



Chamberlain

WEALTH MANAGEMENT

What's inside?

- Pg 2 The pitfalls of picking winners
- Pg 2 Punter parrot
- Pg 3 Guest article – Derek Cook of Sydney Mitchell Solicitors on **Trusts**
- Pg 4 Riders for Health
- Pg 4 The usual suspects

For Clients, Potential Clients and Friends

nurture

Quarterly Newsletter
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Welcome to Nurture. This is the first edition of a quarterly newsletter from Chamberlain Wealth Management. I hope that you will find something inside to interest you, whether this is some aspect of our investment philosophy, a simple tip or the latest developments at Chamberlain.

Our clients will already know that, at the start of the year, we moved to spacious new accommodation virtually over the road from Birmingham's Mailbox development, regional base of the BBC.

This move was one of the stages in Chamberlain's evolution towards a fully-fledged wealth management company, independent of commission and other indirect remuneration arrangements of product providers. We are embracing the changes that will come out of the Retail Distribution Review (RDR) and which will, ultimately, drag those advisers who have not already remodelled their operations kicking and screaming away from the pernicious commission habit. Those unable to wean themselves away from their fix will fall by the wayside.

When thinking about the content of this type of Newsletter we inevitably cast our eyes over the publications of other firms. This exercise has revealed the astonishing number of retrospective prophets out there. It is virtually impossible to read the musings of some principal or chairman without being reminded

how they foresaw the market collapse of the last couple of years. Well done them! I can't honestly claim to have forecast in May 2007 the FTSE nosedive of October 2007 onwards. Perhaps memory is playing tricks on me but I can't recall reading the prognostications of these sages at that time either. Therefore, even though I am sure I won't be able to resist giving myself the odd pat on the back now and again, please, please, please ring me immediately if you find my tone becoming too self-congratulatory.

I hope that over the coming months it will become clear we believe that successful wealth management is not about crystal balls, regardless of how much the fortune teller is backed up by the latest software and data streams. The most important factor is the type of common sense enshrined in age-old proverbs. Obviously we will try to sound a bit more sophisticated than simply advising you not to put all your eggs in one basket, not counting unhatched chickens and that all that glitters isn't gold but, actually, if you grasp that, you're probably more than half way there. **Robert Pryjmachuk**



Robert Pryjmachuk

Robert has 22 years in the Financial Services Industry. He has seen a lot of advisers come and go along with almost as many investment fads.

He co-founded Chamberlain in 2002 after many years experience in top advisory and board level positions with some of the country's largest institutions.

Robert has been a long-standing advocate of the principle that the first goal of wealth management is wealth **preservation**. It has taken a major financial crisis to vindicate this approach.



Class Assets or Asset Classes

Many see the role of the financial adviser as being a diviner of choice investments, his success being defined by his ability to select winners repeatedly and thus increase the wealth of his client. Just in case one of these guru tipsters proves hard to find, David Love suggests that a back to basics approach might help.

Every so often someone backs a winner. In fact, given enough time or enough punting opportunities nobody can avoid the odd success.

For years I had my one annual bet on the Grand National because at the age of 14 I picked out Specify at 28/1. Unfortunately, my Dad never got around to putting 10p on for me and so I can only imagine how I might have spent my riches of £2.90. Nevertheless, this persuaded me that I was getting the hang of this gambling thing and every year thereafter I invested my loose change in an inspired selection, never to see a penny of it again. After twelve years of disappointment I realised that I was the bookmakers' friend and decided to spend my loose change each year on something sensible – like beer.

Thus, I say to the congregation, isn't that a bit like life in the world of investments?

Because we occasionally enjoy a healthy return from the odd stock or a fund that exceeds our expectations, we allow ourselves to believe that whatever "system" led us to pick that winner will inevitably reap rewards. Worse still, we believe an adviser when he says that he has a system, particularly when he can produce lots of graphs and tables. Deep down we know that it doesn't work with gambling so why should it with investment?

Sadly at Chamberlain we have to admit that, in spite of the software and expertise to which we have access, we don't feel that we're very good tipsters.

So we don't bother.

Instead we start from a position that is as childishly simple as we can manage. We make the fairly uncontroversial assumption that there are 4 main asset classes – Cash, Property, Fixed Interest and Equities (which, admittedly, rather ignores commodities but for now we will class them with equities as they share their volatile characteristics). In future editions of Nurture notes we will examine each of the asset classes in more detail but, for now, let the broadest of definitions suffice.

Cash: Currency, cheques, etc. Also would include deposit accounts, treasury bills and bank floating rate notes etc. all of which should be readily convertible back to hard currency.

