



# Smart Investment

An investor's guide to intelligent investing

Specific

Measurable

Achievable

Realistic

Time-based

# Welcome

Over the years, we've met many investors looking for the secret to successful investing. The simple truth is this: if there is a secret, it's been very well kept. Just as we all want the perfect investment, we know in the real world there is no such thing.

Our experience has taught us that the foundations of successful investing are simple, yet profound; they are:

- A. Define your financial goals
- B. Be patient
- C. Be disciplined

Most successful investors make their money over time, not overnight. Gambling, speculation and unnecessary risk-taking belong at the roulette wheel and cannot be part of a sound, sustainable, successful financial plan.

Although each successful investor is unique, and their plans are as individual as they are, we've found they all seem to follow the same set of guidelines, or 'rules'.

At Cheetham Jackson, we have selected the essential elements of successful investing and have come to trust and believe in them as part of our 'core' beliefs. We hope you will find these 'Rules of the Road' to be helpful to you as you consider your own personal financial plan.



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# The problem

## Change



## The world of investment and financial services is undergoing a time of much-needed change

For decades, the financial services world has been dominated by building societies, banks and insurance companies. And for many years, investors were reasonably well-served and complaints were few.

Today, however, things are different. Financial scandals such as the Equitable Life, the banking crisis, and the collapse of Northern Rock have damaged confidence in financial institutions and the trust placed in them has been seriously eroded.

In its response to the FSA's discussion paper DP07/1 the Financial Inclusion Centre stated:

*"...The scale of consumer detriment in the UK's long term savings and investment market over the past two decades has been such that reforming the market is one of the most important tests the FSA has faced in its existence.*

There have been numerous and diverse examples of market failure over the past two decades but these can be categorised into two broad themes:

- *the litany of high profile mis-selling scandals that have left a legacy of mistrust and undermined consumer confidence in the market; and*
- *lower profile, yet high impact market failures such as over-priced products, distorted competition, churning of products, and huge oversupply of products and providers in the market.*

*The lack of consumer confidence and market inefficiencies have been major contributory factors in the worrying levels of financial exclusion and underprovision in the UK..."*

Clearly, UK financial services institutions have failed to deliver the quality, value for money and high standards the public have a right to expect. It is high time that change took place.

The Financial Services Authority (FSA) has taken action to 'clean up' the financial services industry and is taking measures to tighten up regulation and ensure investor protection is substantially improved.

The outcome of this action is the Retail Distribution Review (RDR) and is arguably the single most far-reaching development taken in financial services since the Financial Services Act 1986.

## Poor Service

### Investors have been poorly served; they deserve more. Question: Why do clients leave their financial adviser?

A survey by Russ Alan Prince and Brett Van Bortel, 'The Millionaire's Adviser' (2003) shows that of those investors who leave their financial adviser, only 13% do so because of poor performance, but a staggering 87% leave because of poor service. Why is this?

- The traditional, commission-based model relies on the payment of commission to financial advisers by insurance companies and fund managers as a reward for promoting and selling their products.
- Financial advisers are paid by the product providers, and not by the clients they serve. As a result, poor service is endemic, and, though often promised, is rarely delivered at an appropriate level.
- This results in disillusion, disappointment, then the departure of clients who are not getting the ongoing service they need and deserve, and in desperation, they seek out other financial advisers, most of whom also work on a commission basis, who are then almost forced to recommend encashment of existing investments and reinvestment of the proceeds in new investments, with more new commission being charged, in order to generate the income they need to stay in business. This 'churning' of investments results in high costs, high commissions, and ultimately, it is the client who pays.

The present system rewards financial advisers for making sales to investors, not for providing them with service.

There are, of course, some existing advisers who do not regularly recommend changing investments in order to generate new commissions, and others work on a fee basis, taking no commissions at all. The problem for investors is finding an adviser who will put their interests first and foremost, and who are paid by the client, and not by others who have vested interests in generating sales.

# 87%

of investors leave their  
Financial Advisors because  
of poor service.



# High Charges

## In recent years investors have placed their trust in the established financial institutions but have often been poorly rewarded.

