

# Let's talk wealth management



As founder of Wealthflow LLP, Duncan Glassey's advice features regularly in finance journals and national press. If you would like to talk more about specialist wealth management and financial life planning you can call Duncan direct on : **0845 468 0037**

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The Scotsman newspaper : SIX PART INVESTMENT SERIES - Part 6

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## So in wrapping up what should investors do now?

Well if we are facing any decision we want to look at all of our possible choices and select the best options. The range of alternatives for most investors would consist of some combination of any of the following - cash equivalents, government gilts, longer-term corporate bonds, shares on the stockmarket or in a private business, residential property or commercial property either directly held or via an investment fund.

Longer-term bonds may be an appropriate investment in a deflationary environment when prices are actually falling, but for many investors perhaps most investors, the periods of actual deflation are so rare it may be a risk that is not appropriately rewarded.

The most reliable way to hedge uncertainty would be with cash alternatives such as government gilts. Now we are getting some questions from people asking why don't I just sell shares now and put my money in cash and go back into shares when the market is more favourable. As I've tried to illustrate in some of these past examples that is basically a 'market-timing' decision. If you can make those decisions correctly time after time maybe you should consider doing so. But you should consider doing so fully aware of the enormous challenge that you are facing. If I look at the databases of thousands of investment funds, I can find funds that have outperformed the market by picking the right

shares, no more than I would expect by chance, but at least I can still find some that have outperformed the market, even if they were just lucky. I can't find any that have outperformed the market over a long run period using some kind of market timing strategy, it's just too difficult to have that decision to be right when to get out of the market and when to get back into the market over and over and over again.

Returns in bull markets tend to be 'front loaded' - this is one example of the market timing challenge. If we look at all the data periods during 1926 - 2008, if all the returns during bull markets were evenly distributed day by day, if plotted we would see a flat line, but we don't see that, what we do see is that on average over the first 20 days of bull markets returns are roughly three times higher than they are throughout the entire bull market, so if you are out of the very earliest stages of the bull market you miss a lot of it, so you are taking a risk when you try to time the market.

Remember, they never ring a bell and tell you it's time to buy shares. At the bottom of every bear market, by definition, the economic and market outlook is dismal.

It's not an exaggeration to describe the current investment climate as a battlefield and there are land mines going off all around us. The most important lesson for investors is to have a diversified portfolio to make sure we get through the



battlefield; diversification across companies, industries and countries.

I want to close by addressing the million dollar question "Is now the time to buy shares?" If you are less affected by recessions and have a longer time horizon than the average investor then it makes sense to buy. If you have greater borrowings and are more affected by recessions and have a shorter time horizon now may certainly be time to sell.