

# SQUIRREL WEALTH MANAGEMENT LTD

## THE INVESTMENT PROCESS

### **Our Investment Philosophy**

We adopt a Core Solutions approach to the investment of our clients' monies and have utilised both internal and independent expertise to select those solutions that meet very clear client objectives within an individual investment risk profile.

Our strategy of adopting a Core Solution approach is fundamental to the relationships we develop with our clients. Many advisers believe they add value to a client's affairs by 'second guessing' the stock market and by trying to identify the next top performing fund.

We believe that we add value to a client by creating a sound, objective financial plan and then by implementing an appropriate investment solution designed to meet those objectives.

Our focus is therefore on ensuring we meet objectives, not on promising market outperformance.

Interestingly, once we have identified the planning objectives, outperformance of the stock market is hardly ever required – all that is needed is a sensible investment approach to meet those objectives.

### **A Sound Investment Approach**

Our selected Core Solutions combine the power of risk profiling, modern portfolio theory and the investment expertise of leading global investment teams.

We have adopted this approach for the following primary reasons:

- To ensure our clients' investments are managed in the most efficient manner consistent with their risk profile and investment time horizon.
- To maintain stability and consistency with the asset mix of their investments – both when initially invested and in the future.
- To ensure continual and automatic rebalancing of the mix of assets in these investment portfolios to ensure their ongoing suitability in meeting a client's financial needs and objectives.
- To create a high quality consistent approach to managing investments throughout our company so that we satisfy the requirements of our Regulators.

We believe that in adopting this approach, we not only deliver real value to our clients, but create an efficient business that is well positioned to deliver a sustainable client service for many years to come.

## OUR DECISION MAKING PROCESS

There are four key features that underpin our investment philosophy:

### **Asset Allocation**

Asset Class allocation, not stock picking or market timing is the key component of investment success.

### **Diversification**

Combining different asset classes with low correlation to each other improves risk and reward.

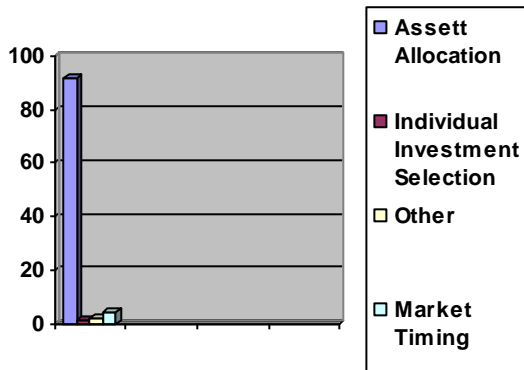
## Continuous monitoring

It is essential that the portfolio remains in line with our clients' long term risk and reward objectives.

## Global Resource

To successfully carry out the above tasks requires extensive resource, research capabilities and a globally based investment team.

## 1. Asset Allocation



\*Source: Brinson, Hood and Beebower 'Determinants of Portfolio Performance', 1986, Financial Analysts Journal.

Academic studies have clearly demonstrated that it is the asset class allocation in any portfolio that is responsible for the vast majority of returns and that stock picking, market timing and other factors contribute very little to the performance of a portfolio. This is the reason we place such great importance on strategic asset allocation: ensuring the optimum mix of assets between fixed income, equities and alternative investments.

Two major reports to the Financial Services Authority, from industry professionals, have endorsed this aspect of investing.

"Institutional investors may be devoting insufficient resources to asset allocation which may contribute the majority of their investment performance."

**Myners Report, March 2001**

"For the individual investor, the asset allocation decision is by far the most important factor in determining returns."

**Sandlers Report, July 2002**

## 2. Diversification

No single asset class produces consistent returns. Neither we nor the investment industry is able to predict the future and nobody knows which asset class will perform well in the future. But, by diversifying across several asset classes, we can increase returns and lower the risk in a portfolio.

Traditionally equities have been the engine which drives capital growth and accepted wisdom was that over a five year time period, equities will generally outperform cash. Returns however from the FTSE 100 over the past ten years have shown a lower return than government gilts.

Equally there are many other asset classes such as property, commodities and hedge funds that have also beaten cash over market cycles but each asset class demonstrates different risk and volatility characteristics.