For example, homeowners have been unable to repay their mortgages because endowment policies failed to produce the returns they were expected to deliver.

Borrowers have been encouraged to take on ever-increasing debts using credit cards and unsecured personal loans.

And investors have taken stock market investment risks but have not been paid the full return for taking such risks.

You could be forgiven for expecting highly paid, highly skilled fund managers would be able to easily beat the returns provided by the UK stock market as measured by the FTSE All-Share Index. The truth is shockingly different:

No-one could reasonably object to paying higher charges if higher returns were achieved. But paying higher charges and getting lower returns just doesn't make sense. The investor is paying too much and not getting rewarded for the higher costs being incurred.

At Cheetham Jackson we believe the investor deserves more. Many investors are getting a very poor deal at the expense of commissions, charges, and expenses. It is time for change – it is time for investors to get the lion's share of the profits and that means the institutions and fund managers should get less – much less.

	Annual Return	£100,000	Invested Return
FTSE All-Share returns (1986-2003)	8.99% per annum	£432,088	100%
Published average UK fund manager	6.80% per annum	£305,992	29% less
Actual investor average return	4.10% per annum	£197,998	54% less

Data Source: Lukas Schneider 'An examination of the Difference Between UK Fund Returns and UK Fund Investors' Returns' July 2007

## The cost of investment is too high and must be driven down

### What is the true cost of investing?

Typically, investors are told the AMC<sup>1</sup> is 1.5% per annum.

But this is only part of the cost. There is more – much more. The truth is that explicit costs – TER<sup>2</sup>, and implicit costs, PTR<sup>3</sup>, add up to a much more expensive 3% to 4% per annum.

Initial charges vary from 3% to 8%, and from these charges initial commissions are paid by the financial institutions to financial advisers as payment for selling their funds; these charges are recovered by them from your investment funds.

Your fund manager has to make the investments grow in value by the same amount as the charges, simply to maintain the original value of the investment. Aiming to achieve higher returns to compensate for higher costs usually involves higher risk. In our view, this simply does not make good sense.



We have a simple question:

“Are you getting the return you deserve for the risk you are taking?”

If you're not, we recommend you take urgent action and review your investment planning.

At Cheetham Jackson, investors pay much lower costs, typically:

TER	0.47%
PTR	0.07%
Total (TER + PTR)	0.54% per annum (Cheetham Jackson clients)
Compared with UK average	3% to 4% per annum (typical retail fund charges)

UK Average Data Source: CJ Data 'Funds Library'

