Ashburn

Wealth Management Limited

AWM Short Investment Guide
2020

Intelligent Investment

Key Principles for a better investment experience

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This short guide aims to give a quick overview of our investment philosophy. For a fuller explanation please see our investment philosophy guide available on our website or we can provide paper copies on request.

A good starting point is to look at:

The Building Blocks of Investing

Essentially if you want to make a return on your savings you need to do one of two things:

- Lend it and ask for interest on the loan.
- Buy something which you hope will rise in value, and probably pay you some income on the way.

Bondholders are lenders to a company.
Stockholders are equity owners in the business.
Both expect an adequate return for the terms and risk of their investment.

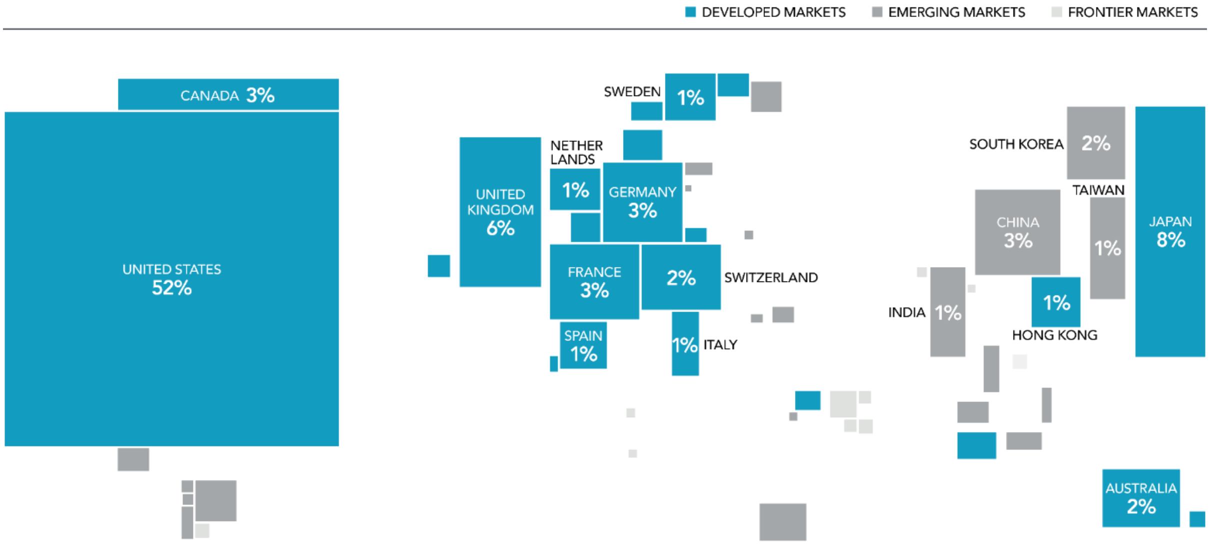
These are **Bonds** and **Equities**, which make up the basic building blocks of our investment portfolios. These blocks have very different characteristics. Each individual has to consider what they want from their money and what level of risk they can comfortably experience, to build the right mix for them.

Once we have decided on the basic building blocks, we then need to look at where we can invest:

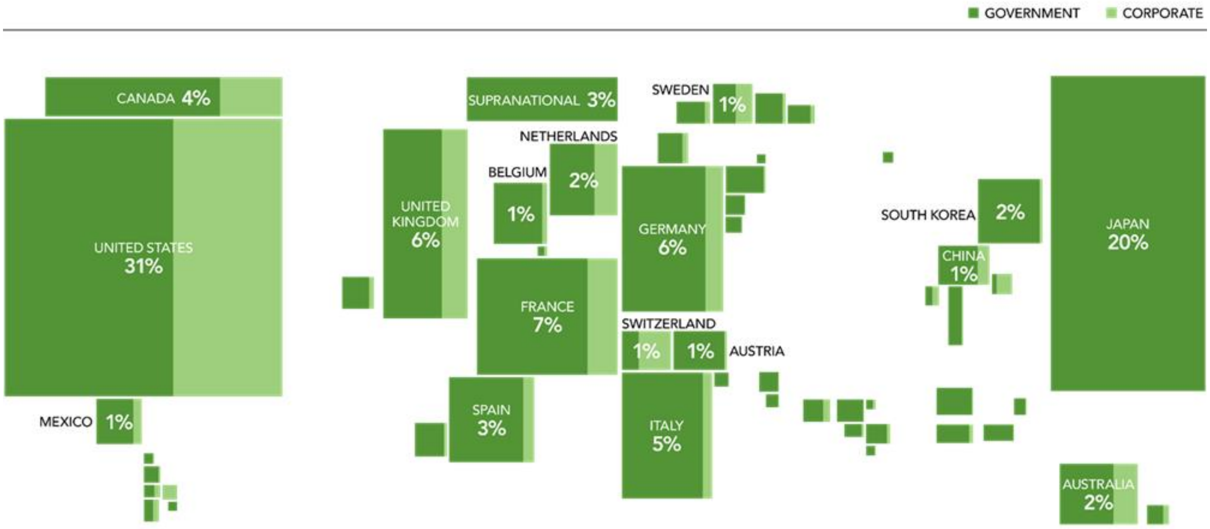
Investment Opportunities

The charts below illustrate the investment opportunities for shares and bonds around the world based on the size of that countries market.

Stocks (Shares)



Bonds



The question is; where should we invest?

Holding securities across many market segments can help manage overall risk. Global diversification can broaden your investment universe. Where possible we should look to increase **Diversification** as much as possible.

Consider the table below:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Higher Return	10.9	40.5	24.8	50.5	21.7	37.5	11.5	59.4	27.3	6.0	18.3	25.7	30.4	6.4	33.1	25.8
	10.2	25.0	17.4	23.5	16.3	7.9	8.7	27.7	22.9	5.3	13.4	18.5	13.2	6.1	29.8	12.5
	7.3	20.5	11.5	23.4	14.6	6.7	4.9	19.0	16.3	2.7	11.5	0.9	8.7	1.7	27.5	11.8
	4.0	18.8	8.5	20.1	4.8	6.6	-1.6	15.3	12.2	2.5	10.5	0.8	7.8	1.2	19.2	4.2
	-2.5	8.2	8.0	6.6	4.8	6.1	-16.1	14.0	6.9	0.5	10.2	0.4	4.3	0.4	5.3	1.1
	-15.0	4.4	7.0	5.2	3.7	5.7	-23.9	2.5	3.6	-1.8	4.7	0.4	2.2	0.2	3.5	0.2
	-23.4	4.4	5.8	4.7	3.1	4.2	-28.5	1.3	2.2	-4.6	2.3	-0.3	0.5	-2.2	1.1	0.1
Lower Return	-27.7	3.7	4.6	4.5	2.7	-12.6	-35.2	0.6	0.5	-17.6	0.4	-4.1	0.4	-9.7	0.4	-0.8

- Developed Markets ex UK Equities
- Emerging Markets Equities
- Global Real Estate
- United Kingdom Equities
- Government Bonds (hedged)
- Global Credit (hedged)
- Short Term Government Bonds (hedged)
- UK Treasury Bills

If you are looking for a pattern, there isn't one!

One never knows which segments of the market will perform well from year to year.

By holding a globally diversified portfolio, investors are well positioned to seek and capture positive returns whenever and wherever they occur.

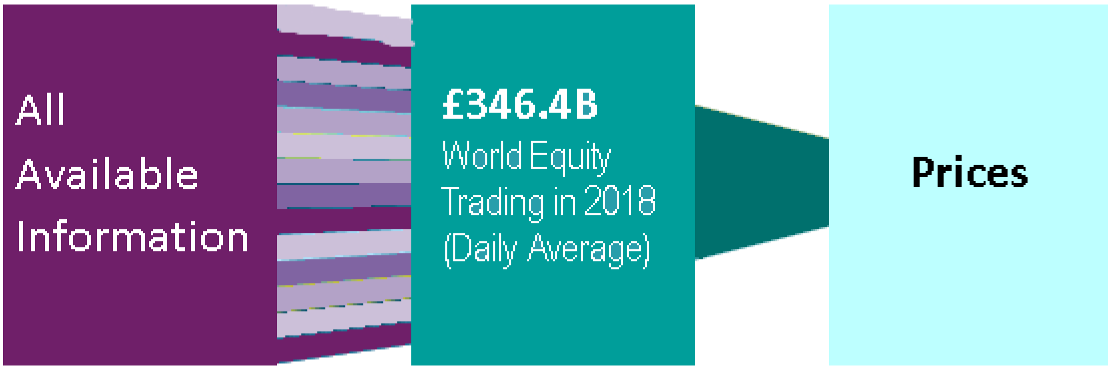
Once we have reached a decision on a split between equities and bonds, and accept that we want to diversify globally, we need to consider how best to access these markets, and should we try to beat them, or simply let them work for us?

