ForresterHyde
CHARTERED FINANCIAL PLANNERS
Authorised and Regulated by the Financial Conduct Authority

A GUIDE TO MAKING INVESTMENT DECISIONS

Choosing where to invest your money for the future may be one of the most challenging decisions you will ever make. You want the best possible return for your money. But knowing where to invest it without taking unnecessary risks can be a daunting prospect.

We help you to make investment decisions that meet your needs. It is a four step process:

Step 1 – Assess the Investors Attitude to Risk

Before we can assess which investment strategy is most appropriate for you, it's vital that we understand your attitude to risk. To do this we use a questionnaire that has been specially developed in conjunction with an independent company, Oxford Risk Research and Analysis.

Oxford Risk Research and Analysis

Oxford Risk Research and Analysis are part owned by the University of Oxford. They are experts in the field of risk analysis. They have experience of creating risk and decision-making solutions in a diverse range of commercial industries, including insurance and government. Oxford Risk Research and Analysis have used the latest mathematical modelling techniques and the expertise of world-class scientists to produce a robust, effective and unique risk questionnaire, specifically created to

Once you have completed the questionnaire, you are given a risk score. The scoring system places you into one of five categories when it comes to how willing you are to accept risk (known as your risk tolerance).

- Low risk
- Low to medium risk
- Medium risk
- Medium to high risk
- High risk

The higher your rating is, the more willing you are to take greater levels of risk when making financial decisions. And the more willing you are to accept volatility in your investments (that is, changes in their value over time, both up and down).

Step 2 – Select an asset allocation to meet your objectives

Once we have assessed your attitude to risk, the next step is to understand what asset allocation suits you best.

Asset allocation is about getting the right balance in your portfolio between different types of investment, taking into account your financial goals and your attitude to risk. It is important to get it right as research has shown that more than 90 percent of investment returns are determined by effective asset allocation*.

*Source: "Does Asset Allocation Policy Explain 49, 90, 100 Percent of Performance?" by Roger G Ibbotson and Paul D Kaplan, Financial Analysts Journal, Jan/Feb 2000, Vol.56 No.1.

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How different types of asset compare:

Cash	Fixed Interest	Property	UK Equities	Overseas Equities
Cash is a very stable investment. But it normally provides the lowest potential returns.	Fixed interest investments (frequently called bonds) are fairly stable and relatively low-risk investments. Some are issued by Governments and others by Companies, in the UK and overseas.	Property is a reasonably stable investment over the mid to longer term. It isn't too volatile and investing in property can be a good way to diversify your portfolio.	Equities are at the higher risk end of the spectrum. They are volatile over short to medium terms but do tend to give a better return than other types of investment over the longer term.	Like UK equities, overseas equities are volatile and Currency risk tends to make them more risky than UK equities. But they do offer the opportunity to spread your equity investment across different markets and do have the potential to offer great rewards over the longer-term.
Important notes: *Please note that the value of investments in each asset class can go down as well as up. Past performance is not a guide to future performance but the information explains how these asset classes are historically related to each other. In the case of Overseas Equities, the Sterling Value of these assets may rise or fall as a result of exchange rate fluctuations.*				

Having a range of different assets can give you a better return for less risk than investing in one asset class alone. If you put all your money into one asset class (for example, UK equities), a fall in the market for that asset is going to impact all of your investment. But if you spread your money across different classes (for example if you invest in UK fixed interest as well as UK equities) you might find that a fall in the market for one asset class has less of an overall impact.

To help understand what asset allocation suits you best, we have adopted Ibbotson Associates methodology in succession to Tillinghast Towers Perrin. Ibbotson Associates are a leading authority on asset allocation, employing a statistical technique known as Mean Variance Optimisation. The aim is to identify asset allocations that maximise return for a given level of risk, or minimise risk for a given level of return.

ibbotson

Ibbotson Associates are a leading authority on asset allocation founded by Prof. Robert Ibbotson in 1977. Ibbotson was acquired by Morning Star in March 2006. The Company is a leading Provider of investment consulting services to Institutions specialising in innovative solutions for asset allocation problems.

Mean Variance Optimisation looks at the expected risk and return of each asset class, plus the correlation among asset classes, and determines which combination of asset classes will provide the highest expected return for any risk level. Ongoing, Ibbotson conducts resampling and sensitivity analysis to ensure the stability of the asset allocation recommendations under a variety of market scenarios.

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Step 3 – Build your investment strategy

Once we've agreed on the right asset allocation strategy for you, we'll select the most appropriate investments to go in your portfolio.

As well as the opportunity to hold your money in cash and to buy directly into stocks, shares and other types of asset, we have access to an extensive range of funds from which we can tailor make your investment strategy.

