

Apex CB Financial Planning's Investment Process

Understanding your attitude to investment risk

Whatever your goals, we want to be sure that the investment strategy we recommend for you is in line with your attitude to investment risk. To do this we need to consider a number of factors. They include:

- The anticipated length of time you want your investment to last – its 'term'
- Cash reserves you want to be available to meet unexpected circumstances
- Your view on the potential for your earnings to grow
- How much money you want to invest
- Whether you have any debts
- Existing savings for retirement
- Your overall view on investing
- Your goals – and whether you really need to take on risk to achieve them
- The impact of short-term falls in the value of your investments
- The importance of protecting your investment from the effects of inflation
- The question of 'liquidity': if you want to cash in your investments, how easy will it be to get your hands on your money?

The above information is typically gathered during the initial fact-finding or annual review meeting.

To establish your attitude to investment risk, we will ask you a series of questions. Each answer produces a score and these are then aggregated to calculate your specific level of tolerance for risk, from 1 (low) to 10 (high). We call this your risk profile score.

The risk profiling questionnaire we use is developed by AXA Wealth in association with the leading actuarial consultancy Evaluate FE, in line with the best industry practice and the guidelines laid down by our regulatory body, the Financial Services Authority (FSA).

The risk profiler also aims to capture how the loss of funds might affect you, both in financial and psychological terms. The financial impact of a loss of capital might result in an unacceptable loss of capital assets or income that could affect your financial security. The psychological impact might be that you could be discouraged from investing in the future, or might suffer distress should your investment be showing a loss.

Many of the terms commonly used to describe attitudes to investment, such as 'cautious', 'balanced' or 'aggressive' can mean different things to different people. That's why we aim to make our assessment of your attitude to risk as objective as possible. And that's why the next stage of the process is a discussion about what your risk profile score means.

We will review clients attitude to risk on an annual basis.

Discussing your risk profile score

Completion of the risk profiling questionnaire leads to a report being produced, which will be given to you and discussed to ensure that you understand the implications.

Your resulting risk profile score is an indication of the extent to which you are prepared to accept a short-term fall in the value of your investments as markets go through their ups and downs. These fluctuations in the value of investments are also known as their volatility.

If your score is 1, then low volatility investments such as cash or bank deposits could be the resulting investment recommendation. If your score is 10, then we might recommend a portfolio which includes investments in asset classes such as emerging markets, whose higher expected volatility is matched by greater growth potential.

Before proceeding to make recommendations based on your score, we want to be sure that you understand what that score number means and what its implications are.

We will discuss with you how investment gains and losses might differ between different risk levels, to give you a better idea of the outcome you could expect at each level. In this way we can agree with you whether your risk rating accurately matches your true attitude to risk.

Whatever the result of that initial discussion, we will carry out the same process each year at the annual review stage to ensure that your circumstances have not changed and that your attitude to risk remains the same.

Recommending funds in line with your risk profile score

Depending on the amount of capital that you have to invest and your willingness to pay for bespoke services will determine whether we recommend a managed fund solution, or a bespoke portfolio for you.

Managed funds are selected by our Investment Committee based on key criteria such as management and control of risk, asset allocation principles, and a robust research process. Such funds are typically managed very actively with at least monthly reviews of the underlying assets.

Where we bespoke portfolios for clients we use Asset Allocation principles. Asset allocation involves getting the balance of assets in your portfolio right. The funds available for you to invest in are categorised under different asset classes depending on their particular focus. These asset classes include cash or money market investments, UK fixed interest, international fixed interest, property, UK equity and international equity.

Different types of assets have different performance characteristics, so our aim is to allocate the right mixture of funds to your portfolio so that, over time, the peaks and troughs of their performance balance each other out in a way that is optimised for your particular risk profile and your expectations for growth.

Asset allocation is based on long-established and well-proven mathematical principles. We rely for this part of the investment process on Evaluate FE, the leading firm of Actuarial Consultants.

We should point out however, that even with this level of expertise behind us, we still can't guarantee that the volatility range of a particular asset allocation will not be breached occasionally. There is always the possibility of exceptional market conditions, due to unanticipated external events.

Monitoring and reporting

The performance of the various funds in your portfolio will differ over time. If left for a long period of time, therefore, the proportions of the different asset classes they represent will change and this could result in a divergence from your original risk profile. For example if equity funds outperform fixed interest, your portfolio left unaltered would move up the risk scale and vice versa.

We therefore rebalance portfolios every review meeting. If your risk profile score has changed we can also realign the asset allocation of your portfolio accordingly.

Investment committee

At 3 month intervals, our investment committee meets to assess the performance of our portfolios and their component funds. The Investment Committee looks for any outperformance - or underperformance - that might need further investigation. Funds are assessed using the same criteria as in the fund selection process. If the committee feels it necessary to change a fund within your portfolio before our next meeting with you, we will contact you and ask you to authorise the switch. Minutes of our investment committee are available on request.

Portfolio valuations are available at any time by request but otherwise we will provide them every six months or at the annual review if you prefer.