Investor

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MULTI-ASSET

# Newton's law helps clients endure market madness

Nicola Downs of Dorking-based Trentham Invest structures model portfolios in a way that avoids short-term speculation on asset classes and incorporates clients' risk tolerance

**NICOLA DOWNS**
Trentham Invest

We make our own model portfolios, with risk ratings ranging from one to 10. We use asset allocation data from Towers Watson, which is updated on a quarterly basis. We do not outsource much of our portfolios to discretionary fund managers, though we have one part of the client portfolio with Thesis Asset Management.

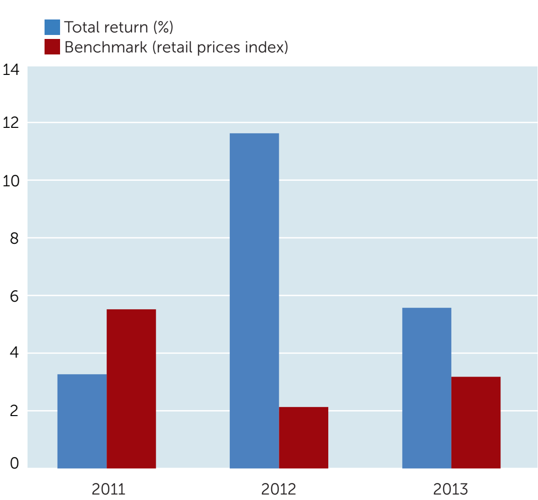
Most of the funds we use in the model portfolios are actively managed. We have less than 5% in passive funds; we do not mind allocating gilts and fixed interest to passive funds.

The rationale for this is we believe the difference between the top-performing and worst-performing fund manager in any one asset class is significant on a cumulative basis over a period of, say, four years.

Our clients tend to invest for more than four years and so the cumulative benefit active management can bring can be significant.

**Trentham's Risk 4 portfolio has beaten inflation over the past two years**

Source: Trentham Invest




All figures are gross of fund manager AMC charges

## No second guessing the market

We do not try to second guess market performance over the short term. As Isaac Newton is reputed to have said: 'I can calculate the motions of the heavenly bodies, but not the madness of people.'

We take a long-term view and make the portfolios on a volatility basis, aligned with the client's appetite for risk.

We study the volatility of asset classes over a 10-year period. It varies little, so we believe all attempts to out-speculate the performance of different asset classes are a waste of time.

## Staying invested for the long-term

Performance results are generated not only by the portfolio, but also by the discipline of keeping the investment. Above are three real life cases which highlight the importance of this approach.

**Nicola Downs** is director of Trentham Invest

## PENSIONS DECISION

Mr B was sceptical of various pension companies. He had pensions with Aviva and AXA. He was making a decision about his final salary pension scheme and was anxious about what his best choice was.

We decided to consolidate the pension plan into one, along with the transfer of the final salary arrangement. In January 2006, the total amount consolidated was £326,854. As of January 2014, eight years later, the balance is £418,633. The total growth is £91,779 (28%) of the original investment.

The client's appetite for risk was rated a three and progressed during the term to a four. Again, the client was nervous about the growth of investments, and was focused on fees and the costs of investing.

Having seen the bigger picture and made the decision to consolidate, he then found the significant benefits of consolidating and having ongoing financial planning support.

## WORRIED ABOUT FEES

Mr P was considering a consolidation of a Sipp in 2007. Monies totalling £268,605 were moved into a wrap contract.

During this time, the client's attitude to risk was rated a four and by December 2013 the total valuation was £314,138. So total growth was £45,533 (16.95%). These figures are net of all fees for advice, transfer, ongoing monitoring, contract and so on.

People become too hung up on fees and let that take precedence over doing the right thing, which is to make the investment and start growing it.

Fees do need to be considered, but when people focus on them too intently, they lose sight of the big picture.

This client paid in a total of £260,605, and now has a fund value of £317,889, giving total growth of £57,294 (22%) over a six-year period. This period includes the meltdown in 2008 and the following recovery.

## WARY ABOUT INVESTMENT

Mrs G had been with a number of ISA providers. She had lost a lot of faith in the ISA investment market. She also felt she had been paying a lot of money into her ISA yet the valuation always seemed to be either equal to the amount paid in or negative to the amount paid in.

She and her husband were wary and suspicious of further investments, and did not believe the investment markets worked.

We supported them making ISA transfers in 2009 and 2010, with a total paid of £48,415. By November 2013 the valuation was £72,521. The client's attitude to risk was cautious. On a scale of one to 10, this resulted in a Risk four portfolio.

> We believe the difference between the top-performing and worst-performing fund manager is significant