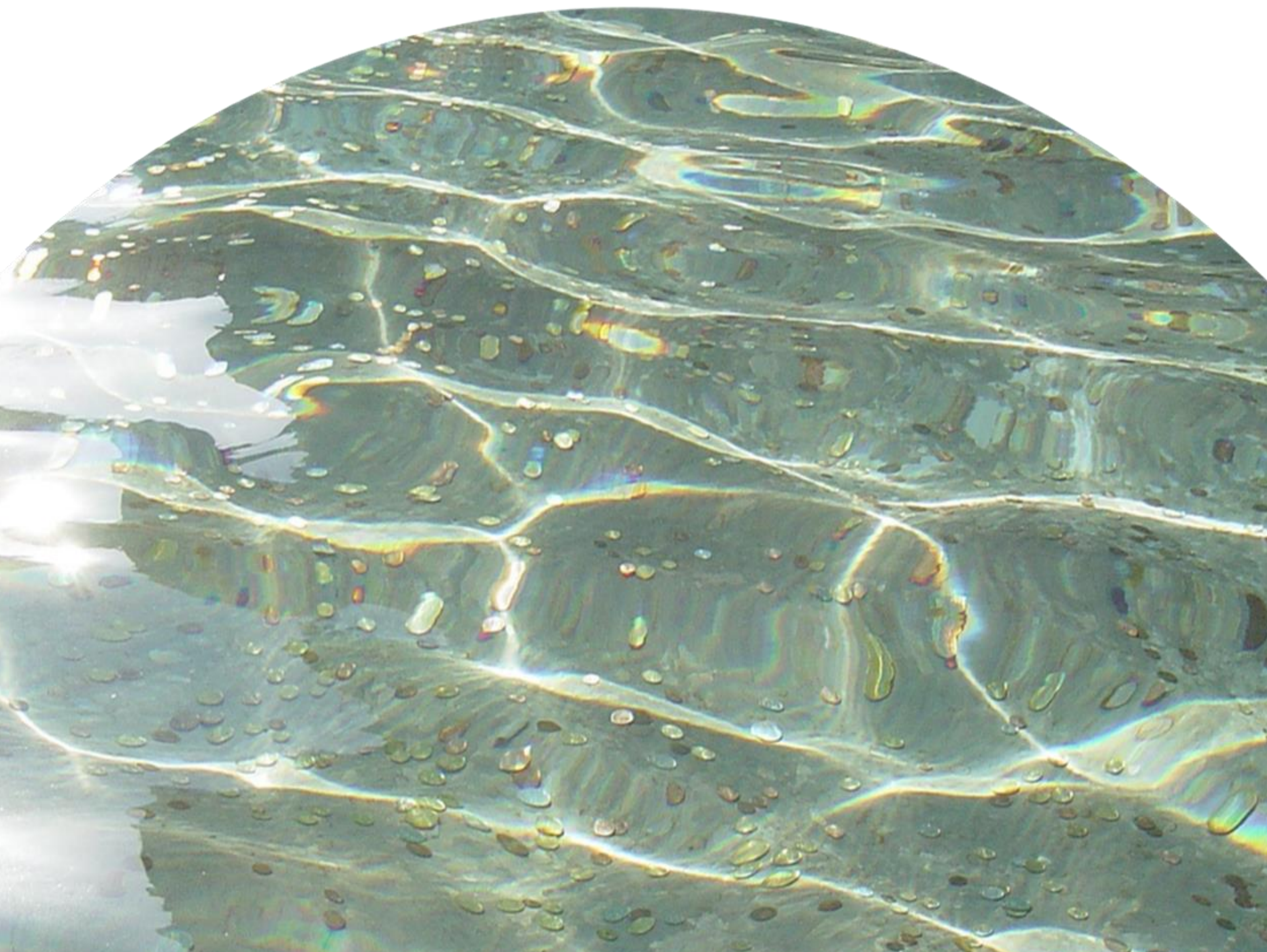
Acumen
Financial Planning

Our Approach to Investment

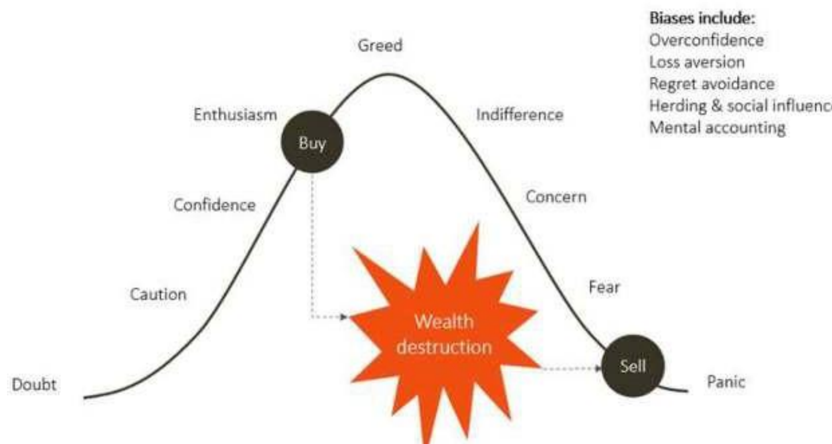


Financial Planning and investing for your future should not be a rollercoaster ride. It is the process of taking sensible steps to identify where you are at present and where you want to be in the future, then choosing a path to follow that gives you absolute confidence that you will reach your destination.

This document will help you understand the process we follow with our clients to ensure they reach their own future financial goals.

Making the right investment decisions is often a daunting task. Many of us lack the confidence and expertise to manage our own investments over the long-term. In addition, we recognise that our emotions can prevent us from making good decisions at key moments in the investment cycle.

Many investors will recognise the emotions on the investment cycle below. These can be destructive and can often limit our ability to make good, long-term decisions.



Our experienced financial planners are here to guide you throughout your financial planning process.

Trust is the key component that will make our relationship successful. We ask you to share with us your circumstances, your goals, and your fears, and we promise to help you through the challenging times ahead by helping you to fully understand every action we take and every recommendation we make to you.

Guiding Principles and Good Investment Discipline

Good financial planning needs to be supported by a robust approach to investing. There are several principles that need to be part of any sensible, long-term investment solution.

Capital & Markets

We live in a capitalist society therefore most assets are owned by companies and individuals rather than the state. This means that we have an opportunity to participate in the growth experienced by companies by buying shares in them. In addition, we can generate a less volatile return by lending to corporations or to governments over the short term.

Longer-term lending is often as volatile as share ownership, and we are therefore less inclined to recommend this type of asset.

Volatility, Returns and Growth v Defensive Assets

We understand that, given a choice, every investor would opt to have an excellent return with no volatility but, unfortunately, this is simply not possible.

By owning shares in a company, you would, quite reasonably, expect to share in its successes and disappointments. Owning the shares of just one or two companies is speculating, not investing. Owning the shares of a wide variety of companies is investing, and this reduces the risk specifically related to any individual company.

Short-term lending to large corporations and governments offers a less volatile return but rarely offers the potential for consistent growth ahead of inflation. We do, however, frequently recommend short-term bonds as defensive assets to balance against growth assets (shares) for clients who need some of their capital to be accessible to them.