Fixed Interest: Arrangement where a rate of return is guaranteed by a body to which the investor effectively lends money, eg Government (gilt) or corporations (bond) of varying creditworthiness.

Property: Buildings, either standing or under construction. Single properties can be held or a share in a range of properties or a share in a single larger development. Also, shares held in property companies.

Equities: Shares in limited companies with investor liability limited to the value of the share holding. However, possible to lose entire investment if issuing company becomes insolvent.

Our contention is that, given a basic understanding of the 4 asset classes, any reasonable man in the street would understand a "balanced" investment to be one which results in an even split of holdings across the 4 sectors, ie 25% of a portfolio in each of these sectors. Our view is not shared by the vast majority of fund managers who believe that there is nothing wrong with a balanced managed fund holding up to 80% of its value in Equities. This perhaps explains why the sector average return for "balanced managed" unit trusts has made a loss of 0.82 from the end of March 2007 to the end of February 2010 whilst our model balanced portfolio gained 0.58% over the same period (+ 3.41 excluding property).

We do not pretend that we can spot "value" amongst individual funds. We are content to select solid performers with representative exposure to the market sectors. Clients may decide that they would prefer higher exposure to one asset class than another and accept that the risk/reward balance will change accordingly. Inevitably over time the investment performance means that some sectors will return better than others and that, therefore, the balance of the portfolio will shift from the original profile. We therefore recommend that the assets are rebalanced to the original distribution and in so doing ensure that we are managing **risk** rather than returns.

We believe that managing risk is possible but to manage returns is like herding sheep in a wolf enclosure. Without a dog.

For a more personal view of the dangers of return-chasing just chat to any member of the BT pension scheme or, come to that, anyone who uses BT's services, as they will soon be paying for BT's £8.8bn pension deficit. Since privatisation 26 years ago the scheme's fund manager has chased returns from relatively risky shares and funds, a strategy that is thought to account for about half of the scheme's problems. Who benefits from the buying and selling of risky investments, as it is certainly of dubious benefit to the large proportion of members who are actually in retirement? Why, the fund's investment managers of course! How so? Because they make more money from actively "managing " the fund in the form of trading commissions than they would by retaining safer investments.

So we don't promise to pick winners (or, as an IFA I once knew called them, "nice units"). We stick with an asset distribution and accept that the ride might be bumpy in the short term but nowhere near as stomach-churning as for the tipster strapped to the back of the sure thing winner.



In July last year a parrot from South Korea competed with 10 human investors in a stock-picking contest. Strawberry (5) picked from 30 blue chip companies whilst the more sophisticated humans traded shares of small and medium sized companies, averaging 190 trades over 6 weeks. The humans averaged a 4.6% loss. Strawberry made a 13.7% gain and came third.



Trusts can still help to preserve family wealth

says Derek Cook of Sydney Mitchell solicitors

Based at the firm's Birmingham office, Derek has over 40 years experience in Private Client matters, including Tax Planning, Trusts and Probate, Court of Protection and complex matters including statutory Wills. Derek is a specialist in the mitigation of Inheritance Tax through tax planning and lifetime arrangements, and also has vast experience in dealing with large estates including agricultural property.

Trusts have been the subject of much debate since radical changes to their inheritance tax treatment were introduced by the Finance Act 2006. Many claimed that this would spell the end of trusts but our view is that trusts still have much to offer, particularly in succession planning and mitigation of inheritance tax.

What is a trust?

A trust arises where assets are transferred by one party ("the settlor") to other individuals ("the trustees") to hold for the benefit of others ("the beneficiaries"). The trustees owe a duty of care to the beneficiaries when managing the trust assets. A trust can be set up during your lifetime or under the terms of your Will.

Why would I want to set up a trust in my lifetime?

There are various types of trusts but the most useful is the Discretionary Trust. If assets are put into this type of trust and you survive seven years then they will not form part of your estate on death. Assets can also be transferred into them generally without incurring a Capital Gains Tax charge. So one or more of the following may apply to you:

- Succession planning - you may wish to pass on shares in a family company or other business interests to your children, but worry that they lack business experience or that the shares will be at risk, say, if they divorce in the future. By using a trust, you can take advantage of reliefs for "qualifying" business assets and benefit your children, but still retain decision-making power and overall control of those assets by being appointed as one of the trustees.
- Estate and tax planning – you may wish to start passing monies or property down to the younger generations, but consider that they are not yet ready to hold those assets in their own right. A trust will allow you to provide for your children or grandchildren and begin the process of passing assets out of your estate for inheritance tax purposes, but again retaining control as a trustee.

Inheritance Tax. Why not just pay it?

