

# Q&A

Asking better questions...



*Invest a moment and  
consider these important questions . . .*

- 1. How would you rather spend your time?*
- 2. What type of investor are you?*
- 3. What returns will achieve your investment goals?*
- 4. What should you invest in?*
- 5. Does timing matter?*
- 6. What are the tax implications of your investments?*
- 7. What has your adviser ever done for you?*
- 8. Where does your adviser invest their own money?*
- 9. Have you considered all the costs/fees involved?*
- 10. Is it easy to sell?*
- 11. Have you written your Investment Blueprint?*

*Many people regard the subject of "investment" as both confusing and intimidating.*

*It need not be, if you are armed with the right questions, and are patient enough to defer making any decisions until completely comfortable with the answers.*

*Both jargon and impatience often end up costing money, so we feel that it is important to do away with both.*

*This short booklet features eleven key questions that will help you assess your own approach to investment, risk appetite and returns. It will also enable you to assess the quality of any advisers you use and whether or not they are actually giving you value for money.*

*What's in it for us?*

*We know what it feels like when you can't find a straightforward, transparent, sensibly priced adviser who takes the time to understand your needs and objectives. That's why we set up our company: we're investors too, and have learned a lot from our experiences, both good and bad. Our aim is pass on that experience, whilst also helping investors to make better decisions, whether they are a client of ours or not.*

*The team at Javelin Wealth Management has written (and updated) this booklet after being asked exactly the same questions by clients, friends and family over the years. The questions should always be the same, even if the answers differ.*

*You can read this short guide over lunch ... we'd be happy to join you!*

"There are only two things you can invest...time and money. Of the two, time is more important."

John C. Bogle,  
Founder and former CEO of the Vanguard Mutual Fund Group

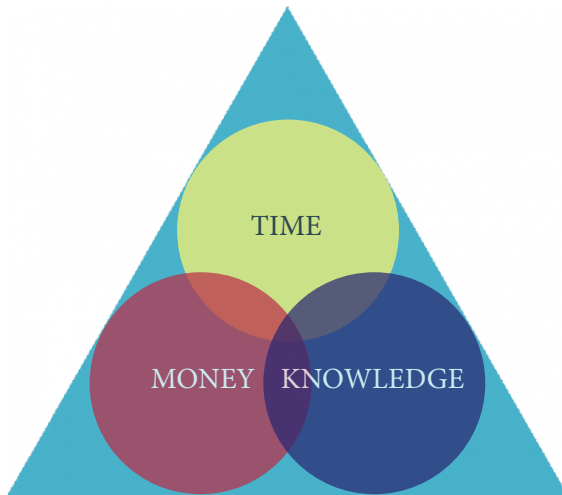
"An investment in knowledge pays the best interest."

Benjamin Franklin

# 1 | How would you rather spend your time?

The process of looking at your investment needs and objectives takes up time that you could be spending doing something else – with your family, with your business, or pursuing personal interests.

If you are willing to put in the time and effort, then you can manage your own money, but it is a significant and ongoing commitment. If you are prepared to do this, it can be a very rewarding and fun experience.

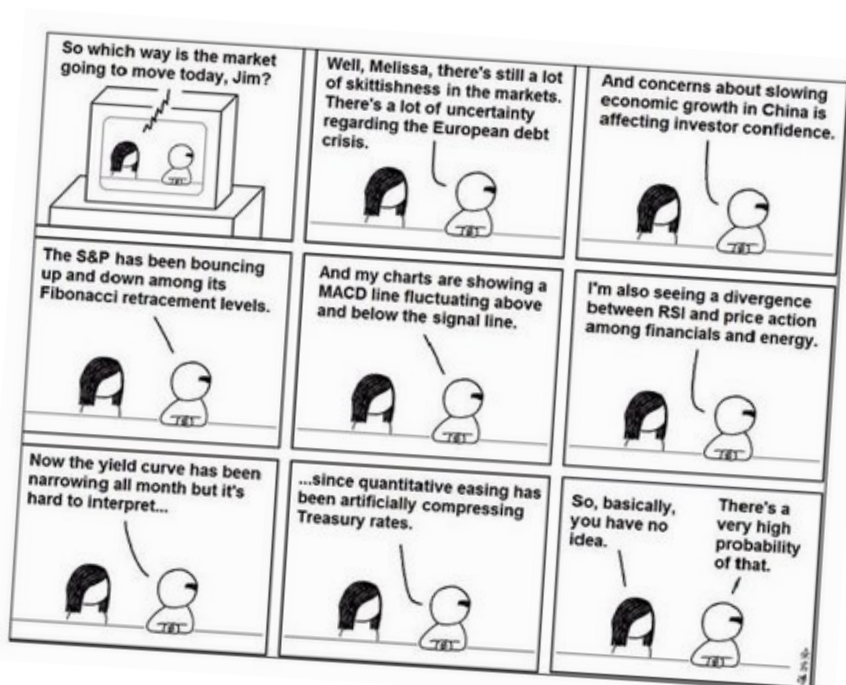


However, it's more than likely that the majority of people will prefer to prioritise other things.

