Case Study

client insight

A low risk portfolio designed to beat cash

An update of how one client boosted his returns without taking on too much risk

BERRY

The background

Last year we wrote about a client with substantial cash deposits seeking to boost the returns he could achieve, but with no wish to expose any additional capital to the risks normally associated with the stockmarket. Like many investors, he retained a large element of his family's wealth in cash at all times. This gives a warm and comfortable feeling, but it often comes with a gnawing sensation that one could, and probably should, be trying to do just a little bit better.

To recap, our client invested £500,000 in a separate portfolio with us in May 2002, with the stated objective being to achieve returns in excess of those available from a traditional deposit account. He did not – and still doesn't – wish to see a commitment of more than 20% in equity investments, and the portfolio we manage continues to display this important characteristic. Indeed, it has not held any pure equity investments at all in the last year. As the equity bull market has matured, it has seemed to us to be increasingly inappropriate to hold on for extra gains in a low risk portfolio of this nature.

The returns we have produced

When we wrote in May 2005, the portfolio, after all expenses, had increased by 19.5% in the 34 month period from end June 2002 to April 2005. This compared favourably with a typical net return from a high rate cash deposit account of 6.5% over the same period.

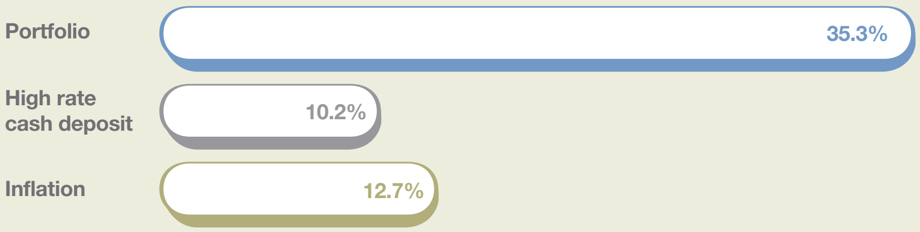
The last twelve months have been slightly more volatile for virtually all asset classes, and this has enabled the portfolio to show its true colours as an attractive alternative to the conventional deposit account. The portfolio carries greater risk than a deposit account, but many investors will conclude that the substantially better returns, even in a period when deposit rates have increased, more than justify this. When compared with a traditional equity portfolio, we continue to believe that the portfolio is both less risky and less volatile.

In the last twelve months to 1st September 2006, the portfolio has increased by a further 8.5%, after all charges. This compares with a typical net return from a high rate cash deposit account of 2.4% over the same period. Clearly, individual investors may get better cash returns than this with some proactive internet account hopping; other investors may need to consider higher rate and capital gains tax when making a more precise comparison, but the gap still remains compelling.

The longer term picture also continues to look appealing: the portfolio has increased by some 35.3% in its 52 months of existence. This compares with a typical net return from a high rate cash deposit account of 10.2%. Retail prices over the same period have increased by 12.7%.

(Sources: Standard & Poor's Micropal, Berry Asset Management PLC. Portfolio returns are after fund charges, basic rate UK tax deducted from income, excluding any capital gains tax charges. High rate deposit account is UK Savings for £25,000+, after basic rate tax. Statistics from 31st May 2002 to 1st September 2006. Inflation is Retail Price Index.)

Performance

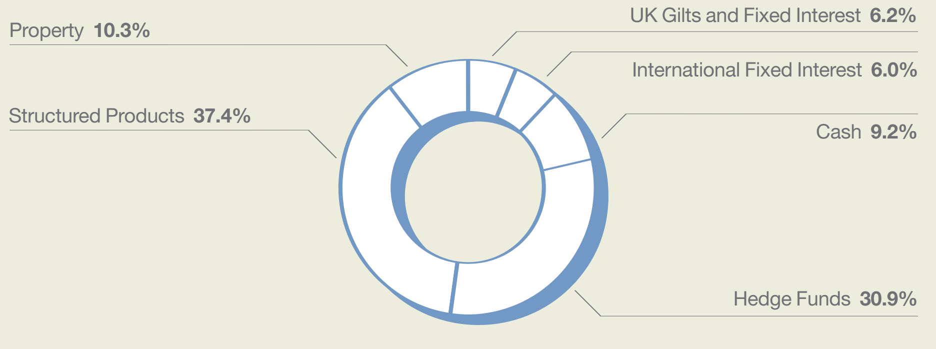


Past performance should not be seen as an indication to future performance and each client has their own portfolio, which may differ from the performance figures illustrated.

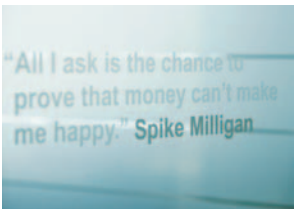
How the portfolio looks

As you would expect in a portfolio of this nature, we have not made widespread changes. In the last year or so we have eliminated the exposure to equity investment altogether, preferring instead to gain our commitment to the stockmarket's uptrend from structured products, many of which offer pre-determined returns. We have also held slightly more in cash than in the past, but otherwise we remain content with the longer term holdings within the portfolio.

Asset allocation



Jamie Berry
September 2006



Conclusion

This portfolio continues to achieve its prime objective for our client – to achieve better returns than those from a deposit account, but without assuming substantial risk in doing so. Although interest rates may remain steady – or perhaps even increase slightly, they remain low in both absolute and real terms.

We believe that many investors continue to hold large cash deposits, but do not have the slightest inclination to invest in the stockmarket. A portfolio like this should be capable of satisfying one's inevitable desire to do rather better, without having to put up with all the trials and tribulations often associated with a stockmarket portfolio.

Interested?

This is a summary of the behaviour of a real portfolio under our management over the last few years. We construct and manage portfolios for our clients across a broad spectrum of different objectives and risk profiles.

If you would like to learn more about our investment strategies for generating superior returns in a lower risk environment, contact us or your financial adviser for further information.

Risk Warning, Disclaimer and Authorisation
The value of investments, and the income arising from them, can go down as well as up, and is not guaranteed, which means that you may not get back what you invested. The performance statistics represent an actual portfolio after underlying fund charges but do not include Berry's fees. Each client has its own portfolio which may differ from the figures illustrated.

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