

IFA Fact-Files "Investment Conditions"



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Many people have seen their investments plummet. Some have lost 25% of their value, some have lost more like 50% or 60%. Most people want to know if they should stick with their investment, or if it is better to "cut their losses" and encash the investment. It is very difficult to advise in this area, but there are some ground rules that you should think through, before coming to a decision:

Risk profile

It has always been important to match a product with someone's profile. Whilst some may want to try to maximise their returns by taking a high risk approach, others will want more capital security and a lower risk profile. The first question to ask then is, "Am I in the correct fund, according to my risk profile?"

If you have a Low risk profile and your fund has lost over 20% of its value in the last 2 years, then you might be in the wrong funds, and so a review with a professional adviser is recommended.

If you have a Medium or High risk profile, then you should expect losses of at least 20%, in the hope of higher returns when markets improve.

What value do you have invested?

This is not necessarily monetary amounts, so much as the value to you. Can you afford to lose any more money? Do you need the money now, or are you likely to need this money in the near future? If you have a definite need for the money, then it would almost certainly be the right decision to withdraw from the investment, and secure the value you have accrued.

If you have no real plans or requirements for the money, then you can maybe afford to leave the investment where it is, in the hope that it will return to its original investment amount.

Do you really need the money?

Many people are having to come out of the market at a low point, as they approach retirement. For retirees, there are multiple problems at this time:

- Losses on investments have reduced their fund values.
- Interest rates are very low, so income from safe "cash" is minimal.
- Annuity rates are also very low.

Most people approaching retirement will have to encash investments to start drawing a Pension. If you are retiring out of choice though, it may be sensible to either hold onto investments for as long as possible, or to try to stay "in the markets" by way of a different type of Pension vehicle such as Income Drawdown.

New investments?

If you are prepared to take a degree of risk in the short term, the time to invest in Equities is when the markets are low. Although it is easy to say, if you believe that markets will recover, and the evidence suggests they will, then you should be investing now, not sitting on the side-lines, waiting for calmer waters.

Regular premiums?

For regular premium investments, you will be benefiting from lower markets, as this allows you to buy more units for each premium you pay. The more units you have, the better the growth, when markets finally recover. This is known as Pound Cost Averaging. For the regular premium investor who has a long time before they wish to withdraw their investment, the longer the market is at a low point the better. This is because they are buying more and more units at a low level, and they should really benefit, when markets increase in value.

Most people are investing in regular premiums over the longer term, which usually means that they have a higher risk profile and they have time for the markets to recover. Just such investments would include ISAs, Pensions and Endowments.

Now some animal questions:

Am I in the Dog?

You do also need to assess how your fund is performing against other funds in it's sector. If the sector has gone down by 10% but your fund has lost 20% and is in the 4th quartile, then you have to ask, "Am I in the right fund?"

No-one wants to be the worst performing fund manager, but in a sector there are winners and losers. Ideally, you want to be amongst the winners, or those finishing in the top half of the table.

Bears or Bulls?

Can the markets recover? Almost certainly yes. Historically, Equity performance has always out-performed cash over a long period. When will they recover? That is the big question, we just don't know. Analysts and Economists give a different view every day of the week. In the long term, most would agree that markets will improve, and so the longer term investor can afford to stay "in the market" to wait for the recovery.

Advice at times like these is difficult, and in order to provide advice, a detailed assessment needs to be made of your circumstances. If you are in any doubt as to what you should do, you should consult a professional Financial Adviser.

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser authorised and regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.