To answer this, we need to look at…..

How do markets work?

A corner stone of our philosophy is:

Free Markets are Efficient.



Looking at the big picture, financial markets adjust to every spark of information, and competition drives prices to a fair value.

At any moment a stock's price is the best estimate the world gives for its true value. Those who wish to buy at that price are balanced by those who wish to sell.

In a free market sellers and buyers constantly move the price of any stock or commodity, to a level which is "right" at that time, and that price is always the best estimate of its true worth.

Attempting to forecast future events, or time market movements, is a futile endeavour that only burdens investors with higher costs and unnecessary risks.

Trying to beat the markets is futile and costly.

We should let markets work for us.

Is there anything we can do to improve our return expectations other than invest in the market as a whole?

Academic research suggests that there are a number of **Drivers of Returns.**

These are no free lunch, but by taking on known additional risk we can expect to be rewarded above the market as a whole.

These factors are:

Bonds:

- **Term** – increasing the length of time the loan is made increases risk, so you would expect a higher reward the longer the term.
- **Credit** – If the company lending the money had a lower credit rating (i.e. was deemed less credit worthy) this would be deemed higher risk and so investors demand higher reward for loaning the money.

Bonds involve a fixed interest and capital repayment when purchased and are paid before equity dividends. They are therefore considered lower risk than equities.

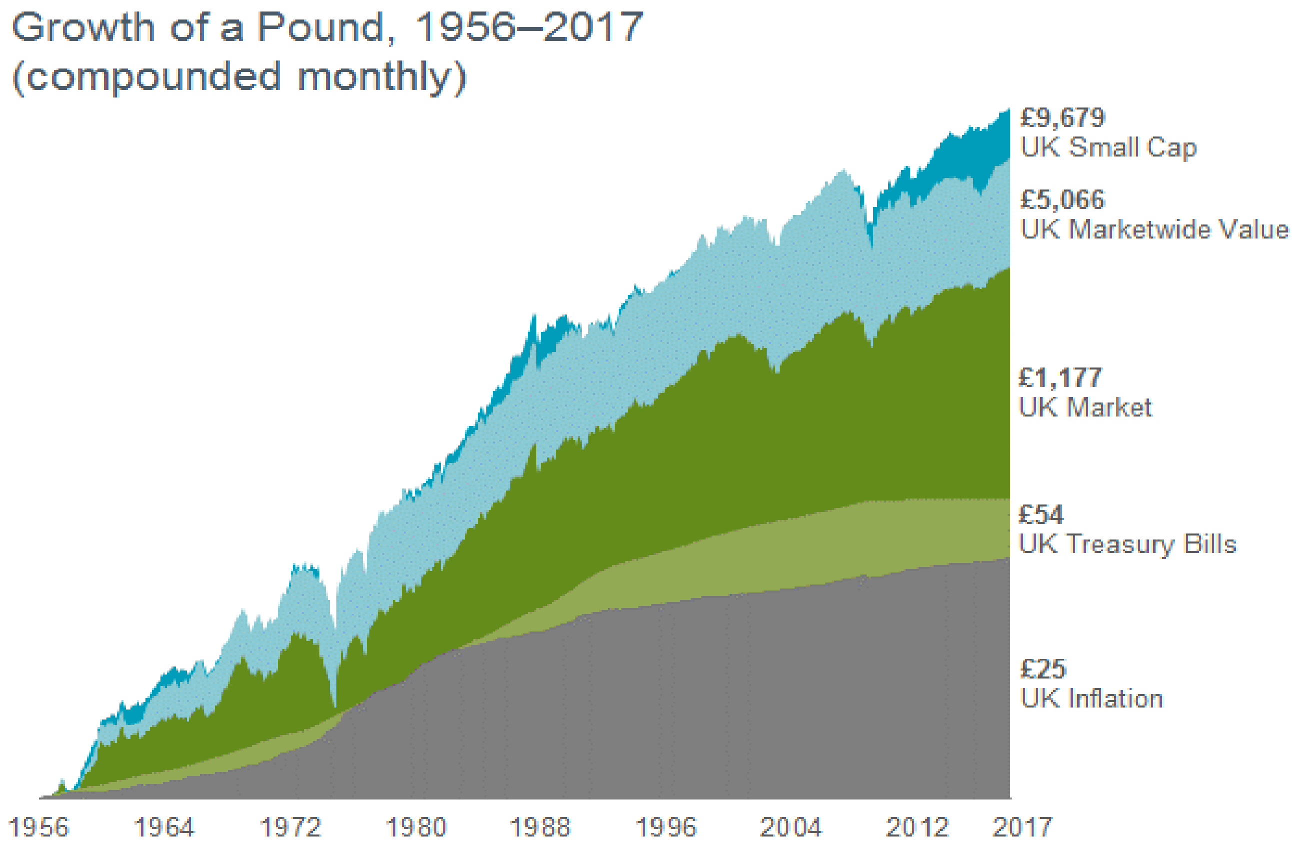
We would therefore expect to see a "premium" (i.e. higher return) for investing in equities where investors participate in the growth (or fall) of the underlying company.