Derek Cook has indicated the many uses for Trusts and shown that they are for so much more than just IHT mitigation. However, a very high proportion of the people we meet see trusts as magic wands that waive away all IHT concerns. I think that a conversation with someone like Derek would soon disabuse them of that notion and make them think very carefully about the dangers of tying funds up in some of the more impenetrably complicated schemes that are touted as panaceas for all IHT concerns. An obvious point to bear in mind is that the more likely an arrangement is to deprive the treasury of what it sees as its fair share of your accumulated wealth, the more likely HMRC are to take umbridge and, if they cannot challenge the set-up successfully in court, press for legislative change.

However, HMRC are most unlikely to object to any arrangement that simply makes provision for payment of the tax when it falls due. A last survivor Whole of Life policy, written under an appropriate trust to ensure that it does not add to the value of your estate is an uncontroversial estate planning measure. For a male aged 60 next birthday and his wife aged 57, both in good health and non-smokers, £100,000 worth of cover on a guaranteed sum assured basis could cost about £116 per month. Without interest it would take them 72 years to accumulate a similar amount from the same level of monthly savings.

Robert

Charity Begins Abroad (So Robert gets on his bike)

When deciding on a charity to adopt it is difficult to know where to start. Robert felt that he wanted to help people in a part of the world that he has come to know well and where he has seen some of the problems that the people face at first hand. He hopes that his choice therefore will improve medical provision and access for the inhabitants of the Transvaal and, oh yes, motorbikes may have been involved – so that helped a bit.



UNEASY RIDER

'We have developed the most miraculous tools for dealing with the health of humankind. But the best tools in the world don't make a bit of difference if they don't get out to where they're needed.' Nils Daulaire - former CEO and President, Global Health Council.

In Africa millions of people are dying from easily-preventable diseases because health workers do not have the reliable transport to reach them. By ensuring health workers have access to vehicles that never break down **Riders for Health** is making sure millions of people across Africa receive regular, reliable health care, often for the first time in their lives.

Robert rode from Port Elizabeth around the Transvaal covering a distance of about 1,000 miles falling off just once and suffering only one break – his right wrist. This made it worth the sponsor money of his generous supporters but meant Rob was unable to waive effectively at a passing Ewan McGregor. The charity benefited to the tune of £4,000, which will be used to service their fleet of vehicles, which consists, primarily of

motorcycles. Here are some comments that give some idea of the impact that **Riders for Health** is having.

'Before [we received a vehicle under the Riders' TRM system] we could not rely on the ambulance to get to remote areas. We would not go because we could be afraid that we could not get back'. Community Nurse, The Gambia.

'In 1999 there was a cholera epidemic in my area with 99 recorded cases. The motorcycle enabled me to effect follow-up visits that saved lives, where death would have been inevitable. I have assisted in malaria control and flood disease prevention where, truly, motorcycles have saved lives.' M Marime, environmental health technician.

Who's who at Chamberlain?

You will meet them individually in the next few editions of Nurture, but for now...

Lorraine Clarke

Since joining the Financial Services Industry in 1978 as a Pensions administrator with Scottish Life, Lorraine has found time to have 3 children, climb the three peaks (admittedly in 3 days) and spend 3 years working for the MoD. She has been with Chamberlain since 2007, which is, err, 3 years. Lorraine shares the responsibility for looking after our clients' administrative requirements with Joanne Fleming. Her idea of a good time is a wet, windy week-end in Wales.

Joanne Fleming

Since joining the Financial Services industry in 1988 as a life and pensions administrator with Norwich Union, Joanne has worked alongside Robert for 12 years, finding time to have one child and to

discover the delights of Koh Samui, Dubai and Andalucia. She is currently working hard to develop her technical understanding of soft play and toddler facilities around the Coventry area. Her idea of hell on earth is a wet, windy week-end in Wales.

Kerry Georgiou

Chamberlain's marketing manager and Robert's P.A. began working in financial services at the age of 16 but after a year was poached to manage a small automotive business. Returned to financial services in 2001 and a year later was one of Chamberlain's original team. She is a seasoned fund-raiser and, for reasons best known to herself, last year took and passed her full motorcycle test, enabling her to enjoy 70 mph wet windy week-ends in Wales.

David Love

Resigned himself to a financial services life with Eagle Star in 1979 after being watched by a Wolves goalkeeping scout and conceding 10. He was in charge of IFA sales and technical support for the Midlands region when he left Eagle Star in 1995 and for a completely different experience established what was, at the time, the West Midlands only independent bookshop. Joined Chamberlain in 2002. Quite enjoys a wet, windy week in Cumbria but wishes it would alliterate better.

Robert Pryjmachuk

Co-founded Chamberlain in 2002. Has already taken up enough space in this edition and has no particular views on wet, windy etc...



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