## Poor Advice

### The quality of advice is often poor.

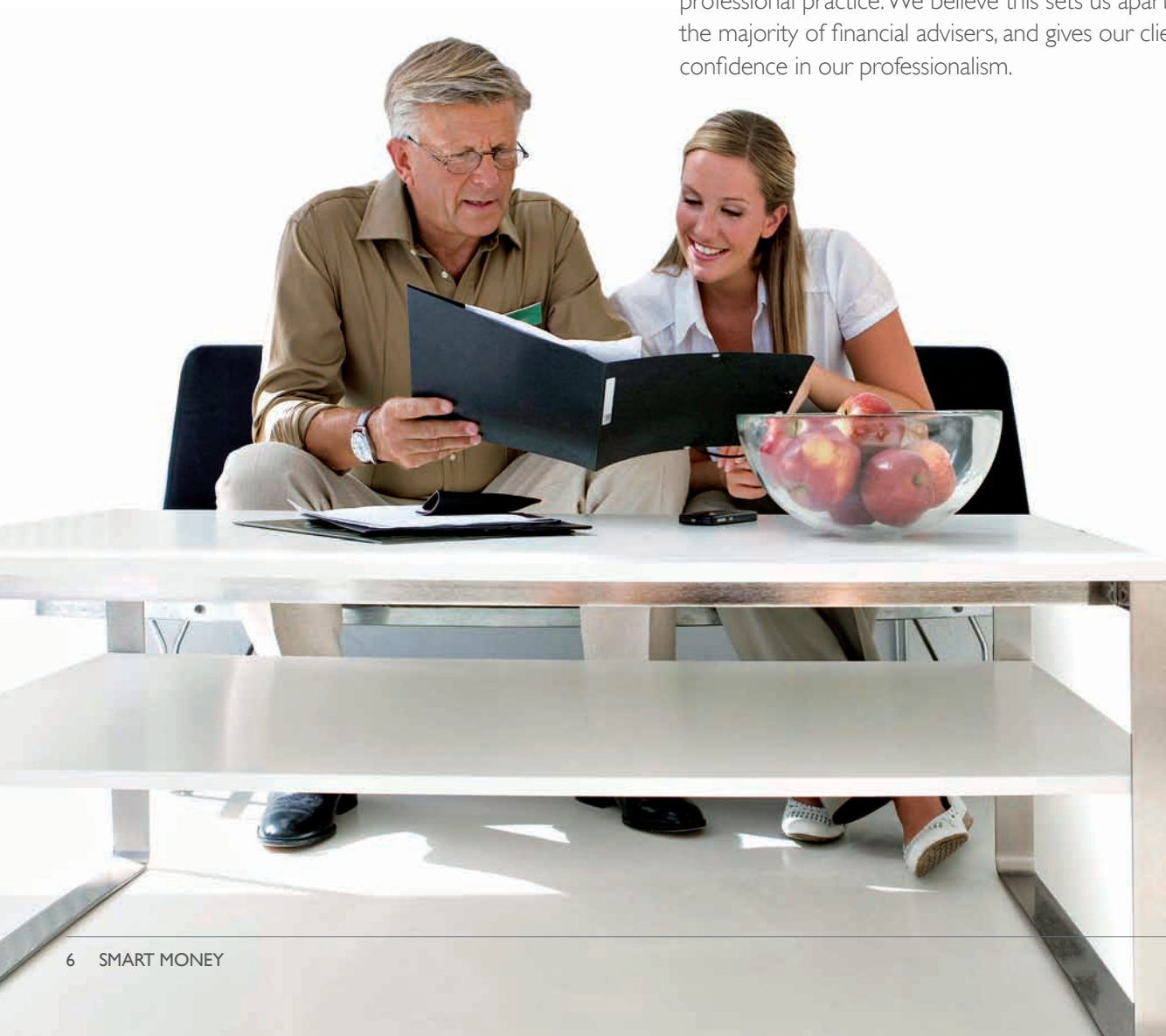
If you were undergoing open-heart surgery you would want the best qualified, most experienced consultant heart specialist you could find. You'd probably be very concerned if the person operating on you had only got an 'A' level in biology!

Whilst financial planning is important, it isn't as important as saving a life, but, nevertheless, most of us want to make sure our investments and financial planning are in good order and working hard for us. It is of concern, therefore, that unlike other professions such as Accountancy and the Legal profession, the majority of current practising financial advisers need only to be qualified to 'A' level standard in order to give advice.

Passing exams doesn't guarantee excellence in financial advice, but it has been widely recognised that financial advisers need to be better qualified. So, from 2012, all practising advisers must be qualified to Diploma level (similar to degree level) and, eventually, the achievement of Chartered status will be the aspiration of all professional advisers.

Ideally, good financial advisers will be both professionally qualified (by training and examination) and by experience.

At Cheetham Jackson we are committed to achieving the highest levels of training, qualification, and good financial advice. As a Chartered Financial Planning practice, we already meet the standards and ethics required for a truly professional practice. We believe this sets us apart from the majority of financial advisers, and gives our clients confidence in our professionalism.



# The solution

## Identify Your Goals And Strategy



Experienced travellers will tell you that getting there is half the fun. However, unless you know where you're going, you can waste a lot of time, money and effort along the way. The same can be said of investing.

When you're planning a journey you must know three essential facts:

- 1 Where are you starting from?
- 2 Where are you going to?
- 3 How will you get there?

But how do you start out? This can be quite daunting! Stock markets, financial institutions and fund managers offer a bewildering choice of investments from which to choose. And so many of them appear to be attractive, successful investments, it isn't difficult to find some you'd like to own. The problem is, how do you choose the best ones?

