shawgibbs financial planning

Investing for Success

Investing money is one of those strange areas of life which is part science, part art and part prescience. Most people have heard horror stories, most people know someone who claims to have done fantastically well. On the one hand, the driver of greed acts to make us regret not being in the right place at the right time to make that big killing. On the other hand, the driver of fear makes us fret about getting out of the market every time our investment drops. In both cases, the driver of uncertainty leads us to do neither until greed or fear reach an unbearable level.

So why do people put themselves through this?

The simple answer is that if you do not invest, you will never achieve real growth. Without real growth, all your goals will have to be met directly from your income and for most of us this is just not feasible.

As financial planners, investment is an integral part of much of what we do and as a result we have developed an approach which we believe will allow our clients to have a successful experience. A lot of what we do is about control – controlling those things which can be controlled, such as cost, taxation and to a certain extent risk, and planning for those things which cannot be controlled such as what will happen in the world tomorrow.

Our process starts, as does our overall financial planning process, with identifying the goals that a client has, determining the financial need to meet these goals and the difference between what the client needs and what the client has.

The next stage is then to consider what risk means to each client. Risk is not an absolute. Risk is very individual and is often relative to an event or a timescale or an objective. Risk is not always about volatility, nor about losses. Sometimes risk can be about the impact of failing to achieve something.

So it is important to develop a common terminology in order to consider what level and what sort of risk is appropriate.

From this point we can begin to look at the balance needed between the potential returns and the potential risks of different types of investment, the impact of these on the financial plan and identify where a balance is not achievable to feed back into the discussion on goals and their financial consequences. This is where what “success” looks like can be defined, since it is not always about achieving the highest return but more often is about achieving the real goals that each client has.

Having been through this process we are then in a position to recommend an investment approach to a client which we believe is right for them, for their objectives, for their view of risk, for their capacity for losses and one which fits what we believe is the way to investment success.

So what are some of our beliefs?

- Cost is something that you can control. If an index tracker fund allows you to "buy" the UK stockmarket for less than 0.1% per annum, is it really worth paying 1% per annum for an actively managed fund that you hope might outperform the stockmarket?
- Tax is something that you can largely control. For example, some investments benefit more from being in an ISA than others, so think about what you invest in within your ISA and what you invest in outside your ISA to make the most of the tax advantages;
- Diversification is a good thing. When the banking crisis hit, between May 2008 and March 2009, the UK stockmarket fell by c43%. Over the same period the index which tracks UK Gilts rose by c14%. Before the banking crisis hit nobody was predicting what subsequently happened, so investing in just one of these investments would have been simply a bet;
- When you diversify, this means that there will always be something that you are invested in which isn't doing well. So it is no good looking at your diversified investments and thinking "if only I didn't have that one". You will always see one which it would be great if you didn't have at the moment, and which one it is will constantly change and you will never know which one it will be next;
- Rebalancing is a good thing. Although it can be tempting to hang on to an investment that is doing well and hope it continues to do so, studies of past performance have shown that this can lead to a higher level of risk creeping in to a portfolio than may be wanted. So find a balance which fits and if you change it, do so because you want to not just because that is how the investments have performed;
- Don't buy something simply because it was great last year or sell something simply because it wasn't. Reacting to short term investment performance will generally mean that you buy when investments are high and sell when they are low rather than the other way round;
- Projections will always be wrong. Anything which involves even one assumption of what might happen in the future will be wrong. The more assumptions that need to be made the more wrong it will be. Projections give you a broad brush idea of whether you are on target or not. As time goes on you need to go back to your projections, update them, change them and see if you are still broadly on track or not;

And finally, we believe that there is no single right way to achieve success. Just as what “success” looks like is individual, so there is no single right way to achieve that success. None of us know what is going to happen tomorrow, or next week or next year, which is why investing is where science meets art and to invest you must accept that there will always be something that you cannot control.

For more information please contact **Ed Gibson** at **Ed.Gibson@shawgibbs.com** or call **01865 292197**

Get in touch

Whether we are new to you, or you’d like more from us, contact us today:

OXFORD

264 Banbury Road, Oxford

OX2 7DY

01865 292200

LONDON

2nd Floor, 201 Great Portland Street

London W1W 5AB

0207 436 4773

contactus@shawgibbs.com

www.shawgibbs.com