Football - The investment game

It can get quite complex when we're talking about our investment process as quite a lot of technical analysis goes into it. However, we've tried to simplify it below by using a football analogy which we hope will bring it to life a little bit more.

The picture below outlines the basic process that we follow with our clients:

Step 1 : Assess Risk Profile

Step 2 : Identify Asset Allocation & Tax Wrapper

Step 3 : Select appropriate funds

Bury Financial Advisers believe the next few steps are the most important and not all advisers follow these:

Step 4 : Monitor & Evaluate

Step 5 : Review & Switch

Using a football analogy, these steps can best be described as follows:

In step 1, we use the Risk Profiling Tool from Skandia Investment Solutions to ascertain, along with our own discussions, a risk profile score of 1-10. This could be described as the team's playing style from Very Defensive (must not concede) to Very Adventurous (don't mind conceding 6 but try to score 7).
In step 2, we then feed this risk profile score into an Asset Allocation tool provided by Towers Watson

which provides us with what they feel is the 'ideal' asset mix for a given level of risk. What this means is that they dictate how much should be in each asset class like UK Stocks & Shares, North American shares, Commercial Property etc.

Another way to look at this is to take the team's playing style and select a formation based on this. If you are very adventurous, you may choose to play an Ossie Ardiles style 1-1-9 formation and have all attackers (the riskier asset classes) and less defenders (the safer asset classes). Whilst you are likely to score more goals, there is also the real risk that you will concede more also, i.e there is a greater potential for high scoring wins (gains) but at a higher risk of suffering large defeats If you were very defensive, you may play a 9-1-1 formation which would mean fewer opportunities for scoring but also a lower risk of suffering high losses. The other risk profiles would fall in between, 4-4-2 may be a risk 5/10. Of course, this depends upon having the right players, which brings us on to step 3…

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In step 3, we aim to identify the players (fund managers) that we feel will perform in each position (asset class) by looking at how they have consistently performed. One thing to note is that we are not looking for one-season wonders so we wouldn't automatically choose the highest goal-scoring attacker – we would want them to consistently perform season after season.

The way we do this is by assessing how the manager has run their fund, whether they have been an excessive risk taker and what return they have got.

Think of this as looking at the Opta Stats taken over a number of seasons: rather than automatically choosing the highest scorer, we may look at number of shots, percentage of shots on target, conversion rate, speed, distance covered and disciplinary record.

We would argue that the player with the consistently best statistics is most likely to deliver the best results in the future. So we've ascertained the playing style (risk profile), selected the formation (asset class) and chosen the players (funds);

what next? Many advisers do steps 1-3 above but then negate to do steps 4 & 5 which we feel are the most crucial.

Alex Ferguson is not playing with the same team that he inherited in 1986. He has continually monitored and evaluated **(step 4)** his players over that time and hasn't been afraid to switch them **(step 5)** when they became too old, injured, or a better alternative became available.

We like to take the same approach to investments. In the same way that top flight football has moved on immeasurably from the late '80s, the economic situation constantly changes and it's important to make sure that your investments are still doing the job they were meant to do.

Are you regularly updating your investments or is Paul McGrath still playing for you?

The value of your investment and any income from it may go down as well as up. You may not get back the original amount you invested. Tax treatment is dependent upon individual circumstances and may be subject to change in the future'