Chesterton House

Our Investment Process

Your guide on how our investment strategy works

Call us on 01509610472 | Email us at advice@chestertonhouse.co.uk | Visit us at our office

Welcome

Here are some basic investment principles that have worked for literally thousands of years:

- Have clear objectives
- Do your research
- Diversify
- Leave your emotions out of your decisions
- Re-balance

These ideas are not new. But it's surprising how many people don't practise them, including many so-called investment specialists.

Where they go wrong is to focus on the money, instead of focusing on the purpose of the money.

That's why, when you come to us for investment advice, we'll begin by talking with you about what you want to do with the money you accumulate. And then, only then, is the time for you to decide what to do with your money.

At Chesterton House we believe you should be able to live a great life and leave the investing to us, yet we like to remain transparent about our investment process.

This guide has been put together so that you can see our process for investing. We hope it will bring some clarity surrounding the subject, so you can make an informed decision.

Our Process

1 We'll agree your cash requirements with you. We'll agree with you: how much you need as working capital, what emergency fund to set aside, how much cash you'll need to fund your short term goals, and whether to keep a reserve of cash to meet planned withdrawals. This money will be invested in cash deposits or other low risk areas.

2 We'll then agree the expected investment timescale for the rest of your portfolio. If you've set aside money for likely contingencies, this timescale could even be "forever" (or for the rest of your expected lifespan, whichever is longer!).

3 We'll then help you to invest this long term portfolio in a way that maximises the likelihood of achieving your goals. We are long term investors, and won't make investment recommendations on the basis of short term market events. We believe that the greatest rewards for investors are achieved by taking a long term view and being prepared to ride through market price changes.

4 We will not recommend investing in assets such as shares or property where there is a likelihood that any part of the money invested will be required within the next five years. You should not commit money to asset investments unless you can take this long term approach. You should consider that you're in for the long term. Why? Because that's where the best results come from.

5 We believe that, after taking a long-term view, the next biggest factor affecting investment success is asset allocation. 'Asset allocation' is the term used to describe splitting a portfolio between different types of assets such as shares, bonds, property and commodities. Expert asset allocation is the biggest single determinant of portfolio returns, and it is a major strength of the Chesterton House team.

6 We recognise the inherent uncertainty of market and economic conditions, and the investments that we will recommend for you are therefore designed to be capable of adding value across a wide range of such conditions. This Scenario-based approach means that our portfolios hold positions that hedge one another. When combined with periodic re-balancing, our experience over many years has shown that this style of investing delivers much better results over time than a highly active approach to asset allocation. This is where the manager or investor seeks to guess which asset class will out-perform the others and so heavily overweight it in the portfolio.

About our approach.

We are convinced that the approach described is sensible for long-term asset allocation. But there are times when our view of near-term conditions may make the strategic asset allocation less than ideal, either because it introduces more risk, or by missing clear opportunities.

In these circumstances, and only where we hold a strong conviction, we will 'tilt' our strategic asset allocation models accordingly.

This is, however, the exception. In general we hold to our strategic model of asset allocation, designed to weather changing economic conditions.

Here's what you need to know.

A properly constructed investment portfolio will contain elements invested in different types of holdings, and it is the balance of these and their relevance to achieving your objectives that is the most important and influential part of the financial planning process.

Don't try to guess when to invest. Trying to decide the best time to invest - market timing - is extremely difficult.

Studies by Brinson, Hood & Beebower[1], which considered the results of 91 large pension funds, found that in aggregate, professional managers added very little performance through 'market timing'. It's also our practical experience that, most of the time, market timing doesn't work. Over the years, we've found that attempting to make short term judgements about likely future price movements is not an effective basis for investing. In other words, in the long run, it's more risky not to invest short-term in a particular asset, than to invest in it.

If you accept the desirability of placing money into certain assets such as shares, bonds or property, that decision should be implemented without delay, other than in extreme market conditions.

Choosing the specific investments that will make up your portfolio is one of the later decisions that you should make in constructing your portfolio - although, in fact, it's usually the decision that most investors (and plenty of financial advisers) focus on first.

We're here to help.

Our role is to help you to select the investment managers that can offer the potential for out-performance. We believe that there are managers who can add value consistently over long periods of time; that there is evidence to show that those managers can be identified in advance; and that we can therefore guide our clients to these managers and enhance portfolio performance.

You may have noticed that life doesn't tend to stay the same for long. Conditions and circumstances change as do your own needs, goals and objectives.

It's for this reason that regular progress meetings are an essential part of our service.

These meetings enable us to adjust your investment profile, cash holdings, short term investments and income withdrawals to meet your changing financial plan. By taking this approach, we are prepared for future expenses and can plan for them, knowing that we won't need to sell investments at the wrong time or make large-scale changes without careful consideration.

It's also why we limit the number of clients that any of our advisers will accept. This policy ensures that we aren't diluting our efforts and spreading ourselves too thinly and trying to do too much in too little time.

We are with our clients for the long haul.

Our philosophy is that you leave the worrying about investment analysis to us and go and enjoy life, however if you do want to know more about how we create our strategies please get in touch.

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