The most important factor in deciding an investment is not its yield or tax advantages; it's your long term objectives. And an experienced, professional financial planner will work with you and help you navigate your way to success and avoid the pitfalls that can all too easily result in failure.

Although that sounds simple, it's not always easy to put into practice. The most successful investors aren't interested in frequent trading for short term profits. They plan for the long term, their goals are clearly defined and 'SMART' (Specific, Measurable, Achievable, Realistic, and Time-based).

Many investors who approach us often have a collection of different investments they've acquired over time, but they are often unsure about their quality and suitability. We can provide an audit of their investments, setting out in jargon-free language a schedule and analysis of each investment held, and how they may (or may not) meet the investor's needs. This is often the first time investors have a clear understanding of their existing investments. In other words, as they begin their financial planning journey, the investors understand precisely where they're starting from.



## Reduce risk and improve returns

### Investors are often asked: “What level of risk are you willing to accept?”

We believe that successful investing is achieved by asking a different, more relevant question:

*“What rate of return do you need to achieve your goals?”*

Generally speaking, the lower the rate of return required, the lower the degree of risk needs to be taken. We recommend you never take more risk than is necessary to achieve the rate of return you require.

## Focus on your goals

What are your goals? You may want to help pay for your child’s education, for example university fees in 10 years time. Or you may wish to plan for a comfortable retirement, providing an adequate, rising income for the rest of your life. We all have specific goals or aims in life, and writing them down will help you define and prioritise them.

So, we recommend you write down your specific objectives, the timescales involved, and the levels of return required. We also advise you to prepare a budget, so you know how much your income and expenditure are. You may be surprised that with care, you can begin saving regularly from the start, and the benefits of regular investing cannot be over-emphasised.

## Staying focussed

There’s a well-known saying: “Fail to plan and you’re planning to fail”. We agree whole-heartedly and as you begin to implement your plan you will begin to succeed. But that’s just the first stage.

You also need to stay focussed and make sure your plan remains ‘on-target’. Like the journey from start to finish, we recommend you keep to the planned route, and resist the temptation to make a diversion.

You may see an investment that appears to offer outstanding returns, or receive a special ‘limited offer’ that is only available for a week or two. Be careful, and be wary. Such offers are designed to get your attention, but rarely fulfil their initial promise. By being disciplined, having a plan, and sticking to it, you can avoid the dangers of diverging from your planned route and possibly wrecking your financial security.

On long-haul flights covering thousands of miles, aircraft can be subject to head-winds, cross-winds, changes in air-pressure, and sudden and, sometimes, extreme turbulence. Such phenomena can cause the aircraft to be blown off-course, delay the arrival time, and require the pilot and crew to constantly monitor and correct the aircraft’s flight plan, to ensure the final goal is reached.

It’s just the same with your financial plan. Even the best plans will need constant monitoring, adjustments, corrections and high levels of professional expertise to ensure the goal is reached. Your financial planner is like a pilot, trained and qualified to ensure you arrive at your planned destination. Both investor and financial planner need to regularly review, correct and monitor progress. By staying focussed and working as a team, your financial planner will earn his fees, and you will attain your financial goals, safely, and on time.

# Planning

## Design, and then Implement your financial plan

### Write down your strategy

What will be your personal strategy? How will you decide which way to go? What actions will you take to be confident of achieving your goals?

For many, these questions can be daunting. You know you need to design and implement your own financial plan, but how do you actually go about it? We recommend you work closely with your financial planner, and enlist his (or her) knowledge, experience and expertise to help you design your plan.

### Implementation

The planning process will ensure you have a clear understanding of your plan and how it will help you achieve your goals. You will have begun to develop a professional relationship with your financial planner, and as your financial planning knowledge develops, and the benefits of the financial plan develop, you will start to implement the plan and begin the journey to achieving your goals.

