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THE Adviser
Bury FINANCIAL ADVISERS LTD

The First Cut is the Deepest

When an individual takes the plunge of making their first investment they must confront a sea of market uncertainty. Throughout my time of being a Financial Adviser there has always been positive and negative arguments over the short term direction of investment markets. Confronted with this uncertainty some plunge headlong into the market with all their savings. Others, who perhaps don't receive independent advice, barely wet their feet before heading back to the safe shores of their bank account. The problem with these two, all-or-nothing approaches is one of timing. There is always the risk of entering the market at a high point in the market cycle. This risk reduces by the longer the time horizon of the investment.

Pound- cost averaging offers an alternative/ complimentary strategy which can help reduce the risk of market timing over time.

The Concept

Pound-cost averaging is a basic investor concept. That is to invest a fixed amount at regular intervals and continue to do so over a long period. The result is that more units of a fund are purchased when prices are low and the units purchased are worth more when prices are high. This can result in a lower average cost per unit over time and more profit in the long-run.

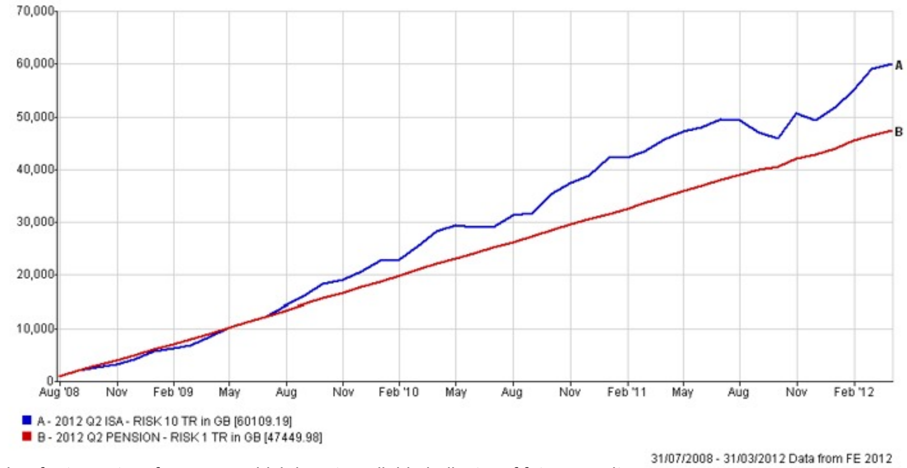
This approach requires no forecast of market direction. It requires only a basic discipline of investment over all market situations. This over the medium to longer term can provide substantial benefits. I think we all recognise that investment markets will not continually rise year on year forever and similarly they won't fall in value every year. It is this volatility that makes regular premium investors profits in the medium to longer-term.

For those who have already made significant lump sum investments an additional regular premium alongside can help reduce the risk to their overall portfolio.

For example, someone who has invested £100,000 in one of our portfolios runs the risk that the units they have purchased can go up or down. Clearly we hope those units go up in value but there is no guarantee of this. A regular premium alongside this lump-sum investment can help reduce the risk to their portfolio. If the units fall in value, the regular premium adds more units which as investment markets turn positive show healthy profits. Alternatively, if units continually rise in value the average cost per unit will be less than the value in the future.

Continued

The Evidence



The figures in the graph refer to past performance, which is not a reliable indicator of future results

This graph above shows how £1,000 per month invested on the first of the month in our risk profile 10 portfolio and risk profile 1 portfolio would have performed since launch. I am not highlighting the performance differential here; it is the lack of volatility that has been generated by two extreme levels of risk. What I mean by this is the lines of both portfolios are very smooth.

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This graph above shows how £100,000 as a single contribution would have performed since launch in our risk profile 10 and risk profile 1 portfolio. Again I am not highlighting performance here, it is the volatility. Clearly risk profile 10 differs in terms of volatility to risk profile 1. Risk 10 is suitable for those people who would not be concerned if their investments fell by 25% over a very short period. Those who are risk profile 1 would not be happy if they lost any money at all.

What can we take from this?

If you are a pure regular premium investor it makes sense to take more risk than you would be comfortable with if you were investing every penny you owned in the world. You would benefit from the greater investment opportunity purely because of the arguments discussed above.

If you have a lump sum invested it may make sense depending upon affordability to add to that investment with a further regular premium. This will help reduce the overall level of risk on your investments and should provide further profit in the medium to longer term.

Continued

Who is it suitable for?

Regular premium investment is particularly suitable for many different investors. I will detail particular groups that we find this strategy suitable for. If you are one of these investors or you know people who sound like the examples below, please do not hesitate to give them my details;

- An investor with a pool of cash who feels uncomfortable with the short-term moves in the market. These are typically those clients who have had their fingers burnt with poor financial advice previously
- An investor who is finding it difficult to time their entry into the market. These are colleagues or Friends who perhaps raised their eyebrows when you told them you had a meeting with your Financial Adviser
- An investor who has come out of the market on short term fear and can't pluck up the courage to re-enter. Coming out of the market is so much easier to do than timing your re-entrance. I would say it is impossible to do!
- An investor who is income rich rather than capital rich. This is typical for younger investors which we embrace at Bury Financial Advisers. These could be children or other family members.
- Those who have invested sizeable lump sums with us and are looking for strategies that can help reduce risk and derive further profits – many of my clients are in this camp.

Summary

Pound cost averaging provides a clear path for investors to follow. When this is coupled with a regular premium in a pension the contribution becomes even more affordable.

The minimum regular premium is £100* gross per month. If this is through a pension the minimum Net premium is reduced by your tax status;

Basic rate tax payer – net contribution of £80 per Month
Higher rate – net contribution of £60 per Month
Additional Rate – net contribution of £50 per Month

*£100.00 Minimum Regular Premium based on Skandia Investment Solutions.

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