The Red House

Headlines; worry lines?
Your portfolio and the current market volatility

The last week felt uncomfortably familiar with memories of the last quarter of 2008 evoked in part by the imagery used by the commentators; this weekends FT had pictures of bears, clouds over Canary Wharf and an article using blood sucking vampires as a metaphor for the Euro zone Sovereign Bond crisis.

We are living in interesting times with the historic credit rating downgrade of the US from AAA to AA+ by S&P being the latest chapter over the weekend.

As ever there is no consistent view from these commentators, no strong steer for investors to take, with predictions ranging from another global meltdown to an excellent buying opportunity for equities. In other words, the forecasters are in full swing, as ever.

So what is the view from TRH?

- We expect equity funds to exhibit volatility, sometimes over extended time periods, and
- We can use short dated bonds issued by robust institutions to dampen this volatility.

Are TRH portfolios performing as expected?

Looking first at our equity component; we include equity funds to deliver the risk premium needed to deliver the long term returns one requires. If equity risk was not taken, long term returns on cash and bonds would struggle to maintain real value after tax, costs and inflation. Our long term return assumption for equities is 8% pa. But we know that this will not be delivered in a linear fashion.

Turing to our bond component, the Global Short Dated Bond Fund (GSDBF) has returned nearly 5% in the calendar year to-date (as at 4 August 2011) posting positive returns even over the last few days. You may wish to refer back to our last client article which covered the low risk, highly rated sovereign and corporate debt held in this fund.

So what can we do in such unsettling times?

We understand that emotions can come into play during times such as these. We feel like we must do something. However the evidence tells us that trying to time or forecast markets is very difficult to do with potentially damaging results.

TRH believe the steps to a successful investment experience are relatively simple: do not focus on what we cannot control. We cannot predict what the future will hold.

As ever we will continue to work with you to:

- Make sure your portfolios are properly diversified using non correlated asset classes
- Use high quality short dated bonds to dampen volatility

- Make sure you have an appropriate asset allocation, which for many of you will include a short, medium and long term portfolio
- Control your costs
- Rebalance to control risk drift
- Control emotions and maintain discipline

We know these are uncomfortable times so please, if you have any concerns at all about the current volatile market conditions, do give us a call. We are monitoring all client portfolios closely and keeping a close watch on the constituent funds to ensure they are performing as we expect.

The Red House
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Regulatory notes
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