



## INVESTMENT - THE NICHOLLS STEVENS APPROACH

It is important that you understand that there is a risk in all types of investment, even cash and our fact sheet indicates this. The greatest risk to your capital is inflation, even if inflation rates are low you will wish to maintain the purchasing power of your capital and income for the long term. In judging the return from an investment you should ask yourself what additional return over inflation are you likely to receive for the risk you run. Markets rise and fall, economic cycles come and go, exchange rates vary. There are many variables and complex decisions which you need to take in conjunction with an experienced adviser

### THE NICHOLLS STEVENS APPROACH

Investment is not a gamble and none of us can read the future so it is our belief that you need a structured approach and a well spread portfolio in order to reduce risk

We use a five stage approach:

1. Your attitude to *risk* is assessed
2. Your long term *financial ambitions* are discussed
3. We work out what mix of assets you will need to meet those needs using certain assumptions. We call this your *asset allocation*
4. We then ***select suitable schemes and funds*** within the asset allocation
5. We regularly ***review*** the asset allocation and fund selection

#### **STAGE 1 - RISK**

Before starting out as an investor you must first establish how much risk you are prepared to take. You may think you are a risk taker but ask yourself how will you feel when your hard earned money is worth less than when you invested it. You will be asked to complete a simple questionnaire, which will help us to decide the level of risk you are prepared to take. We will discuss this with you

#### **STAGE 2 - THE FINANCIAL GOAL**

We will work out how much capital or income you will require to satisfy this goal. We can then work back and tell you what rate of annual return you will need to achieve in order to reach your goal. In some instances you will find that you will have to take an excessive amount of risk in order to obtain the goal and the plan may need to be modified

## STAGE 3 - ASSUMPTIONS AND ASSET ALLOCATION

### EXPECTED INVESTMENT RETURNS (ASSUMPTIONS)

We under note our estimate of expected investment returns over the next five years

<u>Type of Investment</u>	<u>return after expenses</u>	<u>return after inflation</u>	<u>% over cash</u>
Shares	6.5%	4.0%	100%
Fixed Interest	3.5%	1.0%	negative
Commercial Property	5.5%	3.0%	50%
Cash	4.5%	2.0%	n/a

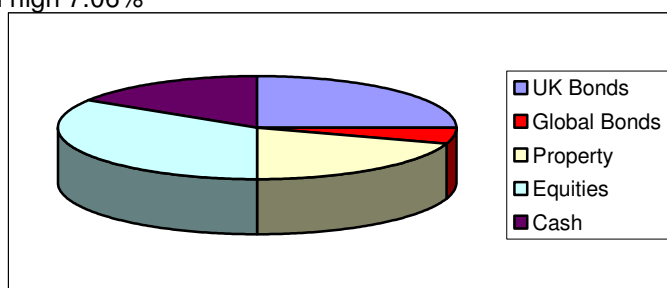
### RETURNS FROM DIFFERENT PORTFOLIOS

These illustrations predict the likelihood of turning £100,000 into £170,000 over a 10 year period using different asset allocation models It takes into account expenses but not inflation

#### Conservative Portfolio

The most likely return from this portfolio is 4.44%,(33% better than cash if you take into account inflation) low return 1.92% and high 7.06%

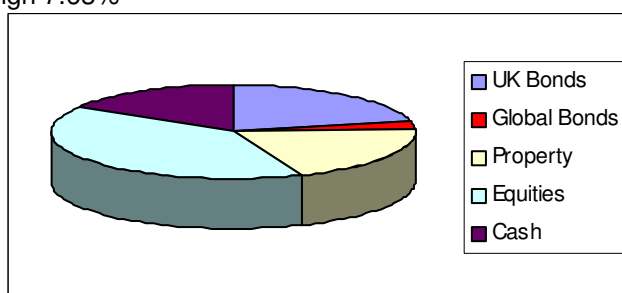
<b>UK Bonds</b>	<b>25%</b>
<b>Global Bonds</b>	<b>5%</b>
<b>Property</b>	<b>20%</b>
<b>Equities</b>	<b>34%</b>
<b>Cash</b>	<b>16%</b>



#### Balanced Portfolio

The most likely return from this portfolio is 4.66%,(41% better than cash if you take into account inflation) low return 1.91% and high 7.63%

