Fortitude Financial Planning
Investment Philosophy

Equities, or stocks, have historically been one of the most rewarding asset classes over the long term. They are suitable for long-term investors who can tolerate short-term volatility and benefit from compounding returns over time. While they can experience short-term volatility, equities tend to outperform other asset classes over extended periods. By primarily allocating your investments to **equities**, our goal is to leverage the potential of this asset class to drive portfolio growth.

For an investor who has a **time horizon of 5 to 7 years or more**, a predominantly equity-based approach is well-suited to meeting most growth requirements. A passive investment approach, weighted mainly towards equities, can capture market returns with minimal costs and hassle, while avoiding the drawbacks of active management, such as underperformance, behavioural biases, and market inefficiencies.

Equity Investment Approach

Generally, we predominantly lean towards a passive investment strategy that aims to replicate the performance of a market index or a specific asset class, rather than actively attempting to outperform it. This approach relies on the principle that markets tend to rise over time, is backed up by evidence that a passive strategy outperforms active management over time and by holding a diversified equity portfolio of assets, investors can capture overall market growth. Moreover, a passive investment approach typically incurs lower costs and management fees compared to actively managed funds, ultimately enhancing your overall returns over time.

Depending on an investors **Attitude to Risk** we may further tilt the asset allocation with holdings to include a limited exposure to an active managed element.

Key Benefits of a Passive Approach:

1. Diversification: By investing in a broad range of equities, investors gain exposure to various companies and industries. This diversification helps spread risk and reduces the impact of any individual company's poor performance.

2. Cost-Effectiveness: Passive funds, such as index funds or exchange-traded funds (ETFs), typically have lower management fees compared to actively managed funds. This includes all implicit and explicit costs involved over and above your quoted Annual Management Charge (AMC). This cost advantage enhances your overall returns over time.

3. Consistency: Active management may sometimes lead to fluctuating returns, depending on the fund manager's decisions. Passive investing, on the other hand, provides a more stable and consistent investment experience while avoiding the drawbacks of active management such as underperformance, behavioural biases and market inefficiencies

4. Time-Efficient: Passive investing requires less ongoing monitoring and research, allowing investors to focus on their long-term financial goals without the need for constant adjustments.

Disciplined Approach to Market Fluctuations

We understand that market downturns can be unnerving, and it may be tempting to make emotional decisions in response. A predominantly passive investment approach encourages discipline and a long-term perspective. History has shown that markets recover from downturns on average within 15 months from the lowest point and staying committed to your investment plan during challenging times is key to reaping the benefits of long-term growth.

Diversification and Bonds

Depending on your investment timeframe and Attitude to Risk, there is the potential risk of over exposure to equities during periods of heightened market volatility which regularly occur. To mitigate these risks and achieve a more balanced and diversified portfolio, we usually recommend a bond weighting within the portfolio.

Bonds (fixed interest securities) have become an attractive investment option after an extended period of poor yields. Due to interest rate increases over since 2022 they now offer the potential for higher long-term returns. While also offering a steady stream of income they also provide a crucial hedge against potential equity market downturns, thus enhancing the overall stability of your portfolio.

In embracing a predominantly passive investment approach, mainly weighted towards equities, we aim to harness the power of the market to build and preserve your wealth. Our commitment to diversification, cost-effectiveness, and long-term thinking ensures that your investment journey remains steady, even amid market fluctuations.

Rebalancing of Asset Allocation

From time to time, market conditions will cause certain asset classes in this portfolio to vary from the target weighting and require rebalancing.

According to data from Vanguard to recommend portfolio rebalancing more frequently than annually. Therefore, we will rebalance the portfolio annually.

Summary

Our Investment Philosophy is underpinned by 5 key principles:

1) Short term markets can’t be predicted- despite what the financial media tells us, no one can predict how markets will move in the short term

2) Timing the market doesn’t work – evidence tells us that patience is rewarded over time

3) Risk and return are related – you can’t have return without short term risk

4) Diversification is essential – don’t put all of your eggs in one basket. Our recommendations are highly diversified across asset class, global region and sector

5) Investor discipline is crucial – investing is a long term strategy. The markets change every day, we can’t control that. What we can control is the investors behaviour.

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Francis McTaggart CFP® SIA RPA QFA

Investment Asset Classes Explained

Equities

These are also referred to as stocks or shares. They represent ownership of a company's assets and earnings. In the past, equities have earned higher returns than bonds or cash investments. However, they have also experienced periods of high volatility where investors have lost a significant portion of their original investment, so they are considered to be higher risk than cash or bonds.

Equities (company shares) are clearly high risk both intuitively and in terms of volatility. The rationale for their inclusion is as follows:

- *Historically global equities have produced the best returns (> 5% annualised return over inflation since 1900)*
- *Equities have produced better returns than bonds or cash in over 70% of periods of five years or more; the longer the time period the greater the frequency with which equities outperform cash or bonds*
- *In general, the dividend yields from equities are attractive relative to the yields available from bonds and those dividends have the capacity to grow*
- *The real value of equities tends to suffer less than nominal bonds in periods of higher inflation*

Equities can suffer sharp falls e.g., 2007/09 during which most equity market indices halved although the case for long term investors to commit heavily to equities is very strong.

Bonds (Fixed Interest)

A bond is a type of loan given to a company or the government (Govt.). Say for example the government wants to raise money, they can issue a bond. If you loan money to a government, you get your money back after a set time- frame and you will also receive a fixed interest rate (known as a coupon).

Bonds are considered to be a lower-risk investment than equities but run the risk that the borrower will not pay all of the interest or return the full value that was borrowed. Because of this extra risk, bonds tend to offer a higher return than cash.

Index-linked bonds are a particular type of bond that provide interest and capital payments linked to changes in inflation, providing some protection against the effects of future inflation.

Alternatives

This refers to investments that are expected to have the same level of expected return and risk as equities. However, alternatives will generally rise and fall in value at different times and for different reasons than equities which makes them a good addition to a well-diversified investment fund.

Alternatives may refer to investments like commodities (gold, oil, sugar and so on) or emerging-market equities (investments in China, Brazil, India and so on).

Property

Property investment involves investing in commercial properties such as shops, offices, and industrial properties. The returns from property investment can come from rental income and capital appreciation.

However, property can experience periods of low or negative returns and may take a long-time to buy and sell. For these reasons it is considered to be a higher risk than cash or bonds.

Cash

Cash is generally considered to be the safest investment. However, in exchange for this security, you can expect to earn relatively lower returns or potentially negative returns. Inflation risk will erode the real value of cash.