ifs Financial Management

A Guide to the Management of our Core Portfolios

Last updated 12th December 2011

Our Investment Philosophy

The Big Picture

It has been demonstrated that the vast majority of returns can be attributed to what has happened in the **market as a whole**, and not because of decisions by individual fund managers.

In short, whilst it is undoubtedly important to pick good fund managers, if you want to make money and control risks, you firstly need to look at the big picture!

Or to put it another way, it makes little sense holding a star fund, if the fund manager can only invest in assets that are just about to fall in value!

We therefore concentrate our research on watching the markets as a whole, and we move between fund managers and asset classes, depending on what is happening in the world.

Risk & Reward

Clearly no right-minded investor would hold an asset if they thought it was just about to drop in value.

One must therefore alter the asset mix as market conditions dictate - **risk management is an active discipline**!

So from the outset, we set clear targets for our investments, and react if these targets aren't going to be met.

Therefore, when we first start to build our core portfolios, our investment team seeks to determine the minimum return that each asset class must provide if we are going to justify holding it.

So for example, one would expect to earn more from share that property, as shares are more risky.

Then, once we've determined the minimum return that we seek for each asset, we look at the **current economic environment** to determine how likely it is that we will produce these returns in the short-term.

So for example, if we are heading into a recession, it becomes less likely that shares would grow at the required 10% - which might prompt a "sell" signal.

Building a Core Portfolio

Once we have defined the types of returns that we might expect from different assets classes over the longer-term, we then start to think about how we can blend them together to form an overall investment strategy.

Strategic Portfolios

We start off by building a core group of five "strategic" investment portfolios.

In other words, we blend different mixes of investments together to form a range of portfolios, each having slightly different risk and return profiles.

Our range of five portfolios then allows our clients to select the risk profile that they are happy with.

Each of the five portfolios provides differing degrees of exposure to a range of assets – cash, government bonds, shares etc…

So clients can choose from a very low-risk portfolio, right up to something more adventurous.

Changing The Asset Mix Over Time

Becoming active

Our initial “strategic” portfolios are only intended as a longer-term guide to how we want the portfolios to look.

But as we mentioned, risk management is an active discipline, and we therefore need to react to the markets in the short-term.

We need to make “tactical” decisions about what is happening in the markets!

So for example, we might advise clients to reduce their shares holdings if we fear that we’re heading into a recession.

These recommendations are driven by our ongoing research, and by watching the markets closely.

Our quarterly “Market Analysis” reports are available on the website – and in these reports we include a summary of our views about market conditions.

A Trading Strategy

Trading

We will notify those clients who subscribe to our “managed portfolio service”, when we feel that they need to alter their portfolios.

To make sure that we don’t lose sight of our objectives, our investment team then meets once monthly so that we can discuss our research, and agree on a trading strategy for the month ahead.

Furthermore, we get ready to trade from the outset - we build alternative portfolios, which can be enacted if the market goes up or down.

So we consider how best to take profits if the markets rise, and how to get in quick if the market falls, and we pre-book the portfolios accordingly, so that we are ready to react quickly if the markets move.

Please rest assured that before we make alterations to our client’s individual portfolios, we firstly send clients a valuation and a performance summary, which is reported in a fair and consistent manner.

At this time we will also provide a written explanation as to why we believe changes are required, and the nature of the changes we recommend.

And we will only make changes if you agree to our recommendations.

But don’t worry; we do the complicated work, and keep our actual advice simple!

ifs Financial Management

For more information contact:

IFS Financial Management Ltd
6a Castle Street
Christchurch
Dorset
BH23 1DT

Tel: 01202 49 66 88

Email: info@ifs-online.co.uk

www.ifs-online.co.uk