

MONTPELLIER GUIDE TO INVESTMENT FUNDAMENTALS



At Montpellier we focus on diversifying our clients investment portfolio's to try and reduce the overall volatility and risk by including a spread of different types of asset class.

We look at our clients total estate as well as the investments that they hold with us to ensure that their portfolios are diversified and that risk is reduced where possible.

Investors can generally reduce risk on a portfolio by holding a range of different asset types. Each of the key four investment classes tend to perform well in certain market conditions and by broadening the portfolio across a range of areas should mean that any fluctuations caused by financial and economic events can be smoothed out.

The Four Main Asset Classes

Cash

Cash deposits provide a high level of security for an investor. Over the long term however cash deposits may be eroded by inflation. Although cash deposits are currently paying very low levels of interest all clients should hold some cash which may be used in emergencies or in the event of a buying opportunity!

Fixed Interest

Fixed Interest Securities or bonds are issued by Governments, companies and other official bodies as a method of raising money to finance their longer term borrowing requirements. The investor is then technically lending money to these organisations and the owner of the bond is then entitled to receive a regular interest payment as well as a predetermined lump sum at the end of the term.

Property

Property is an asset backed security and provides investors with the opportunity to invest into an asset with different characteristics to many other investments.

Investments into properties are popular as they are perceived as an asset that will appreciate over time and they can also produce a regular level of income.

Equities

An investment into an equity represents a part ownership of a company's capital and is an alternative name for an ordinary share. Investors buy shares in a company because they expect to receive income in the form of dividends and to see growth on the value of the investment. The hope is that the company will be successful and that a rise in company profits will increase both the value of the dividend and also the underlying value of the share price.

Asset Diversification

We individually assess our clients aims and objectives and their financial position to fully understand the level of risk that they are willing to take in relation to their investments. All clients are willing to take a varying degree of risk and it is important to construct their portfolio appropriately in order to achieve their short and long term aims and objectives which may not be purely financial. We understand that money and assets are there to serve a greater purpose, whether it is saving for retirement or funding school fees.

- It is important that our clients understand the relationship that exists between risk and reward when considering possible investments. At Montpellier we spend time explaining the risks to our clients.
- When constructing a portfolio both long term and short term views should be adopted. The first element should include a low risk component of short term savings, so that the client can access funds without being forced to take a loss. Short-term generally means up to 5 years.
- Within this it is important to consider both the taxation position of the client and also whether the client is in need of growth or income.
- The choice for longer-term investments is much wider than for short-term investments. Equities would traditionally be included within this over the longer term.
- The four main asset classes above are used to diversify a portfolio. When cash does not offer a suitable return it is possible that property income and rises in the stock market allow a client to make some positive returns.

We hope that you have found this brief guide useful. If you would like to find out how this may affect you or if you would like to learn how to implement elements of this planning within your financial affairs then please contact us on the details below.