We have a simple piece of advice to all investors:

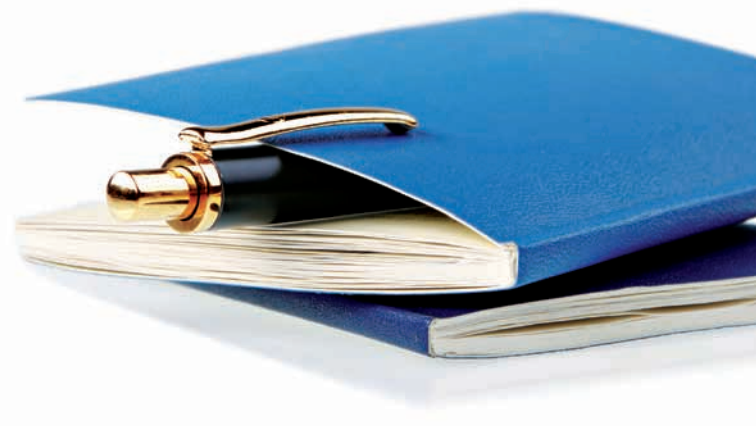
***“If you don’t understand the recommendations, don’t follow them”***

Investors sometimes approach us and ask us to review their existing plans. This may be because they are dissatisfied with their investment returns, or the lack of service from their existing advisers, or because they simply don't understand what they've been sold.

With a written strategy, listing your goals, timescales, and the investment returns needed, you are far more likely to achieve financial success. Your financial planner will take time to ensure you have full control of your plan, help you understand the processes involved, and show you how the plan will benefit you. You will also acquire the discipline you'll need to avoid short term distractions, and avoid making the mistakes the majority of investors make.

Whilst we cannot account for the poor service from existing advisers, we can help investors understand what they've purchased, and how suitable (or unsuitable) the investments are. And we always take the time to make sure our clients understand the recommendations we are making, and the reasons why we are making them.

Once we have made sure a client understands the plan, we implement it. And we work hard to establish and maintain a professional ongoing relationship so that as the plan develops, our clients are kept informed and aware of the progress of their investments.



# Diversify

## Asset allocation – the key to successful investing

“Don’t put all your eggs in one basket!” is probably the most succinct way to describe ‘spreading the risk’! By allocating your investment capital in a range of different assets and asset classes you will ensure you have a balanced diversified portfolio that will serve you well over time.

Over-investing in one share, or one sector can result in disaster. Recent examples include the financial turmoil in Greece with its economic crisis. The problems with BP saw its share price and dividends severely affected. A diversified well-spread portfolio reduces risk and moderates volatility.

Consider the average investment returns, after allowing for inflation, actually provided by each of the major asset classes, Cash, Gilts, and Equities<sup>4</sup>:

### Cash

Over the long term money on deposit has returned on average, just 1% above inflation<sup>5</sup>. £1,000 invested in 1900 would be worth £2,958 today.

### Gilts

Likewise, returns on gilts have averaged 1.3% above inflation, turning £1,000 in 1900 into £4,087 today<sup>5</sup>.

### Equities

The UK stock market has returned an average of 5.4% p.a. above inflation, turning £1,000 in 1900 into £308,763<sup>5</sup>.

The conclusion from these figures appears clear-cut! The best investment returns are from the stockmarket! Whilst this is true over the long term, over the short term returns can be much higher, and just as importantly, much lower than the average. Our advice is simple:

***Don’t leave all your money in the bank  
(or the stock market)***

It’s just as foolish to invest all your money in the stock market as it is to leave it all in the building society (or the bank). Wise investors will spread the risk by investing some of their money in stocks and shares, some in fixed income investments like gilts (government stocks) and corporate bonds, and some in interest-paying cash accounts. When you do this, you will ensure you diversify your investment into a range of different asset classes, thereby significantly reducing risk.

Perhaps one of the most important questions is: “**How much should I invest in each asset class?**” Naturally, all investors want the maximum return with the minimum risk. Common sense tells us this is impossible.

Put all your money in the building society (or bank) and, at best, over time, you may just keep ahead of the return needed to beat inflation.

Put all your money in the stock market and one year you could see growth of 30%, 40% or even 50%, and another year you could see it lose 30%, 40% or even 50%. However, over time, stock markets have produced the best returns of all, beating inflation (which averaged 3.9% p.a. over the past 100 years) by more than 5% per annum.

