

Jason McGuigan, Partner at Critchleys Financial Planning, introduces the topic of investment management.

Previously we have explored the benefits of going through a formal financial planning process. Once that has been done, the next important step is to consider the best approach to investment management.

Why is investing in the right assets important?

Studies show that about 90 per cent of the return on a portfolio can be attributed to the choice of assets selected and not the short term effect of market timing or the choice of fund manager.

It follows that having a diversified mix of assets – for example shares, commodities, property, cash and bonds – is the most important aspect of portfolio construction.

The mix of assets chosen will depend on the level of return required and the degree of risk you are prepared to take with your capital. Once your attitude to investment risk has been defined, the appropriate asset split can be agreed: this is known as an “Asset Allocation” model.

Should you set a target for the rate of return?

Logically, yes. For example, there is no point investing in cash assets that might generate at best four per cent per annum if, in order to achieve your financial goals, you need to achieve a return of seven per cent. In the same way, why take the risk that your portfolio might fall in value by chasing a return of eight per cent per annum if you only need a return of five per cent to achieve your goals?

This is one of the key reasons to go through the financial planning process: to end up with a clearer idea of what is required to achieve your goals. Only then can you make a sensible decision about how much risk to take and whether you are comfortable with it.

Active or Passive Management?

Once you know the target rate of return required and your risk tolerance, you then need to choose an investment manager. Some argue that professional fund managers add value by actively selecting the investments for a portfolio. However, a high proportion of active fund managers consistently underperform the market, mainly because their charges are high.

Notwithstanding that fact, there are areas of the market where specialist knowledge is extremely valuable. These include exposure to emerging markets and other specialist markets, commodities, funds of hedge funds, property funds and structured products.

Financial planner, investment manager or both?

The best financial planners are not necessarily also the best fund managers. In the case of Critchleys Financial Planning, we have chosen to outsource investment management completely and have instead forged links with a number of strategic investment partners. It’s a ‘best of breed’ philosophy that you might also consider when deciding whom to trust with your money.

If you have questions on any aspect of financial planning, please call Jason McGuigan on 01865 261100 or email jmcguigan@critchleys-fp.co.uk

