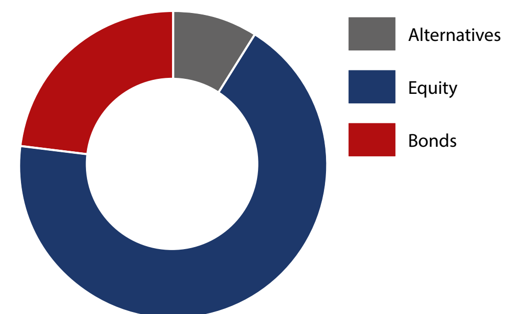
3. **Low** – A target portfolio for this risk profile is most likely to contain mainly low-risk and some medium-risk investments, including money market funds, government bonds, sterling corporate bonds and global bonds. It will also be expected to contain some high-risk investments such as shares mainly in the UK market (but with a small number in other developed markets), as well as higher-risk investments.



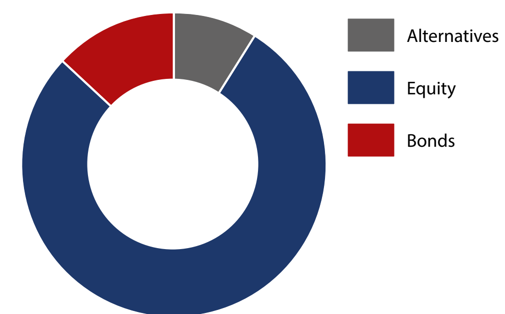
4. **Lowest medium** – A portfolio for this risk profile is most likely to contain mainly low- and medium-risk investments, including money market funds, government bonds, sterling corporate bonds, and a mix of global bonds. It will also be expected to contain some high-risk investments such as shares mainly in the UK market and other developed markets, but a small number of higher-risk investments may also be included.



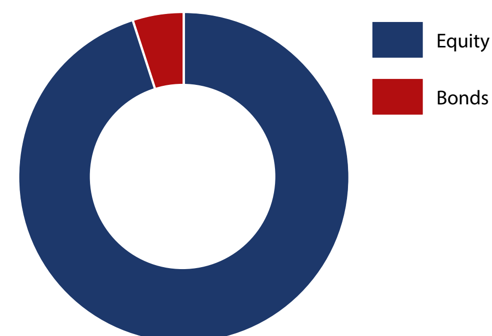
5. **Low medium** – A portfolio for this risk profile is most likely to contain low-, medium- and high-risk investments, including money market funds, government bonds, sterling corporate bonds, and global bonds. It will also be expected to contain some high-risk investments such as shares mainly in the UK market and other developed markets, and a small number of higher-risk investments such as shares in emerging markets.



6. **High medium** – A portfolio for this risk profile is most likely to contain mainly medium- and high-risk investments, including sterling corporate bonds and global bonds, as well as shares. The shares are expected to mainly be in the UK market and other developed markets, but it is likely that some will be in higher-risk emerging markets.



7. **Highest medium** – A portfolio for this risk profile is most likely to contain mainly high-risk and very-high-risk investments, such as shares in the UK market, other developed markets and emerging markets. It is also expected to contain a small number of medium-risk investments such as sterling corporate bonds and global bonds (including higher-income global bonds).



8. **High** – A portfolio for this risk profile will most likely contain high-risk and very-high-risk investments such as shares in the UK market, other developed markets and emerging market. It is also likely to contain a small number of medium-risk investments such as higher-income global bonds.

9. **Very high** – A portfolio for this risk profile is most likely to contain high-risk and very-high-risk investments, such as shares in the UK market, other developed markets, and emerging markets.

10. **Highest** – A portfolio for this risk profile is most likely to contain very-high-risk investments such as shares in emerging markets and a small number of high-risk investments such as shares in the UK market and other developed markets.

Summary

Whilst portfolios in the risk range 1-7 should go up and down in value less than a high-risk portfolio, the value of investments can always go down as well as up. There is a possibility you may not get back as much money on your investments as you put in, particularly in the short term.

You will note that the example portfolios for 9 & 10 are both wholly invested in equity; the highest risk portfolio would contain a much greater weighting towards overseas shares, especially those in Asia and developing markets, which tend to be more volatile than developed market shares such as UK, USA and Europe.

Objectives and time scales

In making decisions concerning your approach to risk, this could vary according to the financial goal that you are considering.

A very important and potentially over-riding factor is the timeframe that the monies will be invested for. The higher risk portfolios would be expected to go up and down widely in value over very short timeframes, which might make them unsuitable for short and medium-term objectives.

By way of example, you might feel able to take a higher level of investment risk with longer-term objectives e.g. an individual in their twenties undertaking retirement planning might feel able to accept wide fluctuations in the value of their pension pot as they would not be able to gain access to these funds until their mid-fifties.

An individual within five years of retirement might feel that with regards to their savings and investments, preserving the capital is more important as, once they have ceased earning, their ability to top-up their savings could be limited.

These are merely examples and your individual circumstances are likely to be different.

Approach to investment management

Having completed the risk profiling exercise and agreed the broad asset allocation for the portfolio, the next stage is to implement the agreed strategy.

Underlying our investment philosophy is our belief that an active approach is likely to prove beneficial. The objective with an active approach is to produce better returns than those of funds that aim to replicate the performance of an index or basket of stocks (passive or index tracker funds).

We feel that there are a number of advantages to active investing, for example:

- Active strategies can aim to reduce volatility
- They do not have to change their holdings because the constituent companies of an index change
- They can employ different strategies, taking macro-economic views, adopting particular investment styles or stock-picking with the aim of out-performing the sector
- They can avoid certain industries or companies, or focus in a specialist area.