# +5%

**Stock markets returns have beaten inflation by over 5% p.a. since 1900.\*\***



We believe the answer to the question is::

“A balanced, diversified portfolio investing in a wide range of investments is the best way to achieve the returns you need.”

## Diversify globally within each asset class

Today, the UK stock market represents just 9% of world stock markets by market capitalisation. Surprisingly, many UK investors still invest most or all of their stock market investments solely in the UK. This means they are missing out on the growth potential from the rest of the world, including economic giants like the US, and fast growing emerging markets in China, India, South-East Asia, Latin America, Africa, and the Middle East. To further improve diversification, and gain access to the remaining 91% of the World's stock markets, we recommend a global stock market portfolio which includes not just the UK, but the rest of the world as well.

In the same way, we recommend investing from a range of gilts, government bonds, corporate bonds and similar fixed income securities on a global basis, and not just in UK securities. In this way, you are able to capture some of the best returns available globally, and avoid being over-exposed to a small sector or area, with the corresponding increased risk that involves.\*\*\*



## Cut Costs

### Reduce costs, avoid commissions, and secure fee-based advice

You may be concerned about the costs of investment, and rightly so. There is compelling evidence that shows investors are paying far too much for the investments they buy, and that financial advisers who earn their income from commissions can be influenced by the offer of higher commissions from different product providers.

As already shown in this guide (see page 7), we are concerned about the costs of investment, and believe that payment of commission for financial advice is fundamentally flawed. The only way to be sure of getting unbiased, impartial advice is by removing commission payments from the provision of advice.

We also believe the provision of advice is the most valuable service we can offer to investors, and so we concentrate on adding value and driving down costs. As a result, it is possible to reduce investment costs significantly, by as much as 60%, 70% or 80%, increasing the potential to achieve better investment returns over time.

Fee-based advice is entirely separate from the investment and transactions, and is paid by the investor to the financial planning firm. In this way, the client can be confident that there is no potential for commission bias, as the financial planner is paid exclusively by the client, and has no other source of revenue.

# Patience and Discipline

## Invest for the long term

There's an old saying that's as true today as it ever was:

*“A fool and his money are soon parted!”*

'Get Rich Quick' schemes will always attract the naive, inexperienced individuals who usually have more money than sense. Then there are the lottery winners, and those who buy premium bonds and 'come up' on 'ERNIE'. However, they are very much in the minority and, statistically, you are more likely to be struck by lightning than winning the lottery.

Most successful investors make their money over time. We believe the most consistently successful strategy for building long-term financial security is to own a balanced, diversified portfolio, and to plan to hold those investments for the long term.

Historically, equities (stocks and shares) have provided higher returns than any other type of investment. We know that past performance doesn't guarantee you'll experience the same results in the future. But investing in, and getting a share of, successful companies' profits in the form of dividends, and holding those shares so that over time they rise in value, is in our view, a proven, successful way to build your wealth over time.

The value of shares, and their dividends can rise and fall, and as companies go through the business cycle, their values and dividends can and will fluctuate. That's why it's important to invest for the long term and to stick with the plan.

## Timing the market? Or time in the market?

Many investors believe, and are encouraged to believe, they can somehow predict the future prices of shares, and thereby buy low and sell high. This seems simple enough, but is, in our view, impossible to achieve consistently. When stock markets are rising, there is an almost over-whelming temptation to 'buy in' and when they are falling, there is an even stronger temptation to 'sell out'.

We believe this is akin to gambling. Speculation on the future prices of investments is gambling. We know of no stock-broker or fund manager who can predict the future prices of investments with any degree of accuracy. Therefore we do not recommend speculating or gambling with investment capital.

Instead of trying (and failing) to 'time' the market, we recommend a proven successful alternative: simply put, it is time in the market. Investing in a balanced diversified portfolio with a 'buy and hold' strategy is our recommended strategy. Interestingly, it is the same strategy as that used by one of the most successful investors in the world, Warren Buffett, and if it's good enough for him, we think it's good for our clients, too.