Equities:

- **Company Size –** Smaller companies could be deemed less stable than large companies, at more risk of failing, but conversely have the possibility of growing large. So, higher risk and higher expected reward.
- **Value (relative price)-** Value companies are trading at lower stock prices relative to their book (asset) value than growth companies. They are effectively cheaper due to being out of favour. Again, this could mean they are less stable, but provide the possibility of getting back into favour with a boost to stock prices. Once again higher risk and reward.

We can also add further exposure to **Emerging Markets**, which have greater political and societal risks and so again are a move up the risk/return spectrum.

The chart below shows how various sectors have performed over the last 60 years:



The financial markets have rewarded long-term investors. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.

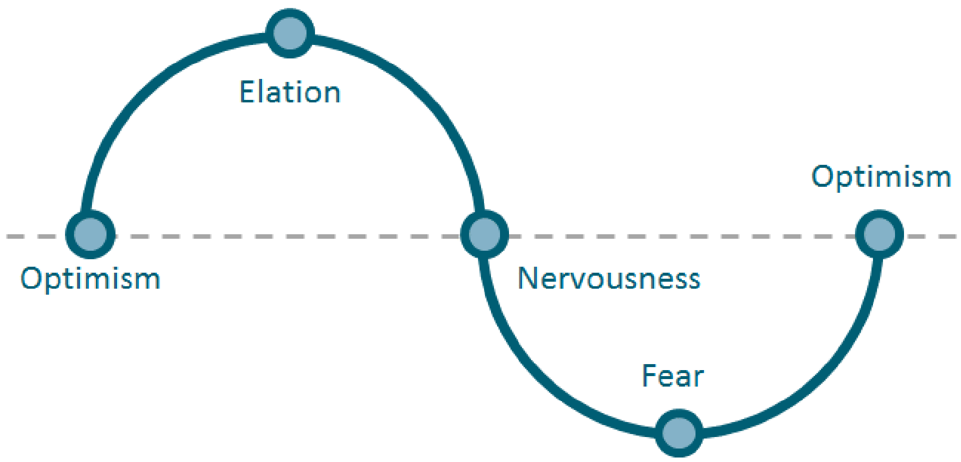
The higher risk of Equities vs. Treasury bills and Small/Value vs whole of market paid off with higher returns, although the journey along the way would have been significantly more volatile.

If we take any risk with our money, which we must if we want to beat inflation (just putting money into a bank account, especially with today's historically low rates, will erode your money over the years), we are going to experience bumps along the road. So, we are here to help you:

Manage your emotions

Many people struggle to separate their emotions from investing. Markets go up and down.

Reacting to current market conditions may lead to making poor investment decisions and buying and selling at the wrong time.



Daily market news and commentary can challenge your investment discipline.

Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad.

Whatever is happening in the news (Credit Crunch/ Brexit/ Pandemic!!), we should ignore it. The best approach is to stay invested and maintain a long-term perspective.

To summarise:

Focus on what you can control, and….

1. Accept markets are efficient, and risk and reward go hand in hand.
2. Let the markets work for you. Don't waste your time (and money) trying to second guess them.
3. Create an investment plan tailored to fit your needs, plans and risk tolerance.
4. Incorporate the drivers of expected returns into your portfolio.
5. Diversify globally.
6. Manage turnover, taxes and expenses.
7. Stay disciplined through market dips and rises.
8. Rebalance to optimise return relative to risk.
9. Review investments in the light of your financial plan, not in isolation.

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