

# *Client guide* to the **Albert Goodman** **Investment Philosophy**

## Summary

At Albert Goodman Chartered Financial Planners our investment philosophy aims to maximise returns for our clients based on a set of principles and strategies that guide and steer our investment decisions. It helps us to simplify a complex industry, allowing us to concentrate on our relationships with our clients, safe in the knowledge that we are doing our best to protect and grow their assets.

While investment performance hinges on many factors out of our control, most notably the return on markets, we can control other factors. These are the ones we deem the most important in creating and managing portfolios for our clients to invest in. One such factor is the cost of the investments we choose and what we look for when choosing the investment companies we do business with. It is important we can justify investment decisions to clients and make it clear why we have recommended that our clients invest their money in a particular way. Investments are a highly complex area, and our aim here is to give a summary. We will be happy to provide further information upon request.

You won't always need an investment solution, however if you do we believe that you should understand how we have reached our decisions as to the most appropriate investment solution for you. We will design an investment solution specific to your requirements, which is based on extensive research, performed over a period of decades by world leading Nobel prize-winning academics. A summary of these beliefs is as follows;

### **Markets work**

It is our belief that the collective knowledge of every investor worldwide is far greater than an individual or team of people. We believe that market prices reflect the expectations of all market participants. As such we are able to use the information that is contained in prices rationally.

### **Risk and return are related**

Investors are taking a risk with their capital and are therefore entitled to share any financial rewards - just as they should accept any losses.

We believe it is impossible to improve your investment return without taking more risk. The potential for financial loss you expose yourself to in taking a risk is also the reason you earn a return. There is good risk and bad risk and higher exposure to the right risk factors leads to higher expected returns, but is no guarantee of them. Risk is the premium investors pay for the expectation of a greater return.

<sup>1</sup> Source: Various. Including: Booth, D. (2009) Asset Allocation. Fama & French (1996) Multifactor Explanations of Asset Pricing Anomalies, Fama, E (1998) Market Efficiency, Returns & Behaviour Finance, Ibbotson, R (2000) Does Asset Allocation Policy Explain Performance, Jeske, K. (2001) Equity Home Bias and Sharpe, W. (1991) The Arithmetic of Active Management.

## **Your Preference for Investment Risk and Capacity for Loss**

Nobody wants to incur investment risk for its own sake. We understand that investment risk is taken in order to enhance the potential returns that can be achieved, which for the majority of investors is an important part of achieving long term financial goals. We also understand that, for most, taking too little risk is a risk in its own right, as this will increase the likelihood of an investor running out of money during their lifetime. It is well known that the greater the level of investment risk taken, the greater the potential for gains, but also the greater the chances of losses too.

Everybody's need, and preference for investment risk is different, and is built up over years from personal experience, and understanding. Within the context of your aims and objectives as an investor, we aim to determine how much risk is appropriate; the starting point for this process is our risk profiling questionnaire. The answers from this document and our wider discussions assist us in recommending a portfolio which is appropriate for your individual financial needs. With this information we can then use the tables on Page 8 to consider with you whether this portfolio will meet your needs, aims, objectives and the level of risk with which you are comfortable.

### **Diversification is essential**

Our investment portfolios are very highly diversified. They hold the shares and bonds of many companies and governments in many countries around the world. Because we believe in the power of capital markets rather than individual predictions or judgements, we are able to invest our clients' assets in many thousands of individual investments. This means the influence of each individual investment is reduced, producing, on aggregate, less risk in our portfolios.

### **Structure (Asset Allocation) drives returns**

Following the whole market or sections of it through index-tracking funds is a worthwhile low-cost way to gain exposure to markets, however academic research identifies particular areas of the market that have reliably rewarded investors over time.

These dimensions of higher expected return in the global equity market are;

- Equities (shares) outperform bonds (fixed interest)
- small companies outperform large
- value companies outperform growth
- high profit companies outperform low profit companies

And in the global fixed income market;

- bonds with a shorter term are less volatile than those with a longer term
- bonds from higher quality issuers are less volatile than those from lower quality issuers.

Our aim is to increase expected returns and control volatility by constructing our clients' portfolios to outperform the average investor, without taking the risk of relying on predictions or concentrating investments too narrowly.

Having identified these dimensions of higher expected return, we are careful to ensure that our clients benefit from them through our portfolios, by 'tilting' each portfolio towards these areas. This discipline can enhance investment returns.