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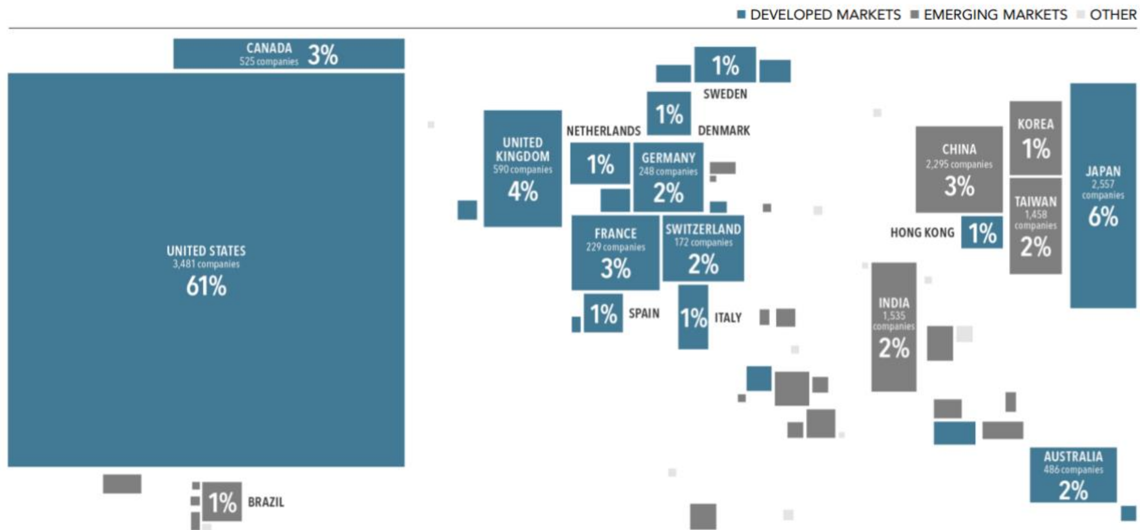
Asset Allocation – Where in the world will returns come from?

The unusual map of the world below lets you see the relative size of the various stock markets around the globe.



Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Dimensional makes case-by-case determinations about the suitability of investing in each emerging market, making considerations that include local market accessibility, government stability and property rights before making investments. China A-shares that are available for foreign investors through the Hong Kong Stock Connect program are included in China. 30% foreign ownership limit and 25% inclusion factor are applied to China A-shares. Many nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Data provided by Bloomberg.
Diversification neither assures a profit nor guarantees against loss in a declining market.

It may be surprising to see that the UK has 4% of the world's investment market despite having less than 1% of the world's population. This highlights that if you only invested in the UK, you would not benefit from the growth potential available from the other 95% of the world.

It is important to make sure your long-term investments have the maximum chance of success, which means diversifying your assets while being mindful of geographical issues and currency risk.

We take a robust approach to constructing portfolios for our clients and being able to benefit from opportunities around the world is a key factor in this process.

Managing Costs

With investment funds, you sometimes don’t get what you pay for!

In life, we usually expect to pay a premium for extra quality or for a greater level of expertise. Some investment funds fail to deliver on these expectations, are very expensive, and often do not deliver superior returns.

We will always be mindful of this and will keep your costs as low as they can be, while still paying for the expertise that we know is available from some long-running and successful investment companies.

Matching Assets to Goals

It is important to state that once an investment portfolio is in place, we need to continually revisit this and make sure your future requirements are being planned for.

This is likely to necessitate the needs to rebalance assets at least once per year. This will ensure sufficient defensive assets are held for future withdrawals and strong performing growth assets don’t accidentally move portfolios into a more volatile structure.

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What is the right mix of Growth and Defensive assets for you?

Often the balance between growth assets and defensive assets comes down to a "finger in the air" or "gut feeling" for what is right for you. Perhaps someone has asked you in the past, "how much risk would you like to take?"

This approach is generally unhelpful and often fails to provide the successful, long-term outcomes that we need to support ourselves and our families.

The purpose of defensive assets is not to reduce the volatility of your portfolio but to provide a source of capital should it be required, when growth assets are at depressed prices, i.e. during the financial crisis in 2008 or, more recently, the coronavirus pandemic of 2020.

This would suggest that a portfolio invested for the long-term with no need to liquidate funds within the next 5-10 years, should be close to 100% in growth assets. It also suggests that a portfolio invested for the long-term, but where some withdrawals will be needed, should have an adequate amount in defensive assets.

