Our Investment Philosophy

1. ***Asset allocation approach which incorporates a Multi Asset platform***
2. ***Value principles***
3. ***Process over outcome/result - Long term investment process over short term results***
4. ***Rebalancing on a regular but practical basis***
5. ***Active management V Passive management***
6. ***Applying overall philosophy at appropriate levels of risk for the particular individual***
7. ***Valuations matter***

1. Asset allocation approach which incorporates a Multi Asset platform

Academic research suggests that the decision to allocate assets among various asset classes will far outweigh security selection and other decisions that impact portfolio performance. The endowment funds in the US have a long history of multi-asset class investing and many have built up a very strong track record of returns. Foresthill Financial Planning Ltd (as a member of the Trusted Advisor Group) adopts an asset allocation policy which is influenced by the US endowment fund model. Despite difficulties for some of the high profile endowment funds during the credit crisis, investors can still learn a lot from these funds in terms of the application of multi asset class investing.

An investment approach based upon investment across multiple asset classes is not a proprietary strategy. It is an approach recommended the world over, but one which is followed with almost total indifference. In our view it is important to formalise the process and set down the principles so that we avoid this tendency for indifference.

2. Value principles

We feel skill and hard work can lead to a "knowledge advantage," and thus to potentially superior investment results. In so-called efficient markets large numbers of participants are supposed to share roughly equal access to information and act in an unbiased fashion to incorporate that information into asset prices. We do not subscribe to this view. We believe less efficient markets exist where the application of skill and effort will eventually pay dividends to the investor. In these situations we believe in applying a robust investment strategy based on a sound and consistent investment process.

3. Process over outcome/result - Long term investment process over short term results

This process should be adhered to and not be hijacked by short-term trends or fashions. Investment is a profession which involves a combination of skill and luck. While luck plays a significant role, what we can measure in the short term may not be what matters in the long term. Ultimately, it is a good process that leads to good performance, accepting that process gets swamped in the short term by luck.

Clearly success is going to be measured by something observable and this will inevitably focus on results, but investors need to focus more on the process and how performance is generated. You can get lucky with investments via a bad process, but this is not a route to long term success.

4. Rebalancing on a regular but practical basis

Whilst it's not realistic for small retail investors to access the same assets as the large endowment funds, it is possible to adopt similar asset allocation principles. The ultimate goal of the endowments is to produce sufficient funds to provide scholarships, maintain libraries and museums, and to support teaching and research. The goal of the average investor (particularly pension investors) is not too dissimilar in terms of its goal of providing a pool of money from which to fund lifestyle & retirement activities.

The benefits that diversification provides goes hand in hand with rebalancing. Without rebalancing the total return will simply be the weighted average of the long term returns, providing no diversification benefit. Rebalancing benefits rise as volatility rises, so the greatest benefits come during periods (like 2008/2009) when there are wild movements in portfolios. Clearly, diversification does not assure a profit or protect against a loss, but it limits the damage inflicted by large downside events.

5. Active management AND Passive management

Despite the contention by promoters of passively managed funds that the majority of active managers do not beat the sectors ‘average’ performance standards, we still have faith in active management. While we do not dispute these facts, we feel the real question should be not how many active managers beat the ‘average’ but rather, how many are actually trying to do so! In ‘relative’ management analysis, the (self preserving) instinct is to stay with the ‘herd’. It may represent too much ‘career risk’ for an active manager to stray too far from the pack in investment management terms. Investment history is littered with stories of managers whose contrarian views got them sacked just before their convictions were proved correct. We seek out quality active managers who have the courage of their convictions and are willing to ‘swing the bat’.

All of this said there is still a place for passive management and the access it can offer to markets, sectors and certain investment themes. Where markets are well developed and display a high level of efficiency passive funds have a useful and cost effective role to play.

6. Applying overall philosophy at appropriate levels of risk for the particular individual

Superior investment performance is not our primary goal, but rather superior performance with less-than-commensurate risk. The emphasis at our firm is on consistency and protection and less on one-off high returns.

7. Valuations matter

While we believe that asset allocation is fundamental and we advocate a robust & clear long-term investment strategy with a long term view, we also realise that asset valuations are important. When investing a portfolio of assets, consideration should be given to the long-term valuation of any asset and this should have an influence on the specific asset mix chosen.