## Work in Partnership

So often we meet investors who have made investment decisions without a clear understanding of the investments they have made, or without a clearly defined financial plan which they review regularly with their financial planner.

Without understanding and clarity there is confusion and often fear, especially when stock markets experience volatility and turbulence.

We are passionate about helping our clients achieve their goals. We believe it is essential that clients gain a clear understanding of financial matters. This comes from education, explanation, information and a two-way process so that we as financial planners understand our client's needs and our clients understand how their personal financial plan can help them achieve their goals.

That is why we spend so much time meeting our clients, listen to their fears and concerns, and work closely with them to explain, inform and educate them so they achieve a full understanding of their financial plan. With this understanding and knowledge clients take ownership of their financial plans, and thereby significantly increase the success of their personal financial plan.

**We believe it is essential that clients gain a clear understanding of financial matters.**

## Review your financial plan regularly

Imagine you are a gardener, and you decide to neglect your garden. Each year, you fail to tend the garden, and simply let it grow wild. Picture the garden after a few years: what would it look like? The answer is it would no longer be a garden, but an overgrown, unkempt wilderness.

So it is with your financial plan. If you ignore it, neglect it and leave it untended, don't be surprised if it starts to go wrong and stops producing the returns you had planned for.

It is at least as important to maintain and review your financial plan regularly as it is to design and implement your plan at its inception. Yet so often, investors start their plan with the best intentions, but fail to maintain and regularly review their plans.

We are passionate about serving our clients, and a centre-piece of our core values is the delivery of regular planned review meetings. We ask clients to agree to a review meeting every six months so that we can ensure the plan remains 'on course', and that together we can take account of any changes.

## Re-balancing

We also pursue a rigorous policy of reviewing the performance of your portfolio, and commit to 're-balancing' your portfolio at regular intervals, in consultation with you.

Re-balancing is necessary because, over time, some elements of your portfolio will grow faster than others. Consequently the portfolio will start to get un-balanced,

and will often have too much money invested in stock markets. By taking some of the profits, and re-balancing the portfolio, it is possible to maintain the integrity of the original plan and ensure it doesn't become over-exposed to one asset class.



# Cheetham Jackson

## Invest for the long term

At Cheetham Jackson we are passionate about providing our clients with the expertise, service and time in order that they achieve their financial goals.

The world of **Financial Services** needs to change. We believe our clients deserve, and have a right to expect, and receive more.

## Why Cheetham Jackson?

### We have a simple Vision:

*“A Commitment to Excellence in all that we do with a singular focus of guiding all our clients towards the achievement of their financial goals”*

Our 'core beliefs' are listed below:

- Your success is our success
- Service is all
- Trust comes from information and education, doing what was promised, building an effective partnership
- Less cost equals more return
- Mitigating risks whilst maximising returns
- Continuous improvement – the pursuit of excellence



Our clients share our beliefs and by serving them we are able to help them achieve their goals – and ours.

If our beliefs resonate with yours, we would be delighted to discuss how we could help you achieve your financial goals.

We hope this booklet will help you make the right decisions about your financial planning. As professional fee-based advisors we work hard to add value and help our clients achieve their financial goals.

### The next step...

To find out more about the way we work, and how we can help you to achieve your personal financial goals, we offer an initial meeting where you can meet one of our Financial Planners. This meeting is without charge or obligation, and can be held at our offices, or alternatively, at your home or place of work.

Whether you are an experienced investor, with a detailed understanding of the investment world, or new to the world of investments, and uncertain about the best way to plan for your financial future, we can offer you impartial, unbiased professional advice.

## Notes

- 1 "AMC" Annual Management Charge
- 2 "TER" Total Expense Ratio (this includes the AMC as well as other costs)
- 3 "PTR" Portfolio Turnover Rate (how frequently holdings are traded within the fund)
- 4 Inflation as measured by the RPI (Retail Prices Index)
- 5 Returns from Barclays Capital, WM, FTSE and Sarasin & Partners LLP
- 6 Occasional Paper Series 6 "The Price of Retail Investing in the UK" Kevin James, FSA

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a local advisor please contact us:

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