If you think that this describes you, then it's likely you will be short of the time you really need to spend in determining your financial "present". It's only once you have done so, that you can begin to work on planning for your financial "future"; and what you will need to do in order to get there.

"Risk comes from not knowing what you're doing..."

Warren Buffett

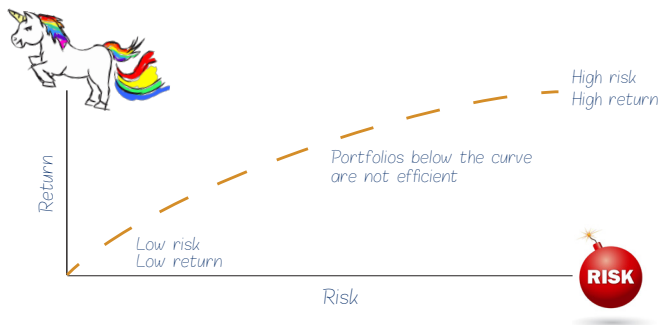


## 2 } What type of investor are you?

Before you start out on your investment journey, though, you need to decide what type of investor you are. Do you like risk and understand the volatility that this involves, or would you prefer a quieter, more stable path? The former should bring higher returns over time, but also increases the potential for more sleepless nights. The latter is more restful, but it will likely take longer for you to get to where you want to go.

When asking these questions, we need to be aware that our behaviour changes at different times when investing. Greed and logic tend to apply when things are going well but fear and emotion tend to take over when times get tough.

The key thing here is to have a clear understanding that your (logical) "risk capacity" may differ from your (emotional) "risk tolerance" and to position your portfolio at the appropriate balance between your appetite for risk and your desired return:



In an ideal world, we would all be happily invested in the top left-hand corner – high returns and low risk. Unfortunately, the reason why this area is also inhabited by a rainbow-coloured unicorn is that neither of these exists. Similarly, we also want to avoid being positioned at the bottom right where risks are high and returns are low.

We should all be aiming to build a portfolio which sits close to the line in the middle: maximum returns for a given risk or minimum risk for an expected reward.

"Compound interest is the eighth wonder of the world. He who understands it, earns it...he who doesn't...pays it."

Albert Einstein



### 3 | What returns will achieve your investment goals?

This is the big eye-opener for many: the compounding effects of inflation on the value of our assets today and the cost of things tomorrow. The table below shows how much your desired spending would really cost in 20–30 years.

	Inflation rate (%)	Projected monthly expense if current expense is \$10,000	
		20 Years (\$)	30 Years (\$)
	1	12,202	13,478
	2 → Singapore <sup>1</sup>	14,859	18,114
UK <sup>1</sup> ←	3	18,061	24,273
	4	21,061	32,434
	5	26,533	43,219
	6	32,071	57,435
	7	38,697	76,123
Indonesia (>9%) <sup>1</sup> ←	8	46,610	100,627

Note:

1. 30-Year average inflation rate

The good news is that the power of compounding is equally applicable to returns! If you want to know how long it will take to double your original investment, use “the Power of 72”.

Rate of return (%)	Calculation	Your money doubles in...
3	72 ÷ 3	24 Yrs
4	72 ÷ 4	18 Yrs
5	72 ÷ 5	14 Yrs
6	72 ÷ 6	12 Yrs
7	72 ÷ 7	10 Yrs
8	72 ÷ 8	9 Yrs
9	72 ÷ 9	8 Yrs
10	72 ÷ 10	7 Yrs

In our experience, most investors underestimate the amount of money they will need in the future, whilst over-estimating the returns they will achieve in the meantime; indeed, in some cases, the question is not even asked!

"The probability of making at least one mistake in your investing lifetime is virtually 100%, and those odds are entirely out of your control. However you do have control over the consequences of being wrong. Simply by keeping your holdings permanently diversified you can ensure that the consequences of your mistakes will never be catastrophic..."

Jason Zweig in the commentary to the updated version of  
"The Intelligent Investor"

## 4 } What should you invest in?

Having considered all the factors above, you should have a clearer idea of what risks you can bear and which you are prepared to take. You should also be roughly aware of the amounts of money you need and time you have available to make it and grow it.

Once you've worked that out, you need to consider how your current portfolio is positioned compared to that profile and whether it remains appropriate.