In recent years we have seen a blurring of active and passive management, for example funds that use tactical asset allocation but populate the fund with passive instruments such as index-trackers or active managers that wish to take a short-term position and rather than suffer the increased cost of buying or selling stocks; they purchase an index fund.

Investment strategy

Whilst each client is different, we do undertake in-house research and utilise external research concerning different funds and products. Governance over the investment solutions used is the responsibility of our in-house Investment Committee, who meets regularly to consider the ‘best of breed’ investment solutions.

We also work closely with selected platform and wrap providers to deliver our wealth management service, in an efficient manner e.g. providing consolidated tax information and online access to your investments, should you wish to have this.

Investment strategy (*continued*)

Depending on the service level selected and the level of assets under management, we have identified a number of strategies that could be employed including:

Multi manager funds or fund of funds	There are occasions where we believe it is appropriate for a client to have an automatically rebalancing investment solution, without the additional expense of a bespoke investment strategy. Due to the dynamic nature of these funds, their asset allocations will vary from day to day and they will employ a number of different managers to look after the various elements of the portfolio. This provides a great deal of diversification by asset class and manager style. This type of strategy can suit clients who undertake infrequent reviews of their arrangements or who do not wish to incur on-going capital gains.
Tactical model portfolio	These are portfolios managed by a number of discretionary investment managers who we feel are an appropriate fit in terms of our investment philosophy. The models are based on tactical asset allocation with the belief that whilst competent fund selection is likely to improve the returns of a portfolio, good asset allocation can also improve returns and reduce risk. Through the use of both techniques there is a greater potential to enhance performance. The portfolios are regularly rebalanced by the discretionary investment manager to take account of tactical asset allocation and markets. This type of strategy can be useful for a larger portfolio e.g. £100,000 or more where bespoke taxation management or specific investment mandates are not required.
Discretionary investment management	This approach is suited to larger portfolios of £250,000 or greater, although more typically £500,000 or greater, where an individual portfolio manager will work in partnership with us to help achieve your financial goals. This type of strategy can be useful where some form of bespoke investment management is required, such as management of capital gains, or income streams, exposure to specific sectors or investments, bespoke tax reporting ethical considerations or some other aspect that cannot be served by other strategies. We work with a number of different discretionary investment managers to provide a tailored service and our Investment Committee undertakes regular due diligence in this area.

Risk levels of the potential investment returns (*continued*)

The following tables aim to provide a comparison for the different risk levels of the potential investment returns, after allowing for inflation, based on investing £10,000 over various time periods.

Please note, the figures in the tables are not an analysis of how specific products or funds might perform, they are only examples of what might happen. They are not minimum or maximum amounts and are not guaranteed in any way. Actual performance will depend upon how the selected investments perform, their tax treatment and any charges incurred.

† *Source Distribution Technology October 2024*

2. Very low

Expected Inflation Adjusted Return -0.33%
Expected Volatility 3.29%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£9,420	£8,680	£8,150	£7,310
Plan for this	£9,960	£9,840	£9,640	£9,260
Be pleasantly surprised	£10,500	£11,100	£11,400	£11,900

3. Low

Expected Inflation Adjusted Return 1.07%
Expected Volatility 5.33%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£9,220	£8,580	£8,330	£8,220
Plan for this	£10,100	£10,500	£11,000	£12,000
Be pleasantly surprised	£11,000	£12,800	£14,400	£17,900

4. Lowest medium

Expected Inflation Adjusted Return 2.08%
Expected Volatility 7.33%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£9,000	£8,400	£8,210	£8,510
Plan for this	£10,200	£10,900	£12,000	£14,300
Be pleasantly surprised	£11,500	£14,300	£17,500	£24,700

5. Low medium

Expected Inflation Adjusted Return 3.11%
Expected Volatility 9.51%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£8,750	£8,060	£8,050	£8,570
Plan for this	£10,300	£11,400	£13,100	£16,800
Be pleasantly surprised	£12,000	£16,000	£21,100	£34,100

6. High medium

Expected Inflation Adjusted Return 3.95%
Expected Volatility 11.61%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£8,500	£7,690	£7,690	£8,150
Plan for this	£10,300	£11,800	£13,900	£18,900
Be pleasantly surprised	£12,500	£17,800	£25,000	£44,900

7. Highest medium

Expected Inflation Adjusted Return 4.79%
Expected Volatility 13.69%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£8,270	£7,300	£7,320	£7,910
Plan for this	£10,400	£12,100	£14,600	£21,000
Be pleasantly surprised	£12,900	£19,600	£29,300	£58,000

8. High

Expected Inflation Adjusted Return 5.29%
Expected Volatility 15.86%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£8,000	£6,780	£6,630	£6,960
Plan for this	£10,400	£12,200	£14,900	£21,800
Be pleasantly surprised	£13,400	£21,400	£33,400	£70,800

9. Very high

Expected Inflation Adjusted Return 5.77%
Expected Volatility 17.76%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£7,760	£6,400	£6,130	£6,210
Plan for this	£10,400	£12,300	£15,200	£22,300
Be pleasantly surprised	£13,900	£23,100	£37,800	£83,400

10. Highest

Expected Inflation Adjusted Return 6.39%
Expected Volatility 19.69%

Value after	1 year	5 years	10 years	20 years
Be prepared for this	£7,530	£6,020	£5,630	£5,680
Plan for this	£10,400	£12,400	£15,500	£23,600
Be pleasantly surprised	£14,400	£25,000	£42,800	£100,000

† Source Distribution Technology October 2024

> "Don’t hesitate to give us a call whenever you have a question about insurance or financial services. We’re happy to help however we can."

Alan Boswell,
Executive Chairman

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