

Build a structured portfolio

Put your investments on a firm foundation

A common mistake amongst savers and investors is maintaining an unbalanced mix of investments. For example, some have all their savings in cash deposits and miss out on the higher return potential of other types of investments. Others maintain a good balance between the different types of investment but then focus their portfolios on their home market, ignoring the benefits of international investing.

The three building blocks

There are three main types of investment available to investors - cash, bonds and shares (known as equities). The proportions you place in each should be based on your own particular circumstances, such as age and your attitude to risk. A general rule is to maintain enough in cash deposits to see you through any emergencies or likely expenditure in the next few years and then to start considering the other types of investment. When investing in bonds and shares it is a good idea to invest in a wide range in order to reduce risk. An ideal way to do this is through an investment fund managed by professional fund managers.

However, please note that the value of investments and the income from them can go down as well as up. You may not get back the original amount invested.

The table below suggests three portfolios to suit different types of investor. These are only illustrations and it is recommended that you consult us in order to establish a portfolio that is right for you.

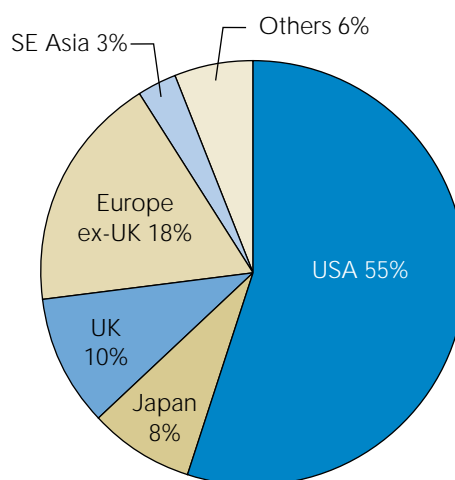
Telephone us on 0500 44 6060

	Cash	Bonds	Equities
A conservative portfolio	30%	50%	20%
A balanced portfolio	10%	40%	50%
A growth portfolio	5%	25%	70%

Diversifying internationally

A portfolio will normally contain a core UK equity holding. The next step in building a structured portfolio is to consider investing overseas. The UK stockmarket accounts for only around 10% of the world's companies by value and so investing globally opens up a much larger number of opportunities. The key benefit to investing across international markets is not only greater diversification but you balance out the movements of individual markets, which are subject to local influences. Again, an ideal way to gain access to overseas markets is through an investment fund managed by professional fund managers.

The relative size of the world's stockmarkets



Source: Morgan Stanley Capital International World Index as at February 2003.

Put a bit of style into your investing

A further step in structuring a portfolio is to consider the investment 'style' of funds which you may invest in. There are two main investment styles; 'value' and 'growth'.

'Value' investing is where the fund manager looks to invest in companies that they consider are under-valued by the market. These may be companies where, although the underlying business may not have great growth prospects, its worth is not reflected in its current share price for a variety of possible reasons.

'Growth' investing is where the fund manager invests in companies that they consider have above average growth prospects for the future - rather than focussing on what the company is actually worth at that point in time. Growth companies are typically young and innovative businesses. As their share price can be based on potential rather than actual earnings they tend to carry a higher degree of risk, but greater growth potential, than value companies.

'Value' and 'growth' companies tend to perform differently at various stages of the economic cycle, so to achieve a balanced portfolio, an investor may like to invest in both types of companies.

Know the facts about risk

Put risks in context

The word "risk" may sound alarming, but the concept of risk is something we deal with every day, in every aspect of our lives. Crossing the road, driving a car and ski-ing, for example, involve different levels of risk, but that does not mean there is anything wrong with them.

Risk and reward

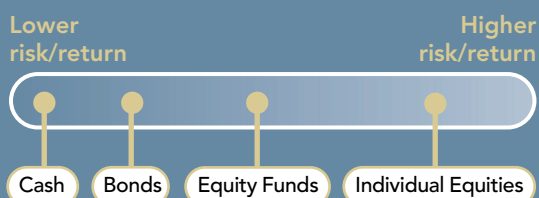
Similarly, different types of investments carry different levels of risk and these risks need to be considered against the potential rewards. A higher level of risk normally means that the potential reward to the investor is greater, although the chance of actually losing money is also greater. For example, the value of stockmarket investments unlike a building society account, will fluctuate. However, if held for the long-term, stockmarket investments have tended to provide a higher return than lower risk investments such as cash. However, please note that past performance is no guarantee of future returns.

The risk/return scale

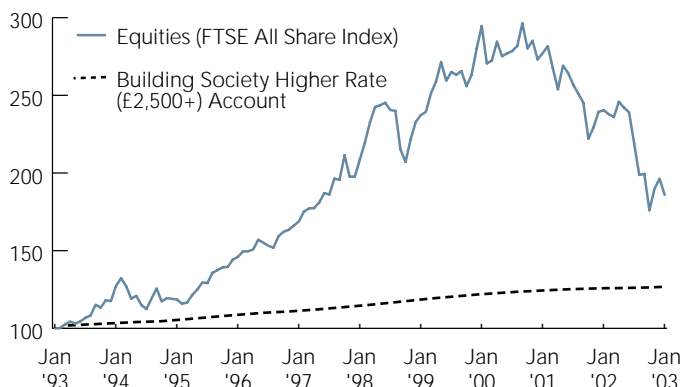
The diagram below illustrates the risk/return spectrum. The investments towards the left carry less risk, but have less potential for providing a higher return. Those at the other end carry more risk but also have more chance of giving you a higher level of return.

Deciding on what level of risk is right for you will depend on your own personal circumstances.

Contact us and we will be able to assist you in determining a portfolio of investments suited to your risk-tolerance and other needs.



Shares versus cash over 10 years



Source: Standard & Poor's 1/1/93 to 1/1/03, mid to mid, net income reinvested.

Is cash really risk free?

Cash is often regarded as a 'risk-free' investment. Your money is generally very safe – excepting the unlikely event that a bank or building society holding your cash goes bust. However, the risk with cash investments is inflation, which eats away at its purchasing power over time. Additionally, as cash can provide lower returns than other types of investment over the long-term, there is an 'opportunity risk' of not having more money in other types of investment. However, you should note that the value of stockmarket investments and the income from them can go down as well as up. You may not get back the original amount invested.

Time and risk

Research has shown that the longer you hold an investment the less chance there is of losing money. Looking at a 30 year period, an investment in the UK stockmarket lost money over 19.5% of one year periods. However, when looking at 10 year periods, an investment never lost money.

Source: Fidelity's research 1/2/73 to 1/2/03. Standard & Poor's. FTSE-A All-Share Index with net income reinvested. Cumulative returns over 1 and 10 years on all eligible time periods at one month start intervals.

Spreading the risk

An important element in lowering risk, particularly for higher risk investments, is 'diversification'. Diversification simply means investing across a broad range of shares instead of putting all your money into one company. By investing in a wide mix of companies, your investment will not be too adversely affected if one of the shares experiences problems.

Perceived risk

Investors tend to think that, when the stockmarket has been falling, investing in shares has become more risky. In fact, for the long-term investor, risk is no higher or lower after the market has fallen. Delaying investment when markets are falling would be a good strategy if you could predict the bottom of the market – but this is incredibly difficult and you run the risk of missing gains when markets recover.