Do not forget to diversify your portfolio. This should reduce the sharp swings whilst producing smoother, less hair-raising returns. Although gains might be reduced, so are the losses, and it is a basic fact that most investors would rather reduce losses than maximise gains.

*Diversification helped limit losses and capture gains after the market bottomed out*

	Jan 08 - Feb 09 The start of the crisis to the bottom	Mar 09 - Apr 13 From the bottom up	Jan 09 - Apr 13 Full 5Yr period
Diversified portfolio (70% stocks, 25% bonds, 5% short-term investments)	-32.4%	94.2%	17.8%
All-stock portfolio	-50.1%	127.5%	13.9%
All-cash portfolio (100% cash)	1.6%	0.3%	1.9%

Source: Fidelity Investments, 2014

Remember, you are looking for long-term returns, so chasing the latest fad, however tempting, is not necessarily the best thing to do.

It is also important to realise that this is not a static process, but an active one, so reviewing your portfolio is imperative, and it needs to be done regularly: we would recommend a semi-annual review to make sure things are going to plan. If not, change them.

"Only liars manage to always bet out during bad times and in during good times..."

Bernard Baruch

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."

Mark Twain

## 5 | Does timing matter?

For obvious reasons, many investors worry about the issue of “When”, as in “When is the right time to enter or exit from the market?”

Although it is clear that some traders have been able to execute complex strategies that allow them to profit handsomely from well-timed market moves, experience shows that consistent repetition is almost impossible. The italics at the bottom of most investment literature that state “past performance should not be used as an indicator of future returns” is there for a reason. It’s also there in very small print, since it unfortunately cramps the marketing message.

In our view, since it is virtually impossible to time exit/entry points exactly, you should not try. You should revert to the basic principles you have laid down in your Investment Blueprint (see Question 11). If you continue to invest according to the principles laid out in your Blueprint, and if the investments are behaving in line with that core strategy, then stick with them.

A week on the wild side



"This is a question too difficult  
for a mathematician. It should be  
asked of a philosopher..."

Albert Einstein, about filling out his income tax form, 1944

## 6 | What are the tax implications of your investments?

*This is another aspect of investment that investors tend to overlook.*

*Investments in different parts of the world are subject to different taxation rules, not just in terms of income tax but also taxes on interest, dividends, and capital gains amongst others. These all eat into your returns.*

*Income tax is more generic and most will be aware of the do's and don'ts for their particular country. If not, then it is worthwhile making the effort to find out.*

*These days, however, it is increasingly difficult to avoid taxes and it's also increasingly foolhardy to expect that you can. Complex tax minimisation schemes are usually workable only for the very wealthy and as a result of complex residency arrangements. Even then, there is no guarantee that what works today will continue to work tomorrow.*

*In all cases, good advice is essential.*

"Be there when you have nothing  
to sell..."

Don Connelly, when speaking about  
successful financial advisorY



## 7 | What has your adviser ever done for you?

Bankers, brokers, and independent advisers are all intermediaries, who exist to make money from you. We're one of those too. Some are good, but many are not.

How do you tell the difference? Simply ask them the questions given on the back page of this booklet! Seemingly innocuous questions, but necessary ones, in our experience. The answers indicate how your intermediary views you and your portfolio.

There is often a correlation between markets going up or down and the perceived strength of the relationship – does your relationship manager call you regularly when markets are rallying but not so when things are going south?

Further, if you are perceived as a smaller investor, you will be assigned the least experienced people on the team. It is also unlikely that you will get access to specialists so that you can ask questions about a specific product. You may also not see the products that are most appropriate for you.

If any adviser comes to the first meeting with you armed with a folder full of investment ideas, then they will have made assumptions about you before they've even met you. Never a good start, and one which indicates that they are keen to minimise the time they invest with you. Commercial drivers take precedence over doing what's most appropriate for you.

You need an adviser who has the same attitude to time as you do. It needs to be spent wisely in order to achieve the best outcome.

"Trust, then verify ..."

Jason Zweig: quoting Ronald Reagan in the commentary to  
the updated version of "The Intelligent Investor"  
by Benjamin Graham

"Wall Street is the only place  
people ride to in a Rolls-Royce to  
get advice from people who take the  
subway"

Warren Buffett

## 8 | *Where does your adviser invest their own money?*

*The world is awash with investment products, from investment bond structures to direct equities, from mutual funds to ETFs, from plain vanilla to heavily structured. However, before making any recommendations, does your intermediary ask you about your target and goals? More importantly, does he/she explain to you the risk inherent in achieving that target? Can he/she?*

*An interesting approach would be to check if your adviser is investing in the same products that are being recommended to you – if yes, then interests are entirely aligned as your adviser is taking the same risk that you are. In other words, it means your adviser believes in the products they are selling.*

*In fairness, at a big bank this is less likely to happen as there will be restrictions on what people can do. Indeed, our experience is that the banks make it as difficult as possible for their staff to deal as the amount of internal compliance reporting is high. However, it is always preferable that an intermediary is invested alongside you in any of the products that they are recommending.*

"Markets are unpredictable. Costs are forever. If — all things being equal — low costs are associated with better performance, then costs should play a large role in the choice of investments."