### **Information vs. Noise**

Markets are frenetic, energetic and ever-changing, requiring those who are actively involved in them to be constantly plugged in and switched on. This does not mean that as an investor you must be too; to be a successful investor you do not need to constantly react.

The investment management industry and financial press perpetuates this myth with daily chatter, tips, predictions, warnings, speculation and advice. This material is produced by competitive media and fund sales industries that survive by attracting attention to themselves. But virtually none of this information is of use to investors. It is entertainment, not information. Our investment philosophy is based on information, and is rooted in the work of academics with no vested interest in selling investments or filling column inches.

## **Cost matters**

Management fees, taxes, expenses and transaction costs incurred in the management of a portfolio have a direct impact on returns so managing costs is as important as managing investments. Good investment performance can be wiped out by high costs or a failure to seek tax efficiency. All other things being equal, we seek the most cost-efficient route to market returns.

Passive investments generally cost less than the average actively managed investment by minimising trading costs and eliminating the costs of researching stocks.

The cost of our investment solutions are extremely competitive. The average charges for a Managed Fund, made up of Annual Management Charge, registration, audit and depositary fees is in the region of 0.75 – 1.25%pa , whereas our portfolios are all 0.39%pa or below, typically with no entry or exit costs.

## **Investor discipline is important**

Investing will always have highs and lows of emotion. If you consider the typical behaviour of the vast majority of investors, you can understand why. When an upward trend emerges, many investors follow the trend but only buy-in once they are convinced that it is for real. Unfortunately, this can be close to the point that all the gains have been had and the trend reverses. Too often, it is emotions that drive investors and the result is that they can buy high and sell low. We help and advise our clients not to lose out by reacting in this way, but to hold firm, safe in the knowledge that returns should be achieved in the longer term.

Research tells us that trying to 'time' the market too often fails, and that the most effective way to enhance returns is to stay invested.

**In Summary - We adopt an 'evidence based' investment approach**

## **Your Objectives as an Investor**

It is essential throughout your relationship with us that you understand why and how you are investing your money. This should be explained to you by your adviser in terms that you understand. If this is not the case please ensure you ask us to provide further clarification. Our aim is to deliver to you a simple to understand but sophisticated investment strategy that is aligned to you achieving your financial goals.

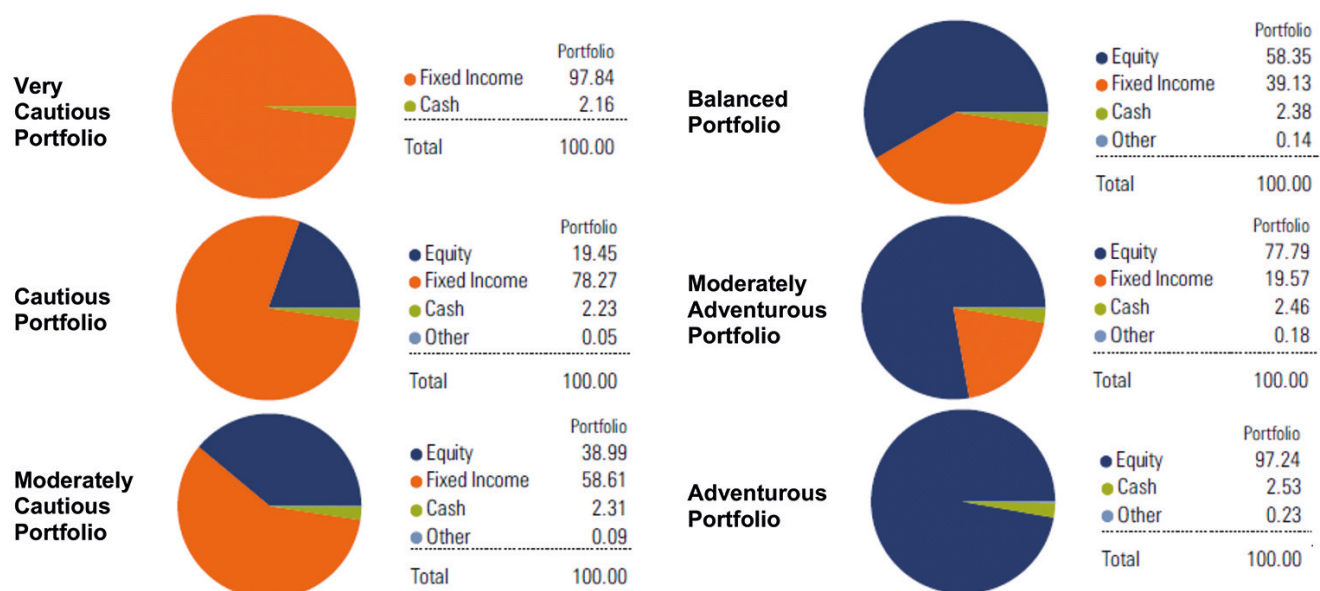
In order to build such a strategy we also need to fully understand what these goals are, and what your timeframes are. These objectives are personal to you, and form the foundation of our advice and recommendations, now, and on an ongoing basis.

