

ASSET ALLOCATION

the key to protecting your wealth

How to protect your portfolio against market movements?

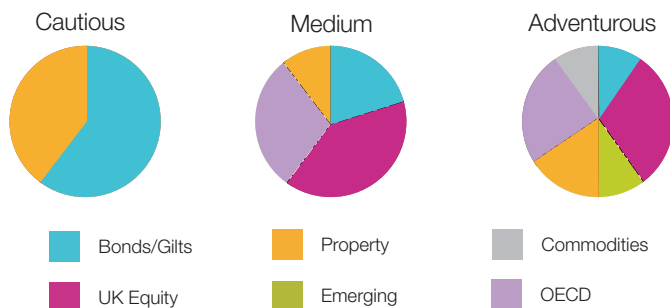
Asset allocation is the process of determining what proportion of your total portfolio is invested in different asset classes, for example shares, fixed interest securities (gilts and bonds), cash and property. Its purpose is to spread risk through portfolio diversification and to create a strategy that can potentially produce 'negative correlated returns' where the relationship between two assets is such that as the return from one asset decreases, the return from the corresponding asset increases.

As an example, let's look at how you could allocate investments in a Child Trust Fund (CTF). A CTF is a long-term, tax-free savings and investment account for children born on or after 1 September 2002. It's kick-started by a £250 voucher from the Government and a maximum of £1,200 each year can be saved in the account by parents, family or friends. So it can build into a tidy sum. CTFs are unique in that you make investment decisions that impact the wealth of another person: namely your son or daughter when they reach 18. And with an investment horizon of 18 years, why would you ever consider cash?

Some parents will not want to take much risk with their child's investment in which case their portfolio may resemble the 'Cautious' chart below.

Where parents are willing to take a moderate degree of risk with their child's investment their portfolio may look like the 'Medium' chart. OECD countries consist of economically developed countries, for example the UK, US, France, Germany, Canada, Netherlands.

Those parents who are willing to accept a higher level of risk through investing in emerging economies and specialist areas may allocate assets as in the 'Adventurous' chart.



If you'd rather create a more bespoke portfolio with a different asset allocation from the charts read our other articles or visit share.com for ideas.

Asset allocation naturally leads on to portfolio rebalancing. Over time your investment portfolio will no longer maintain its original portfolio weightings: some assets will grow favourably compared to others, thus changing the proportions within the portfolio. Don't forget to review your portfolio regularly — at the very least on the portfolio anniversary — so that you can rebalance it to its original weightings. With the realised profit from your outperforming assets you can purchase larger volumes of lower-priced underperforming assets. You'll then reap the rewards if the markets change in your favour.

If you prefer to leave asset allocation to a fund manager, talk to us. Our sister company Sharefunds has three Funds of Funds products that also maintain broadly diversified portfolios:

- The Cautious Fund is a lower risk investment similar to the 'Cautious' portfolio. It aims to provide an income of 4% gross per annum, along with some capital growth.
- The Positive Fund is a medium risk investment similar to the 'Medium' portfolio. It aims to provide an income of 2% gross per annum and strong capital growth.
- The Adventurous Fund is for those of you with a greater appetite for risk. It is similar to the 'Adventurous' portfolio above and aims to achieve higher capital growth.

Sharefunds' fund managers will actively manage each fund and modify exposure to different asset classes according to market cycles and the prevailing economic conditions. Of course, we would still like you to contact us regularly to make sure that your choice of product matches your current risk profile.

Interested? Then call our Dealing Team today on 01296 41 42 43 or place an order online at share.com for individual funds or via share.com/fundoffunds for the Funds of Funds products. And as an added incentive, Funds of Funds are available for no initial fee and no dealing commission until 31 December 2008.