A GUIDE TO MAKING INVESTMENT DECISIONS

Introduction

Choosing where to invest your money for the future may be one of the most challenging decisions you will ever make. You want the best possible return for your money but knowing where to invest without taking unnecessary risks can be a daunting prospect.

Forrester-Hyde offer solutions for every stage of the wealth cycle and understand that circumstances continually change, whether it is family, business or personal situations. Our investment process is repeatable, ensuring it can easily realign to your life and investment goals.

Our guide to investment decisions follows a four stage process:

- Assess attitude to investment risk
- Select an asset allocation
- Build an investment strategy
- Review at regular intervals

This factsheet considers the above in more detail:

What needs to be considered?

- What are your needs and end goals?
- What is your attitude to investment risk and capacity for loss?
- How to avoid excessive risk to reach your investment goals?
- How to invest as tax efficiently as possible?
- How to achieve value for money?
- How to maintain perspective and long-term discipline through market volatility?

STEP 1 – Assess the Investors Attitude to Risk

Before we can assess which investment strategy is most appropriate for you, it's vital that we understand your attitude to risk. To do this we first use a questionnaire that has been specially developed in conjunction with an independent company, Morningstar.

Once you have completed the questionnaire, you are given a risk score. The scoring system places you into one of five categories to show your willingness to bear risk (known as your risk tolerance).

- Conservative (Low Risk)
- Cautious (Low to Medium Risk)
- Balanced (Medium Risk)
- Assertive (Medium to High Risk)
- Aggressive (High Risk)

The higher the rating, the more open the investor should be to taking greater levels of risk and the more willing the investor should be to accept volatility in their investments (that is, changes in their value over time, both up and down).

The answers the investor provides alongside the assessment we make gives us a firm grounding to further discuss their risk preferences and whether they are necessary to meet their financial objectives.

MORNINGSTAR®

Morningstar Investment Management unites the strengths of Morningstar's independent investment research, data, and tools. They have over three decades of investment experience to help firms empower investors to meet their financial goals.

Founded in 1977, Ibbotson, a Morningstar company, first started developing risk-profiling tools for its clients in the mid-1990s and has become a leading authority on asset allocation, manager selection and portfolio construction service.

STEP 2 – Select an asset allocation to meet your objectives

Once we have agreed on your attitude to risk, the next step is asset allocation. Asset allocation is about getting the right balance in your portfolio between different types of investment, taking into account your financial goals and your attitude to risk. Research has shown that more than 90 percent of investment returns are determined by effective asset allocation.

How different types of asset compare:

Cash	Fixed Interest	Property	UK Equities	Overseas Equities
Cash is considered a very stable investment but it normally provides the lowest potential returns.	Fixed interest investments (commonly known as bonds) are deemed fairly stable and relatively low-risk investments. Some are issued by Governments and others by Companies, in the UK and overseas.	Property is a reasonably stable investment over the mid to longer term. It isn't too volatile and investing in property can be a good way to diversify your portfolio.	Equities or shares, sit towards the higher risk end of the spectrum. They can be volatile over short to medium terms but do tend to give a better return than other types of investment over the longer term.	Like UK equities, overseas equities can be volatile and currency risk tends to make them more risky than UK equities. But, they do offer the opportunity to spread your equity investment across different markets and offer the potential for great rewards over the longer-term.

Please note: The value of investments in each asset class can go down as well as up. Past performance is not a guide to future performance. The information above explains how these asset classes are historically related to each other. In the case of Overseas Equities, the Sterling Value of these assets may rise or fall as a result of exchange rate fluctuations.

Having a range of different assets can give you a better return for less risk than investing in one asset class alone. If you put all your money into one asset class (for example, UK equities), a fall in the market for that asset is going to impact all of your investment. By spreading your money across different classes (for example if you invest in UK fixed interest as well as UK equities) you might find that a fall in the market for one asset class has less of an overall impact.

To help understand which asset allocation suits you best, we subscribe to Morningstar, a leading authority on asset allocation, employing a statistical technique known as Mean Variance Optimisation. The aim is to identify asset allocations that maximise return for a given level of risk, or minimise risk for a given level of return.

Mean Variance Optimisation looks at the expected risk and return of each asset class, plus the correlation among asset classes, to determine which combination of asset classes will provide the highest expected return for any risk level. Ongoing, Ibbotson conducts resampling and sensitivity analysis to ensure the stability of the asset allocation recommendations under a variety of market scenarios.

STEP 3 – Build your investment strategy

Once we've agreed on the right asset allocation strategy, we'll select the most appropriate investments to go in the portfolio.

As well as the opportunity to hold your money in cash and to buy directly into stocks, shares and other types of asset, we have access to an extensive range of collective funds from which we can tailor make your investment strategy.