<sup>2</sup> Source: moneyadvice.service.org.uk 2018, excluding entry or exit costs.

## How are Our Portfolios Constructed?

The Portfolios range from Very Cautious to Adventurous, and are constructed using the Investment Philosophy detailed above.

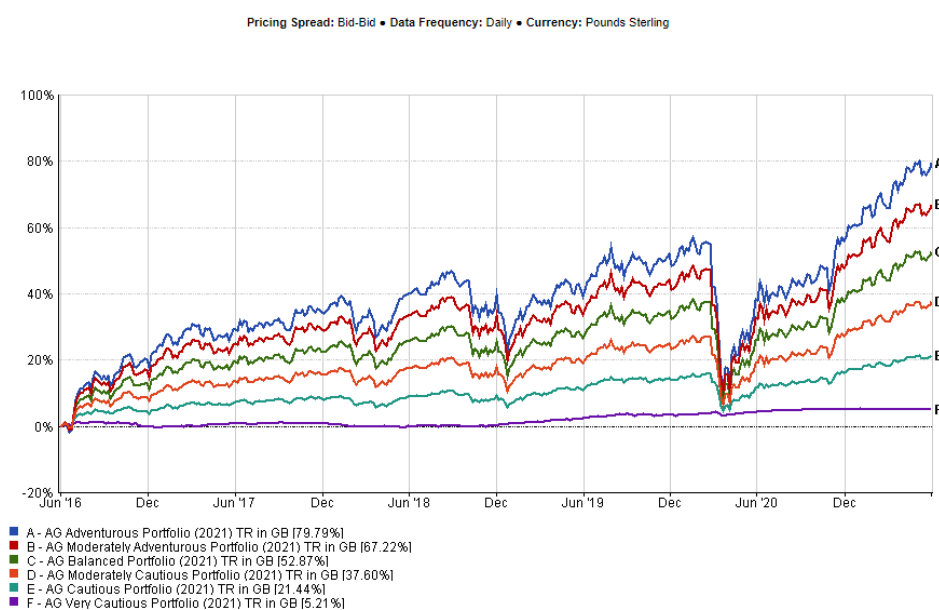
Asset Allocation is the key driver of investor returns. The Albert Goodman Portfolios are therefore constructed as follows, to reflect a range of allocations to Equities, Commercial Property, Bond and Fixed Interest investments, in order to reflect different clients' needs, balancing risk and return as follows.



These Portfolios are monitored on an ongoing basis, and a full investment review is performed by the Investment Committee each quarter.

## Historic Returns

The graph below shows the returns that have been achieved by our portfolios.



01/06/2016 - 01/06/2021 Data from FEfundinfo2021

As you would expect, the higher risk asset allocation (those with a higher percentage in risk assets such as Equities) have outperformed the lower risk portfolios (with a higher percentage in Bond and Fixed Interest assets) but with considerably more rises and falls in value.