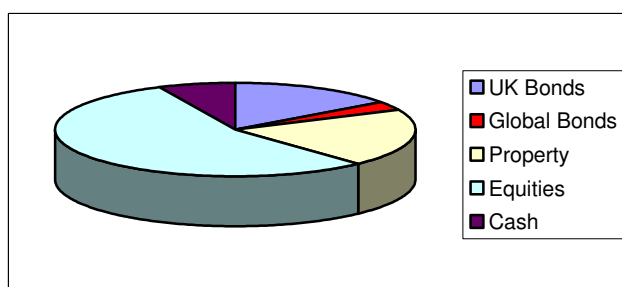
<b>UK Bonds</b>	<b>21%</b>
<b>Global Bonds</b>	<b>3%</b>
<b>Property</b>	<b>20%</b>
<b>Equities</b>	<b>40%</b>
<b>Cash</b>	<b>16%</b>



#### Balanced to Adventurous Portfolio

The most likely return from this portfolio is 5.4%,(56% better than cash if you take into account inflation) low return 1.79% and high 9.19%

<b>UK Bonds</b>	<b>15%</b>
<b>Global Bonds</b>	<b>3%</b>
<b>Property</b>	<b>20%</b>
<b>Equities</b>	<b>55%</b>
<b>Cash</b>	<b>7%</b>



## **STAGE 4 - SELECTION OF FUNDS**

- 1 We advise you on all the assets to go into the portfolio, including the cash element.
- 2 We are not Stockbrokers and do not advise on direct investments into shares or fixed interest securities. We have a good working relationship with a number of stockbrokers and can include the running of a direct share portfolio in the overall plan if required. We would receive copies of all valuations and include these assets in our overall asset allocation
- 3 Within each asset class there is a wide selection of funds from which we can chose and in order to reduce risk still further we will diversify within each sector as shown below:

### **Cash**

- Fixed term
- Easy Access
- Fixed rate Bonds

### **Fixed Interest**

- UK Gilt
- UK Corporate Bond
- Global Bonds

### **Property**

- Commercial Property bricks and mortar funds
- Overseas Property funds
- REITS
- Property share funds

### **Shares**

- UK equity income
- Tracker funds
- UK Growth funds including Special Situations
- Emerging market funds
- Ethical/Green funds
- Overseas funds

- 4 Having decided on the sectors and the percentages we then select managers. Our criteria is that the manager must have a 3 or 4 star rating and has demonstrated consistent performance in the past. We regularly attend meetings with fund managers and have access to their up to the minute views via teleconferencing and reports
- 5 We must stress that we are selecting managers whom we feel will manage your money well. We cannot guarantee this; managers change and different managers perform better at different stages of the market depending on their investment style. Within a portfolio we may well maintain a manager who does not appear to be performing well at present on the basis that his style will show good returns in the future.

We will simply weight the percentages with each manager according to style

- 6 Our management style depends on setting the parameters for the asset allocation and monitoring this. We do not predict changes in the market on a day-to-day basis although our access to information from fund managers enables us to compile a consensus view of possible outcomes.
- 7 We will never come out of the market in the event of a crash as the portfolios are designed for long term growth. If a client wishes to come out of the market at this point we will no longer be responsible for the performance of that portfolio
- 8 At all times we work on an advisory basis, i.e. we tell you what we recommend and ask for confirmation before proceeding

#### **STAGE 5 - REVIEW**

- 1 We review all the funds we use in depth once every quarter. We are preparing valuations for clients on a daily basis so any sudden change in the price of a core fund is quickly spotted and investigated. It must be understood that sometimes client's bring into their portfolio a fund which we do not normally monitor
- 2 At each review you will receive an up to date valuation of your plan with a report and comments. The report will include an overview of market conditions and a review of the performance of your particular funds against others in the sector
- 3 The report will also comment on the asset allocation and may recommend a realignment of funds to maintain the agreed allocation.
- 4 A switch of funds may be necessary if the manager has consistently under performed. We consider this if he or she is in the third quartile of his sector for two consecutive quarters without a logical reason
- 5 The aim of your portfolio will be to achieve the overall return, which was originally agreed. Your portfolio will be designed to achieve long term results so the return may not be achieved every year but should be achieved over a five year term
- 6 The performance of the portfolio cannot be directly compared with the performance of any index e.g. FTSE 100 because the portfolio is balanced to reduce risk