The aim is to combine investments that complement each other in a portfolio appropriate to your asset allocation strategy. For example, looking at funds in particular, you may not want to be locked into one investment style all the time, or into just one fund manager. Instead we might blend different investment styles and managers in your portfolio. The aim of this would be to achieve consistent performance over time without exposing you to unnecessary risk.

We are able to draw on the expertise of Morningstar and Financial Express to help in choosing the funds that best meet your needs. Morningstar and Financial Express are both respected independent Companies. They both specialize in providing qualitative investment research and product analysis to financial intermediaries, life offices and investment houses. Other rating agencies such as Rayner Spencer Mills and Square Mile are also utilised.

The funds in each Portfolio will be blended to increase diversification and control risk. Blending means combining a number of funds that complement each other.

MORNINGSTAR®

For more than 25 years Morningstar analysts have been a leading provider of independent investment research in North America, Europe, Australia, and Asia. They provide data on approximately 446,000 investment offerings, including stocks, mutual funds, and similar vehicles. The company has operations in 27. Research is based on 5 main pillars:

- Process: What is the fund's strategy and does management have a competitive advantage?
- Performance: Is the fund's performance pattern logical given its process?
- People: Judging the manager's talent, tenure, and resources?
- Parent: What priorities prevail at the firm?
- Price: Is the fund a good value proposition compared with similar funds?

FE TRUSTNET

Financial Express is an authority on performance measurement, providing data, advice and consultation to fund management professionals and financial advisers.

Financial Express also uses this knowledge and expertise to publish sector and constituent performance, Crown Ratings and the Adviser Fund Index.

The Financial Express Crown Ratings are a quant-based ratings system designed to highlight funds that have had superior, consistent performance in relation to risk, relative to their peer groups, the fund sectors as defined by the IMA and the ABI.

Crown Ratings are compiled using three key measurements of a fund's performance - Alpha, volatility and consistency.

STEP 4 – Review at Regular Intervals

By combining the expertise of specialist independent companies, our skills and knowledge, and the tools available to us through the online service provider we use, we're confident that the critical decision of where to invest your money will become a whole lot easier.

But it's important to remember that whilst you may have a specific set of objectives in mind when you make your initial investment, those objectives could easily change in the future. If they do, we might need to change your asset allocation and investment strategy.

Even if your objectives don't change, it's still absolutely vital to review how the funds in your portfolio have performed on a regular basis to retain the recommended asset mix, and – where necessary - rebalance the amounts held in each fund. If you don't carry out regular rebalancing then you may find this will impact both the overall return you receive and the level of risk you are taking with your investment.

We're here to work closely with you on an ongoing basis, regularly reviewing your portfolio to make your money work harder and help achieve your investment potential. Building a service you'll really come to value.

Risk Categories

It is important to understand the real meaning of risk. This can be broadly defined in five categories:-

Low Risk – Conservative:

You are not prepared to substantially jeopardise the value of your invested capital, although accept in adopting this approach you may not see significant growth. The return provided, whilst secure, may not keep pace with inflation and in real terms effective purchasing power may be reduced. Traditionally the cautious Investor would have the greater part of their portfolio in deposit based savings to include; Banks, Building Societies and products available from the National Savings and Investment Department. On a risk scale of 1-10 investments in this category would be considered to have a rating of 1-3.

Low to Medium Risk – Cautious:

You would prefer to have most of your investments in more secure assets such as cash and fixed interest securities to not jeopardise the value especially in the short-term. You are nevertheless happy to have some stock market investment to provide some inflation protection and potential for long-term returns. On the same risk scale investments in this category would attract a risk attitude rated as 2-5.

Medium Risk – Balanced:

You are prepared for the possibility of your investments falling in value in return for the prospect of higher growth in capital than you could normally expect from deposit based savings. Examples of investment in this group would include an Insurance Company's With Profits and Property Funds, Corporate Bond Funds, International and UK Growth Funds and would be made across a range of sectors and specialist areas which could include; Healthcare, Financial Markets, Smaller Companies and Managed Funds. On the same risk scale investments in this category would attract a risk attitude rated as 4-7.

Medium to High Risk – Assertive:

These investments are expected to have a relatively significant risk of loss to capital value, but with the potential of relatively more capital growth over the long term. They do not offer any guarantees and will fluctuate in capital value. The sorts of investments that would be included in this category would be UK Equity holdings, Global Equities, Property, Emerging Markets and to a smaller extent Fixed Interest to include Corporate Bonds and Gilts. This risk parameter would be in the region of 5-8 on the scale identified.

High Risk – Adventurous:

The prospect of long-term capital growth in the value of your investments is your main priority. You are prepared to see more frequent fluctuations in the value of your investments in exchange for the prospect of higher returns that may be obtained. This category of investment would include Equity holdings, specialist investment products and niche markets. This area of investment may include: Emerging Markets, Specialist Technology Stocks and Venture Capital. This attitude would be rated 7-10.