Source: FE Analytics 02/06/2021

## Diversification

The portfolios are invested in equity, commercial property, fixed interest and bond assets, and are also highly diversified amongst underlying holdings. Why Diversify? The grid below shows how difficult it is to predict the top performing asset class in each year.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
UK Property Shares 45.3%	EM Equity 48.8%	UK Property Shares 47.9%	Emerging Market Equity 36.2%	Global Govt Bonds 50.7%	Emerging Market Equity 64.1%	Private Equity 41.1%	Index-Linked 19.9%	Private Equity 25.7%	Private Equity 41.2%	US Equity 20.9%	Japan Equity 16.5%	US Equity 33.6%	Emerging Market Equity 25.4%	Global Govt Bonds 5.3%
Private Equity 15.1%	Japan Equity 40.8%	European Equity 20.5%	Gold 27.6%	Gold 42.8%	Private Equity 47.6%	Gold 34.7%	Gilts 15.6%	UK Property Shares 25.4%	US Equity 29.8%	Index-Linked 19.0%	UK Property Shares 8.2%	Commodities 33.4%	Private Equity 16.6%	Gold 4.4%
Emerging Market Equity 14.4%	Private Equity 39.4%	Emerging Market Equity 17.9%	Commodities 20.6%	Emerging Market Bonds 22.5%	UK Equity 30.1%	Emerging Market Equity 23.9%	Gold 10.3%	Emerging Market Equity 17.4%	European Equity 24.5%	UK Property Shares 15.7%	US Equity 7.2%	Emerging Market Equity 32.6%	Japan Equity 15.6%	US Equity 1.5%
UK Equity 12.8%	Commodities 33.0%	UK Equity 16.8%	European Equity 17.1%	Gilts 7.4%	European Equity 14.8%	Commodities 21.8%	Emerging Market Bonds 9.8%	Corporate Bonds 15.6%	Japan Equity 23.8%	Corporate Bonds 12.2%	Emerging Market Bonds 7.0%	Emerging Market Bonds 31.5%	European Equity 13.6%	Emerging Market Bonds 1.2%
European Equity 12.6%	Gold 30.6%	Private Equity 13.5%	Global Govt Bonds 7.6%	Cash 6.2%	US Equity 14.5%	US Equity 19.2%	Global Govt Bonds 8.0%	European Equity 14.8%	UK Equity 20.8%	Emerging Market Bonds 12.2%	Private Equity 6.6%	Gold 29.6%	UK Equity 13.1%	Gilts 0.6%
Index-Linked 8.5%	Emerging Market Bonds 23.4%	Gold 9.4%	Cash 5.9%	Index-Linked 3.7%	Gold 14.4%	Emerging Market Bonds 16.0%	Corporate Bonds 5.4%	Emerging Market Bonds 13.2%	UK Property Shares 19.1%	Gilts 7.1%	Global Govt Bonds 2.0%	Private Equity 29.3%	US Equity 11.2%	Cash 0.3%
Corporate Bonds 6.9%	European Equity 22.5%	Cash 4.7%	UK Equity 5.3%	Japan Equity -0.6%	Emerging Market Bonds 13.9%	UK Equity 14.5%	US Equity 2.5%	UK Equity 12.3%	Hedge Funds 6.4%	Emerging Market Equity 5.6%	European Equity 1.1%	Japan Equity 24.6%	UK Property Shares 10.3%	Index-Linked -0.3%
