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, and I will seek conversation. For instance; I regard 'low', 'medium' or 'high' as inadequate terms to describe either appetite for risk or 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 defend 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.
      iv. Commodities - most commonly gold; I keep an eye also on copper, lithium, timber.

   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.