To be clear, defensive assets will reduce the growth potential of an investment portfolio but will provide security for necessary withdrawals when markets are depressed.

We will work with you to make sure you invest with the most appropriate asset mix for your circumstances.

It might be tempting to think, as you approach retirement, that you should convert your portfolio to mostly defensive assets, after all this is what you have been saving for.

But be careful – even though you have reached retirement, most of your capital won't actually be needed for many years to come. Switching from growth to defensive assets for more than your next five years of funding could seriously damage your retirement plans.

Working with a well-qualified and experienced financial planner will help you avoid making these intuitive but damaging decisions.

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How much is enough?

Is it even possible to predict your spending over the next 5-10 years?

Using financial modelling, we will work with you to establish your essential, discretionary and luxury spending requirements for the years ahead, and with prudent assumptions, give you a glimpse of what your financial future could look like.

This financial model will form the basis of the plan we implement with you. Like all good, long-term planning, we will help you build some security. We can this security "cover", and it could be set at a minimum, conservative or comprehensive level. Minimum and conversative cover may mean you delay some of your discretionary spending until a time that works best for your long-term success.

Threats to a Financial Plan

We will highlight and help you mitigate the key threats to your financial plan. Experience has taught us that the main risks to someone's plan are rarely related to the stock market. The bigger risks are often related to family, job security, health and poor financial decision making.

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Portfolio Construction

Blending Systematic Investing and Active Investment Management

The words "active" and "passive" are frequently used in the world of investment management. They try to describe the approach taken by investment managers when they are making decisions on behalf of their clients.

Active investment managers will try to limit their investment choices to those they think will perform best for their clients. They will research the market to try to establish the best opportunities available from the whole universe of investment opportunities. They may argue that a "passive" manager is diluting their clients' potential investment return.

They also, quite correctly, will state a large percentage of total returns come from a small percentage of holdings, so why invest in every company?

Passive investment managers will state that they are not "passive" at all. They are simply tracking the world's investment indices, i.e. if you want to invest in the UK, they may track the FTSE All Share index. They are essentially trying to invest in every firm within their chosen market, in the proportion that firm represents of that market. Arguable, a computer makes the investment decisions as it is simply tracking the market.

Passive investment managers may argue that "active" managers are too expensive, and the extra costs associated with all this research will reduce clients' returns, even if they do manage to beat the market which, again, they will say is unlikely.

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So, what is the best approach?

We believe that active managers should have a minor place within a client's portfolio. We will research the evidence and will not choose a fund unless it has a long track record of consistent success.

Return enhancing active funds may play a minority role within your portfolio, as we believe systematic investing (perhaps a better description than "passive") is the core of any well-diversified approach to long-term investing.

Using a blend of diligently researched, mainly systematic (passive, gives the best chance of long-term success, without jeopardising the safety of your portfolio.

Our Investment Committee, which is supported by independent third parties, is open-minded about where returns will come from in the future and will work hard to bring the greatest opportunity to our clients in an ever-changing world.

Environmental, Social, Governance – ESG Investments

Now more than ever, many investors look to align their investment portfolios with their own values. The world is a changing place, and many of us are eager to make sure we are more aware of how our money is being invested.

During our discussions with you, we will establish how you feel about ESG investing. We will tailor your portfolio to suit your own personal requirements.

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Summary

Predicting the future of an individual's finances and the investment returns they will receive is like predicting the UK's weather. We know there will be good days and bad days, and although we cannot predict exactly what will happen from one day to another, we can confidently say there will be weather in the future. This will include rain, snow, sunshine, warm days and cold days.

Like making sure we have clothes, strategy and technology to help us deal with the UK's weather, we need to have a robust financial plan stocked with the right assets to ensure each client reaches their financial destination without too much compromise. We look forward to joining you on your financial journey.