Gilts 6.6%	UK Equity 22.0%	Hedge Funds 4.3%	Index-Linked 5.3%	Corporate Bonds -8.5%	Hedge Funds 13.4%	Japan Equity 13.5%	Cash 0.8%	US Equity 10.8%	Emerging Market Equity 3.8%	Global Govt Bonds 5.1%	UK Equity 1.0%	Index-Linked 24.3%	Corporate Bonds 5.0%	Corporate Bonds -2.2%
Hedge Funds 6.0%	UK Property Shares 21.2%	Index-Linked 2.9%	Gilts 5.3%	Commodities -11.8%	Corporate Bonds 12.3%	Index-Linked 8.9%	UK Equity -3.5%	Gilts 7.6%	Corporate Bonds 1.9%	Gold 4.5%	Cash 0.6%	Global Govt Bonds 21.2%	Hedge Funds 3.7%	Commodities -5.8%
Japan Equity 4.9%	US Equity 16.9%	US Equity 1.7%	Emerging Market Bonds 4.9%	US Equity -14.5%	Commodities 12.0%	Corporate Bonds 8.7%	Commodities -7.8%	Japan Equity 3.7%	Index-Linked 0.5%	Japan Equity 3.0%	Corporate Bonds 0.6%	European Equity 20.2%	Gold 3.2%	Hedge Funds -6.9%
Cash 4.6%	Corporate Bonds 12.2%	Corporate Bonds 0.8%	Hedge Funds 4.5%	Hedge Funds -22.9%	UK Property Shares 11.8%	Global Govt Bonds 7.4%	Hedge Funds 1.4%	Hedge Funds 3.4%	Cash 0.5%	Private Equity 2.5%	Index-Linked -1.0%	UK Equity 16.8%	Index-Linked 2.3%	Japan Equity -8.8%
Commodities 4.2%	Index-Linked 9.0%	Gilts 0.7%	US Equity 4.1%	European Equity -28.0%	Index-Linked 6.4%	Gilts 7.2%	UK Property Shares -10.1%	Gold 2.3%	Gilts -2.0%	UK Equity 1.2%	Hedge Funds -2.4%	Corporate Bonds 11.8%	Gilts 1.8%	Emerging Market Equity -9.3%
Emerging Market Bonds 4.0%	Gilts 7.9%	Emerging Market Bonds -3.5%	Corporate Bonds 0.2%	UK Equity -29.9%	Cash 1.5%	Hedge Funds 4.8%	Japan Equity -11.2%	Cash 0.9%	Global Govt Bonds -5.2%	Cash 0.5%	Gilts -4.9%	Gilts 10.1%	Cash 0.3%	UK Equity -9.5%
US Equity 3.2%	Cash 5.0%	Global Govt Bonds -6.8%	Private Equity -6.7%	Emerging Market Equity -36.6%	Japan Equity -0.2%	UK Property Shares 1.9%	European Equity -17.6%	Index-Linked 0.6%	Emerging Market Bonds -8.4%	Hedge Funds -2.8%	Gold -5.3%	Hedge Funds 1.4%	Emerging Market Bonds -0.2%	Private Equity -9.8%
Global Govt Bonds 2.7%	Hedge Funds 4.0%	Japan Equity -7.7%	Japan Equity -9.5%	UK Property Shares -46.6%	Gilts -1.2%	Cash 0.7%	Private Equity -17.6%	Global Govt Bonds -2.8%	Commodities -11.3%	European Equity -3.0%	Emerging Market Equity -5.4%	Cash 0.5%	Global Govt Bonds -1.8%	European Equity -11.1%
Gold -4.1%	Global Govt Bonds 3.8%	Commodities -14.6%	UK Property Shares -36.7%	Private Equity -64.3%	Global Govt Bonds -7.0%	European Equity -0.6%	Emerging Market Equity -18.1%	Commodities -5.4%	Gold -29.4%	Commodities -11.8%	Commodities -20.3%	UK Property Shares -12.4%	Commodities -7.2%	UK Property Shares -17.5%

