

My Principles of Investment and of Risk Management – 25th June 2017

These notes describe my approach to investment, and to management of risk. Anything you find disagreeable, I welcome you to challenge. Anything you don't easily understand, please ask me to explain.

1. I am a whole-of-market adviser; what the regulator (FCA) calls 'independent'. My first principle is **clients' peace-of-mind**. For clients unfamiliar with financial risk, I illustrate it with simple charts. By conferring we come into agreement about **meaningful risk** for the project. By careful, unhurried conversation we reach agreement about suitable action. In writing I recommend investments I judge fit a client's aim, experience, understanding, engagement, attitude to financial risk and capacity to endure loss.
2. **Guidelines I observe:**
 - a. Although no risk-free option exists, due-diligence distinguishes investment from gambling.
 - b. Within a horizon of about three years, the safety of cash is more valuable than any merits of equities.
 - c. The top four investment priorities I see as: time-of-entry, managing risk, low cost, and communication.
 - d. My work is bespoke because everyone is different. For me, a client's own words and responses are more illuminating than tick-box answers. For instance; I seek answers fuller than 'low', 'medium' or 'high' acceptance of risk and capacity to endure loss.
 - e. Taking profit is never wrong, even if we leave some for the next owner.
 - f. To support valid and timely sell-decisions, a simple stop-loss procedure is helpful.
3. **Foundation-measures I support:**
 - a. A "lifeboat fund"; cash in case of emergency. I measure it in months of domestic expenditure. For instance; to a family breadwinner in secure employment, I'll recommend six months'. Clients in retirement I bid keep double that amount in their emergency reserve.
 - b. A foundation fund in broad-ranging assets, designed to rise gradually; to protect the value in even the worst events; to smooth the jagged progress of unpredictable markets, and seldom suffer a fall.
 - c. Making use of tax-allowances; income, capital gains and inheritance, all kinds of ISA, and pension.
 - d. Assets of different kinds; to spread risk, and to lessen the consequences of any sudden setback:
 - i. Bonds – loans to governments and companies - which pay interest. Some growth too is feasible.
 - ii. Equities - shares in companies, which go down as well as up; which provide dividend income, and capital growth. Between risk-averse and risk-addicted there are funds to meet all appetites.
 - iii. Property funds - from which comes rent; capital growth as well, if fortune smiles.
 - e. Dispersing risk not only across those three kinds of asset, but also by:
 - i. Choosing some funds for income, others for growth.
 - ii. Allowing some fixed-term and minimum-term funds, among a majority of open-ended funds.
 - iii. Regular attention (say, 30-60 minutes a month) and reviews with (or without) me from time to time.
4. In my own experience, the decision **when to sell** (or replace) an investment is frequently hard to make. For example: if my present choice is thriving, my natural inclination is to continue with it: if it's toiling, I might hope recovery is around the corner. Five 'smoke alarm' moments beckon me to consider selling:
 - a. When the value drops to whatever stop-loss point I've chosen.
 - b. When the story changes – for instance, a shift in political power, or inflation gives way to deflation.
 - c. When my instinct warns me – disturbs my peace-of-mind – not to hold with over-optimism.
 - d. When I feel happy with a profit, I might want to 'bank' it.
 - e. When I find something else I think has higher potential for gain, and/or lower risk of loss.
5. **Fund management:**
 - a. Copious independent research has shown active fund-management is value-for-money less often than its proponents would like us to believe. Although index-tracker funds also are imperfect, they do cut away two big problems 'active' management suffers: high fees and conflicts of interest. I support index-trackers – chiefly **Exchange Traded Funds** - because the versions suitable for retail investors are mostly easy to understand, cheap to buy and hold, simple to monitor. They lend themselves to a simple, self-managed stop-loss discipline.
 - b. Three styles of active-management I do support are **Investment Trusts, With Profits, and funds aligned to the United Nations' code of Ethical, Social & Governance investment (ESG)**. If any of those might have relevance to your own project, I'll describe their impact and consequences.
 - c. For all the funds I recommend, the regulator's term is "**non-complex financial instruments**".
 - d. If terms in this paragraph mean nothing to you just now, please be not concerned; I will make them clear when we reach that stage of the project.