Investment Portfolio Management:

Longer Term Fundamentals and Shorter Term Trading Strategies

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All of our investment portfolios have one or more purposes. Some of these purposes are relatively straightforward such as to accumulate sufficient capital growth in order to fund an individual's earlier retirement, or generate a sufficient level of ongoing income to fund living expenses.

Others might have added levels of sophistication. A trust with a duty to support the life tenant's expenses whilst not unreasonably eroding the underlying capital available to the remaindermen. Corporate pension schemes can have a similar balancing act, in their case the requirement to fund current pensioners' drawings whilst maintaining a watchful eye on the Fund's longer term funding ratio. Charitable trusts are perhaps placed in the most delicate of positions, balancing maximum support for the worthwhile causes of today and tomorrow.

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Outsourcing the underlying investment management responsibility does not give up control over the investment strategy and style. However, it is an acknowledgement that employing a professional fund manager can increase the probability that the investment objectives will be met or exceeded. The portfolio manager becomes responsible to the client for the ongoing investment performance, within the parameters of the agreed strategy.

The investment landscape contains many different portfolio construction approaches. Our firm belief is that investment portfolios should be built primarily from the top down, with an overall blend of investment assets derived from sensible future expectations of investment returns.

However, once the top down longer term asset allocation is decided it is the underlying stock and fund selection which gives us the real colour. This is where investment returns can be made and lost; and our clients' longer term objectives fulfilled or disappointed. There is a vast array of options available to suit our different preferences. We can invest into traditional assets including cash, government or corporate bonds, and blue chip or smaller company equity. There is typically some value to be gained from exposure to liquid alternative assets such as listed infrastructure, commercial property or commodities through investment funds or listed businesses.

If we wish to enter more specialised areas of the alternative arena we come across absolute return funds, non directional and directional hedge funds, catastrophe insurance, zero dividend preference shares, private equity and specialist debt; to name but a few. Returns can be attractive but beware; asymmetrical return and liquidity profiles can be not uncommon pitfalls for the unwary or unfortunate.

Following the choice as to our overall asset mix the ability to correctly time the market then becomes the investment 'Holy Grail'. Investing for the longer term based on sound fundamentals is fine. However, if we enter at the top of the market or consistently switch our holdings out of kilter with their price movements; we have found a sure way to detract from our overall performance.

The most simple of all technical charting tools is the modest line chart, which shows price movements over time and which we can use to try to find our initial entry point. Things rapidly become more complicated from here. Bar charts also show price

movements but in more depth with opening, closing and intra day ranges displayed. Japanese Candlesticks also show this information and are well tested, having probably been developed in the 18th century for use by rice traders. On the other hand, Point and Figure charts cut out some of the underlying price movement noise and just highlight price changes in direction rather than price changes against time. From here, Bollinger Bands, Elliot Wave Theory and calendar cycles start to baffle the mind and senses.

Of course, the point of all these various techniques is that within the structure of our longer term investment strategy we can take some advantage of short term price trends, and particularly so within the equity markets. Established price channels can be identified and traded within (assuming they are sufficiently wide to produce a profit net of transaction costs); breakout points can be identified and capitalised on.

Whether we choose to take the management responsibility personally or bring in a discretionary manager, there are a multitude of investment options available. Choosing, and then following, the ones which have the highest probability of achieving our longer term objectives is where the interest lies.