The aim is to combine investments that complement each other in a portfolio appropriate to your asset allocation strategy. For example, looking at funds in particular, you may not want to be locked into one investment style all the time, or into just one fund manager. Instead we might blend different investment styles and managers in your portfolio. The aim of this would be to achieve consistent performance over time without exposing you to unnecessary risk.

We are able to draw on the expertise of Old Broad Street Research (OBSR) and Financial Express to help in choosing the funds that best meet your needs. OBSR and Financial Express are both respected independent Companies. They both specialise in providing qualitative investment research and product analysis to financial intermediaries, life offices and investment houses.

OBSR uses an investment research approach that has been in place since 1994 and is founded on forward -looking, rather than backward-looking research. This leads to a strong emphasis on the qualitative aspects of research. Whilst their conclusions are informed by detailed statistical analysis, they are aware of past results rather than being driven by them. The key factors that underpin their research for each fund are:

- Strength of investment process and time it's been in place.
- Continuity of investment personnel.
- Investment style that has proven durable over time.
- Clearly defined investment objectives.
- Strong and consistent past performance record. Past performance is not a guide to future performance.

Financial Express is an authority on performance measurement, providing data, advice and consultation to fund management professionals and financial advisers.

Financial Express also uses this knowledge and expertise to publish sector and constituent performance, Crown Ratings and the Adviser Fund Index.

The Financial Express Crown Ratings are a quant-based ratings system designed to highlight funds that have had superior, consistent performance in relation to risk, relative to their peer groups, the fund sectors as defined by the IMA and the ABI.

Crown Ratings are compiled using three key measurements of a fund's performance - alpha, volatility and consistency.

The funds in each Portfolio will be blended to increase diversification and control risk. Blending means combining a number of funds that complement each other.

Step 4 – Review at Regular Intervals

By combining the expertise of specialist independent companies, our skills and knowledge, and the tools available to us through the online service provider we use, we're confident that the critical decision of where to invest your money will become a whole lot easier.

But it's important to remember that whilst you may have a specific set of objectives in mind when you make your initial investment, those objectives could easily change in the future. If they do, we might need to change your asset allocation and investment strategy.

Even if your objectives don't change, it's still absolutely vital to review how the funds in your portfolio have performed on a regular basis to retain your recommended asset mix, and – where necessary - rebalance the amounts held in each fund. If you don't carry out this regular rebalancing then you may find this will impact both on the overall return you receive and the level of risk you take taking with your investment.

We're here to work closely with you on an ongoing basis, regularly reviewing your portfolio to make your money work harder and help achieve your investment potential. Adding up to a service you'll really come to value.

Risk Categories

It is important to understand the real meaning of risk. This can be broadly defined in five categories:-

Low Risk – Conservative:
You are not prepared to substantially jeopardise the value of your invested capital, although accept in adopting this approach you may not see significant growth. The return provided, whilst secure, may not keep pace with inflation and in real terms effective purchasing power may be reduced. Traditionally the cautious Investor would have the greater part of their portfolio in deposit based savings to include; Banks, Building Societies and products available from the National Savings and Investment Department. On a risk scale of 1-10 investments in this category would be considered to have a rating of 1-3.

Low to Medium Risk – Cautious:
You would prefer to have most of your investments in more secure assets such as cash and fixed interest securities to not jeopardise the value especially in the short-term. You are nevertheless happy to have some stock market investment to provide some inflation protection and potential for long-term returns. On the same risk scale investments in this category would attract a risk attitude rated as 2-5.

Medium Risk – Balanced:
You are prepared for the possibility of your investments falling in value in return for the prospect of higher growth in capital than you could normally expect from deposit based savings. Examples of investment in this group would include an Insurance Company's With Profits and Property Funds, Corporate Bond Funds, International and UK Growth Funds and would be made across a range of sectors and specialist areas which could include; Healthcare, Financial Markets, Smaller Companies and Managed Funds. On the same risk scale investments in this category would attract a risk attitude rated as 4-7.

Medium to High Risk – Assertive:
These investments are expected to have a relatively significant risk of loss to capital value, but with the potential of relatively more capital growth over the long term. They do not offer any guarantees and will fluctuate in capital value. The sorts of investments that would be included in this category would be UK Equity holdings, Global Equities, Property, Emerging Markets and to a smaller extent Fixed Interest to include Corporate Bonds and Gilts. This risk parameter would be in the region of 5-8 on the scale identified.

High Risk – Aggressive:
The prospect of long-term capital growth in the value of your investments is your main priority. You are prepared to see more frequent fluctuations in the value of your investments in exchange for the prospect of higher returns that may be obtained. This category of investment would include Direct Equity holdings, specialist investment products and niche markets. This area of investment may include: Emerging Markets, Individual Shares, Specialist Technology Stocks and Venture Capital. This attitude would be rated 7-10.