The Vanguard Group



"The free investment advice is 'buy low and sell high'. We offer more detailed investment advice, for a huge commission."

## 9 | Have you considered all the costs / fees involved?

Have you considered all the costs/fees involved: upfront, trailer, management, performance, transaction, custody? Are you paying fees on cash?

Just reading the question above will have surprised some people. The myriad of potential fees should be explained to you by your adviser. In many cases, however, it is in their interest not to, as their remuneration is often linked to the fee income generated from sales. Make sure you compare like with like. Some firms – like ours – charge a simple management fee. Others don't but make money from sales through commission or transactions.

Below is a (not exhaustive) list of charges that intermediaries would charge you. In effect, you might be losing as much as 3% to 5% of your annual returns in undisclosed or opaque charges in costs or hidden costs.

Fee category	Typical amount (%)
Management fee	0.75 - 1.75
Entry or upfront fee	Up to 5.00
Custody fee	0.00 - 0.35
Dealing charges	0.20 - 1.50
Trailer fee	0.00 - 5.00
Account maintenance	0.00 - 0.35
Exit charges	0.00 - 2.00

"If you have a losing position  
that is making you uncomfortable,  
the solution is very simple; get out"

Paul Tudor Jones



"My problem is, I lost my first million before  
I made my first million."

## 10 | *Is it easy to sell?*

*We believe that exit is as important, if not more so, than entry, whether it is in reference to buying or selling a security, opening or closing of an account, or starting or ending a relationship with a provider.*

*Similarly, there are times when it's sensible to cut a loss – infinitely harder than taking a profit, since a “loss” is a paper one right up until the time that you book it.*

*Why should you sell?*

*The answer is when you can use the money more profitably by investing in something else. It's all about opportunity cost.*

*When you invest, you need to have a clear idea about when you plan to sell as well as understanding how easy it will be to sell when you want to. Some investments are more “liquid” than others – your decision to sell one of these would not have much of an impact on the price. Less liquid investments are more difficult to sell, so you need to give them more time and be comfortable with taking your profits earlier.*

"Simply put, your Investment Blueprint lays out the background for your portfolio (i.e. 'An investment of \$1,000,000 in a portfolio of bonds, equities and ETF's'), the timeframe (say '20 years'), the risk profile ('I am willing to accept a moderate level of risk for a return that exceeds that on cash deposits by 2-3%'), the cost structure and the review points ('to be reviewed twice a year')."



## 11 | Have you written your Investment Blueprint?

If we all accept that the process of asset allocation should lead to a sensibly diversified portfolio based on the risk appetite of the investor, it should go without saying that all investors should benefit from going through the process of confirming this in writing.

We suggest doing this via an "Investment Blueprint".

This document should be the yardstick against which you measure your portfolio, its performance, the performance of any advisers you might be using, and any new investments that you might be considering. In the latter case, if any investment does not match the basic requirements you have established for the portfolio at the outset, you should mostly decide against it.

Most importantly, by sticking with the terms of your Investment Blueprint, you give yourself reasonable protection against the emotional impact of short-term fluctuations in markets. When times get tricky you need to pull out the Blueprint and look at it in the context of where you were, and where you want to be. If all that's happened is that the "markets" have suddenly decided that they should be worth 10% less than they were yesterday, you should review that in the context of how you said you would behave when things were calmer.

Another reason why we believe that the Blueprint is crucial is that, if your investments are behaving as intended, rather than spending time obsessing over them, you'll be able to spend your time doing what you said you would like to do in Question 1. That's what it's all about!



YOU FIRST

## *Questions to ask about your adviser*

- 1. What is your advisory process, and to what degree is it tailored to my needs?*
- 2. How do you arrive at investment recommendations and ideas for client portfolios? How impartial and transparent are you in making these recommendations?*
- 3. Do I have direct access to product specialists?*
- 4. What charges are applied to each investment and how do I pay for them?*
- 5. How frequently will you be in contact, by e-mail, phone and in person?*
- 6. What's your professional background, and your qualifications and experience?*
- 7. How are you remunerated personally by your company and how is your performance judged (i.e. on sales targets or on portfolio performance)?*
- 8. How long have you been with your company? How frequently does your firm change advisers?*

