



THE 5
**GOLDEN
RULES**
TO PRESERVE AND GROW
YOUR WEALTH

The belief that owning a fortune results in an easy, stress-free life could not be further from the truth.

Last year, we wrote about 5 ways to preserve and grow your wealth:

The Power of Compounding

'It is the greatest mathematical discovery of all time.'

said Albert Einstein on the power of compounding. Every pound saved increases the chance of exceeding your goals.

Tax Planning

'There is no such thing as a good tax'

Winston Churchill

Taxes are an inevitability of our lives but it is surprising how willing we are to give up much of our hard-earned income and capital gains due to inadequate tax planning.

Estate Planning

Passing a lasting legacy to one's spouse and children is equally challenging and Estate Planning will not only mitigate or postpone taxation but obvious family challenges at times of death, divorce or conflict can be addressed through the creation of Trust or Company structures.

Avoid the perils of Inflation

'Inflation is the one form of taxation that can be imposed without legislation.'

Milton Friedman

Today, inflation is not an apparent problem, but the power of compounding becomes valueless if real returns are not secured and inflation is allowed to act as a wealth destroyer.

Manage your costs but seek good advice

'A banker: the person who lends you his umbrella when the sun is shining and wants it back the minute it rains.'

Mark Twain

Whatever the discipline, seeking good professional advice usually delivers savings or returns far in excess of the cost. However, it pays to review your advisors as often as your circumstances materially change.

Every wealthy family which has applied this discipline of thought process is well on the way to improving their chances of preserving their wealth for longer than this well-known quotation suggests:

'Fu bu guo san dai' or 'Wealth never survives three generations'

For now let us focus on the first goal 'The Power of Compounding'.

Festina lente – Make haste slowly

1. KNOW YOURSELF, YOUR EXPECTATIONS AND LIMITATIONS

This may sound contrived but most investors who seek to improve their returns rarely spend the time to think about what type of investment experience

they would like! We have all been asked to complete investment questionnaires, sometimes even behavioural questionnaires but what is often forgotten is to ask yourself what your investment experience is likely to be.

In other words, can you tolerate large short-term losses, how would you feel if your investment could not be returned to you for 3 years, what sort of risks are you prepared to take to achieve your goals, will you anxiously watch your investments every moment of the day and how will you sleep at night?

Most of us set sail with the aim of discovering golden returns but we forget the choppy and potentially dangerous journey that it may be. Are we happy with the course set or should we choose a safer passage? To change course part of the way through the journey and to change objective can be very dangerous for the sailor and investor alike as rarely is the change without cost.

2. AVOID LOSSES – CHOOSE THE RIGHT ASSET CLASSES

Avoiding losses may seem painfully obvious but as every major market correction has demonstrated, reducing the likelihood of losses is a powerful way to preserve and grow wealth.

'A safe investment is an investment whose dangers are not at that moment apparent'

Lord Bauer

Anticipating losses and asking how best to avoid them is often the smarter question than asking where are the highest returns. This is very relevant when choosing your Investment Managers. Always compare managers with the same mandate and then look at their past performance history. Choosing the highest returning manager may not be the cleverest move if it is also the firm which has the highest losses and volatility.

Equally important is to consider how different asset classes are used as their inter-correlation can reduce the likelihood of significant losses. Achieving structured and intelligent asset allocation is now far more complex than 10 years ago and is essential if you are going to succeed in preserving and growing your wealth.

3. DIVERSIFY – BUT NOT TOO MUCH

Family offices have long understood the power of diversification and have spread their clients' wealth across a multitude of asset classes. Not just bonds, cash and equities but property, private equity and hedge funds all have a different influence on a portfolio's return and risk.

However, it is easy to feel safer by spreading your assets across too many investments. Ironically, you may over-diversify and end up with a basket of mediocre investments rather than a focused account.

There are many arguments in favour of choosing a 'passive' index to replicate your property, private equity, bond, equity or hedge fund investments but whilst this will achieve a wide degree of diversification,

it will mean you will slavishly track the market higher and of course lower which will impact on your ability to avoid losses.

4. CHOOSE THE RIGHT INVESTMENT MANAGERS

Choosing an Investment Manager for whatever asset class is riddled with challenges. For example, as less than 5% of Global Equity Investment Managers consistently achieve their set long term benchmarks; a poor choice of manager can significantly reduce the probability that you will ever meet your goals! Investors are fixated with past performance, looking in the rear view mirror to provide signals about the future success of a manager. However, good research and investing time, effort and money on manager selection is without doubt a priceless investment as it can make the difference between a 1% and a 10% return.

5. CHANGE IS GOOD AND YOU SHOULD REVIEW YOUR ASSET ALLOCATION, INVESTMENT MANAGERS AND RISK PROFILE FREQUENTLY

It is strange that when it comes to investments we are usually very reluctant to make changes to our Investment Managers or asset allocation unless we are forced to do so.

Investment Managers often have changes in team or process which may mean that it is right to look for new expertise. In the same vein, investment markets have become far more complex in recent years. Ten years ago, you could invest in cash, bonds and equities and perhaps some private equity and hedge fund managers if you were well connected.

Today, Hedge Funds, Private Equity, Structured Products, Mixed Commercial Property and a raft of other approaches make the markets less volatile and more confusing than ever before. Few asset classes are good for all seasons, just as few Investment Managers are good at managing in all environments.

One should never be afraid to make changes as long as the investor remains disciplined and true to their long term objectives and risk profile.

'A person who never made a mistake, never tried anything new.'

Albert Einstein

Achieving robust compound growth for your assets is not rocket science. It takes discipline and a keen awareness of yourself and your investment expectations. Knowing which asset classes to include and what blend can best achieve your goals is a major step towards achieving stable returns. However, the identification of the right Investment Managers and advisors for each asset class can make a huge difference to your results whilst failing to replace a manager or changing an asset allocation can be just as costly.

The power of compounding is simple in concept but hard to achieve. To discuss this article or for more information on Peritus Investment Consultancy, please contact James Day at james.day@peritus.co.uk