## Asset Class Returns 1991 - 2008

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
60%	11%	75%	5%	27%	39%	24%	22%	66%	50%	10%	32%	56%	31%	34%	37%	39%	16%
39%	11%	44%	-1%	21%	34%	17%	11%	41%	20%	7%	14%	31%	26%	26%	32%	25%	8%
20%	9%	25%	-2%	20%	29%	15%	8%	29%	16%	3%	11%	29%	17%	16%	17%	9%	-10%
16%	8%	22%	-4%	18%	18%	13%	-6%	26%	11%	2%	9%	24%	12%	12%	10%	8%	-21%
14%	7%	20%	-4%	14%	17%	11%	-11%	25%	5%	-1%	6%	21%	11%	12%	9%	6%	-38%
13%	4%	19%	-6%	11%	13%	9%	-14%	3%	3%	-3%	0%	12%	6%	6%	5%	6%	-39%
13%	2%	12%	-7%	10%	8%	-12%	-25%	1%	-8%	-14%	-6%	11%	5%	5%	3%	6%	-45%
-6%	-4%	-12%	-19%	-5%	6%	-14%	-36%	-4%	-31%	-32%	-25%	3%	3%	4%	-15%	-16%	-53%

Global Equities	Global Bonds	Emerging Equities	Emerging Bonds	Real Estate	Commodities	Hedge Funds	Managed Futures
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Many advisers choose client investments by looking at their past performance. The above table shows how different asset classes have performed over the past seventeen years and illustrates just how difficult it is to predict future returns based on past successes – there are vast differences in asset class returns on a year by year basis.

Central to our investment strategy is the provision of a multiple asset portfolio so that our clients' investments can be allocated across a range of asset classes, thereby helping to reduce volatility and providing a steadier, consistent return.

Investing in a single asset class is considered by us to be a high risk strategy. Even if that asset class performs well for a prolonged period of time it is highly likely that there will be a period when it underperforms. History shows that forecasting when that will be is impossible. However, diversifying our clients' investments will reduce the level of risk that they are exposed to and by investing in a range of different assets, we can potentially offset the underperformance from one particular investment type with the outperformance of another.

Diversification doesn't just apply to different types of asset classes, but also to their geographical location. Emerging countries such as China and India have rapidly growing economies which offer potentially exciting investment opportunities but also carry higher risks. Conversely by investing solely in, say, the UK, our clients will be missing out on some potential growth opportunities elsewhere.

### 3. Continuous Monitoring

There are risks involved in every type of investment, but over the medium to long term investors need to see a return for the risk they take. Higher risk doesn't necessarily mean higher return. The risks involved in investing come in many forms but it is essential is that we have access to the appropriate expertise to monitor markets and economic conditions together with the ability to take appropriate action if required. Our investment approach ensures we are able to monitor the following:

#### *Volatility*

How much the value of an asset rises and falls (a more volatile asset will lose money more often and will lose larger amounts)

#### *Correlation*

How much assets move with each other (assets which are highly correlated tend to rise and fall at the same time)

#### *Liquidity*

The ability to buy and sell an investment

### *Transparency*

How easy it is to look at the underlying investments

### *Manager risk*

The skill of the manager

### *Currency*

The impact currency exposure will have on an investment

### *Inflation*

The impact of the effect of inflation

## **4. Global Resource**

As we have seen, a successful investment strategy requires considerable dedicated resource. We recognise that our most important role for our clients is that of Financial Planner – not Investment Manager, yet it is essential that all our clients' financial plans are underpinned by a fully resourced set of investment solutions. It is for this reason that we have outsourced our investment analysis to independent research and risk management consultants, Rayner Spencer Mills.

Rayner Spencer Mills is a firm of investment specialists, fully dedicated to researching and monitoring global investment managers within the scope of client risk. Our brief to them was simple – to deliver a series of risk-rated financial solutions, across a variety of investment styles and to ensure that we are regularly updated and notified of any changes.

Consequently, we are able to offer our clients an extremely robust range of investment solutions, all fulfilling the criteria we have outlined above, leaving us to do what we think we do best – mapping out and achieving our clients financial plans.

### **Choosing the most appropriate investment solution**

As we have seen, our focus is on helping our clients achieve their financial objectives. We spend a considerable time in identifying those objectives and then the investment risk profile that sits most comfortably with each client and their various objectives.

Our research from Rayner Spencer Mills then provides us with a range of solutions, from which we are able to recommend the optimum set, on a bespoke basis.



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