As you can see, it is impossible to predict which will be the top performing asset class in any given year, and so we do not believe it appropriate to try to do so. We do not speculate with our clients' money, in the hope that we can predict the best performing asset for the next year. We invest with the aim of achieving returns by accessing a highly diversified spread of markets and assets.

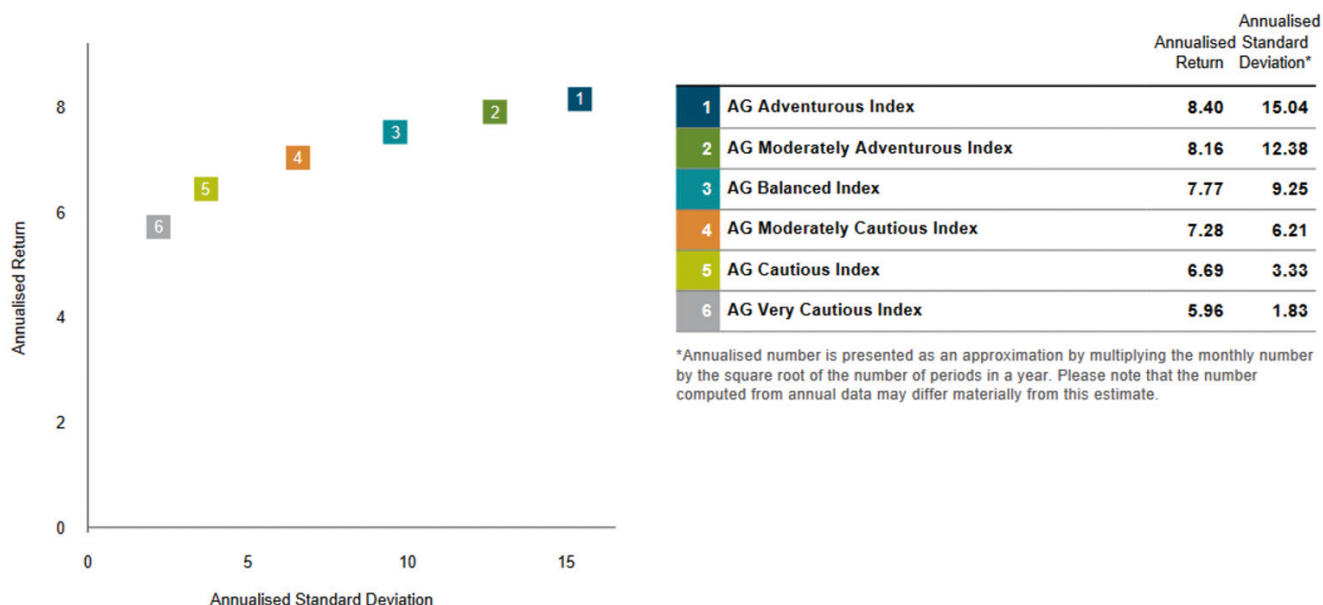
## Historic 'Best/ Worst' Returns

When investing to meet your objectives it is important to consider not only your risk preference, but how this might affect different outcomes. I show below the returns from the asset classes used in our portfolios to give an idea of the highest and lowest annual returns which have been achieved by the asset allocation of the portfolio selected.

	AG Very Cautious Portfolio (%)	AG Cautious Portfolio (%)	AG Moderately Cautious Portfolio (%)	AG Balanced Portfolio (%)	AG Moderately Adventurous Portfolio (%)	AG Adventurous Portfolio (%)
1 Year Total Return	0.16	6.82	13.96	21.42	29.37	36.40
3 Year Annualised Return	1.78	3.91	5.95	7.90	9.77	11.26
5 Year Annualised Return	0.99	3.61	6.29	8.94	11.58	13.76
10 Year Annualised Return	1.52	3.56	5.54	7.49	9.41	11.00
20 Year Annualised Return	3.29	4.71	5.96	7.12	8.19	9.02
Annualised Return 01/1988 – 04/2019	5.76	6.74	7.60	8.34	8.99	9.46
Annualised Standard Deviation 01/1988 – 12/2018	1.83	3.31	6.19	9.24	12.36	15.02
Lowest 1 Year Return (& Date)	<b>-0.94</b> 09/17-08/18	<b>-2.72</b> 03/08-02/09	<b>-11.03</b> 03/08-02/09	<b>-18.90</b> 03/08-02/09	<b>-26.46</b> 03/08-02/09	<b>-32.61</b> 03/08-02/09
Highest 1 Year Return (& Date)	<b>18.79</b> 05/90-04/91	<b>23.38</b> 09/92-08/93	<b>34.15</b> 09/92-08/93	<b>45.63</b> 09/92-08/93	<b>58.05</b> 09/92-08/93	<b>69.30</b> 09/92-08/93
Lowest 3 Year Annualised Return (& Date)	<b>0.18</b> 10/15-09/18	<b>1.12</b> 04/17-03/20	<b>-0.92</b> 03/06-02/09	<b>-4.48</b> 03/06-02/09	<b>-8.11</b> 03/06-02/09	<b>-11.25</b> 03/06-02/09
Highest 3 Year Annualised Return (& Date)	<b>16.44</b> 03/90-02/93	<b>17.73</b> 10/90-09/93	<b>19.97</b> 10/90-09/93	<b>22.90</b> 02/91-01/94	<b>25.83</b> 02/91-01/94	<b>28.26</b> 02/91-01/94

## Risk Versus Return

The following shows the relationship between risk and reward, based on the different portfolios. As we would expect, the higher the risk, the higher the returns that are achieved on average.



Standardised Deviation is a measure of risk, and indicates how much returns vary from the average. Those that deviate a small amount are considered to be lower risk, and those that deviate by a higher amount are considered to be higher risk.



## Conclusion

Finally, investing is not the end, but the start.

Our vision at Albert Goodman is "To be the one firm that contributes the most to our clients' success". You will see this on the wall of all of our offices.

Our role as financial planners is to clarify what is important to you, and to assist you in achieving your long term your financial goals.

Our investment process will be continually reviewed by our internal investment committee, with oversight by an external, independent consultancy group. The research and evidence is analysed on an ongoing basis for any changes, and supports our core philosophy and belief in taking an 'Evidence Based' approach to investing.

We enjoy our work, and the long term, valuable relationships we have with our clients. We look forward to working with you each year to help you to achieve your short, medium and long term financial goals.

Please contact our Financial Planning Teams at Taunton or Weston-super-Mare on [taunton@albertgoodmanccfp.co.uk](mailto:taunton@albertgoodmanccfp.co.uk) or [weston@albertgoodmanccfp.co.uk](mailto:weston@albertgoodmanccfp.co.uk)

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