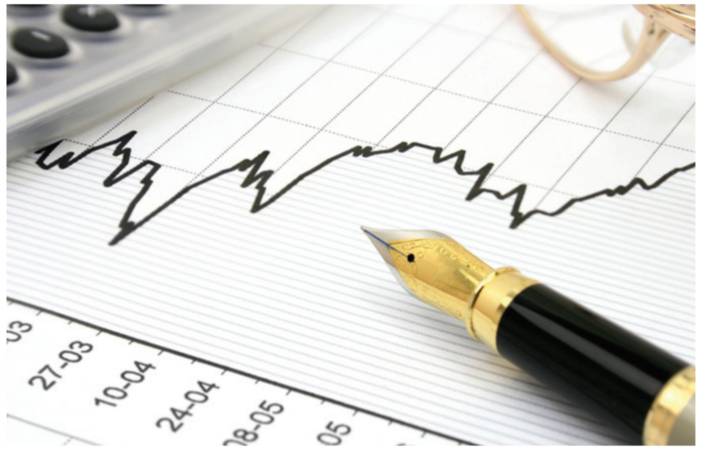
Expert investment, retirement, and financial planning advice for individuals and families all over the UK



How to create and manage an investment portfolio.

At Investor Profile our job is to create sensible, long term strategies that instil discipline into the investment process. Sure, investing can be a lot of fun, but having fun usually costs money. That's not to say we don't have fun. We love what we do and securing the right financial structure so that you can make the most of your earnings and watch your assets grow is an absolute pleasure.

What is even more important to us is knowing that you can then enjoy your money in ways that make it easy for you. We want you to be able to access the right amounts of money when you need them.

We create financial plans to complement your planned personal goals. After all, if your money does not reflect what you have planned in your personal life then it is not really doing its job.

It is very common for us to come across new clients that have accumulated a collection of accounts and plans over the years. Endowments, Savings Plans, Shares, Unit Trusts, ISAs and Pensions all usually form part of a portfolio that has been built up over the years with no real strategy or purpose.

What we tend to find is that people want to simplify it down to a few simple accounts with a modern feel. By modern, we usually mean a new account with lower charges, better fund choice and improved features such as online access.

Humans are basically emotional by nature. Our emotions overrule our logic every time because we have learned to react to situations in a certain way over thousands of years.

If you don't think so, then try a little experiment. Put your face up against a glass cage where you have a tiger inside, the next time you're at the Zoo perhaps. Then as the tiger lurches towards the glass (that can't be broken) watch as you automatically move away. Despite knowing the glass can't be broken and the tiger can't hurt you, you simply have to move away.

Sometimes humans just don't react logically. A slightly off-piste example, yes, but it explains very well the basis of investor psychology. We just don't make logical decisions when fear strikes, the same goes for greed.

If your investment strategy was based on buying high and selling low you would quickly work out (before investing) that this was doomed to fail. Yet, this is what so many investors do all around the world. By taking it upon yourself to manage your own portfolio you are putting your investments at the mercy of human emotional behaviour because it's your money and so you make it personal.

So, what's alternative? Well it really is as simple as having someone else making investment decisions for you. Preferably an expert that can use academic research and a systematic process to create and manage your portfolio through the good times and the bad times. Having a relationship whereby you can make rational decisions together is invaluable.

In theory, creating an investment portfolio is actually quite straightforward.

Step 1 – Who are You

Spend some time working out what sort of investments would be appropriate for you. Do you have personal and financial goals that you're aiming for? What type of income and assets will best serve these goals?

Step 2 – What do you Want

Everyone should invest for a reason, and it's not to get the highest return possible. After years of managing investment portfolios the one thing that is for sure is that people do not always want the highest return possible, they want their portfolio to work for them, in a way that suits them. So it's working out what type of return and what level of returns you want.

Step 3 – How will it fit in

It is important to understand how any investment portfolio fits in to the grand scheme of things. Having a broader financial plan will help you understand this.

Step 4 – Risk and Return

As I mentioned above, nobody wants to invest for the highest return possible. If you did you'd be down the betting shop or the casino, because that offers much higher returns than investing more sensibly. So determine how much risk and return you're aiming for.

Step 5 – Building the Portfolio

Part of your investment strategy should include an investment portfolio of stocks and shares. To do that expertly, begin by allocating a suitable amount to each of the main asset classes, e.g. Fixed Interest Stocks (Gilts and Bonds), UK and Global Equity, Emerging Markets, Property etc. The proportions chosen at this stage will have an important impact on the way in which your investments behave once invested, and the returns you achieve. So it's all important to get this right.

Step 6 – Choosing Funds and Platform

Once you know how you're going to invest, you then need to choose the best funds you can find to 'fill' those sectors you chose in the Step above. So, for example, you'll want to find the best fund to fulfil the UK Equity and Global Equity part of your portfolio.

Before you do that though, you'll need to decide who you want to invest through. Choosing the right platform to invest through is also very important. A platform is basically an admin system that allows you to open an ISA, Pension or General Investment Account and invest in the funds that you want to.

Some charge more than others, some will have better features than others, some will even have a better or wider fund choice than others. So it's worth doing some research on this.

You'll have guessed by now that choosing the rights funds is also an incredibly important part of the process. Get this wrong and the returns you achieve can be equally wrong. We focus on keeping your costs as low as possible by using the very best Passive, or Index Tracking, funds. There is a wide variety of these, some charge more, some less, some perform better, some worse.

After that, you're done. Most personally managed portfolios we see really are done after that, unfortunately. They're not touched for years. The problem with that is they become old, stale, mouldy, and generally badly maintained. So ongoing maintenance is essential.

Rebalancing, the portfolio, searching for new and better funds, keeping an eye on better or improved alternative platforms are some of the tasks involved with managing the portfolio. Some people enjoy that stuff and have the time for it, some don't.

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