Sterling Scott Ltd

FINANCIAL ADVISOR

Helping clients to achieve financial freedom and peace of mind.

Investment Proposition

Our approach

Our approach to managing money is based on comprehensive research, and our decisions are based on a combination of leading academic theory and time tested principles with the intention of delivering a more coherent and dependable investment strategy.

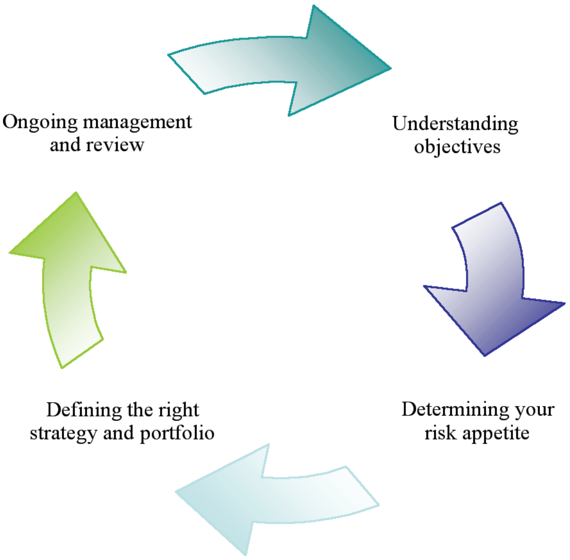
We do not believe in chasing performance or attempting to second guess what the markets will do. We adopt a structured and disciplined approach to investing which seeks to manage risk, target appropriate return, minimise tax and above all help our clients to increase the probability of achieving their financial and lifestyle objectives.

Intensive research is employed to identify investment managers that will deliver the returns our clients require and cutting edge technology is used to drive down costs; providing our clients with convenience and simplification in an otherwise complex area.

Creating and managing a portfolio of investments requires specific decisions to be made in the key areas of ‘asset allocation’ and ‘ongoing management’. We believe in the benefits of a long term strategic view of asset allocation with some short term adjustments to manage volatility and risk.

We also believe that one of the most effective ways to catch opportunities and minimise risk is through diversification. By blending long and short term asset allocation decisions with some passive and active investment management we seek to achieve broad diversification for our clients.

Our process


Ongoing management and review
Understanding objectives
Determining your risk appetite
Defining the right strategy and portfolio

Understanding Objectives & Target Returns

It is vitally important to us that we understand the purpose of our clients investments; the objectives they are hoping to achieve, the future purpose of the money and the financial need they want to meet. By fully understanding the reason for an investment, we can help our clients to determine the investment return they require and invest in a portfolio designed to offer the potential to meet that target

Risk Assessment

We will perform an assessment of the level of investment risk a client is prepared to accept. To help us do this in a clear and objective way, we use a detailed questionnaire and specialist software designed to uncover real attitudes towards investment risk, reward and volatility.

Defining the correct strategy

There are a variety of decisions that must be considered in constructing and reviewing an investment portfolio. These include:

- Asset Allocation
- Fund Selection
- Fund Monitoring

Without a rigorous framework for performing research, analysing results and making decisions, there is significant potential for unnecessary risk exposure.

Ongoing Review

On a regular basis we will appraise the performance of our client's portfolios to assess levels of volatility and return. This appraisal also forms part of our ongoing planning discussions with clients to ensure that we are always working towards the achievement of our clients financial and lifestyle objectives.

Risk management

No single type of asset class, investment strategy, or investment manager provides the best performance over all time periods. Think of the advice "not to put all of your eggs into one basket".

We strongly believe that diversification should reduce the risk of a portfolio suffering simultaneous underperformance across all categories. This is because the conditions that lead to underperformance for one category, such as asset class or manager tend to create an opportunity for other asset classes or managers.

Investment risk

Risk and uncertainty are different. The possibility that things may not turn out exactly as you expected is uncertainty. Risk, to some may mean the possibility of losing a portion of your capital. For others, the risk of capital not producing sufficient income to support a desired lifestyle may be the dominant concern.

Risk and uncertainty cannot be eliminated. However, they can be measured and managed within an investment portfolio. The key is to determine the appropriate level of risk for each investor. Taking on greater uncertainty and short-term risk may be necessary to gain the long-term returns needed to achieve desired lifestyle goals and objectives. Two investments with an identical return are not necessarily equally attractive if one of them is significantly more risky than the other.

What are the types of risk?

There are a number of risks to be considered when constructing an investment portfolio including:

- Investment market risk is the possibility that all investments in a market sector, (e.g. shares) will be affected by an event.
- Investment specific risk is the possibility that a particular investment may underperform the market or its competitors.
- Inflation risk is the possibility that investment return is below the inflation rate, which reduces the spending power of an investors' money.
- Credit risk is the potential failure of a debtor to make payments on amounts they have borrowed.
- Interest rate risk is the possibility that an investment will be adversely impacted by a fall or rise in interest rates.
- Legislative risk is the possibility that a change in legislation will impact the appropriateness of certain investments for an investor.
- Liquidity risk relates to the ease with which an investor can sell or liquidate their investments. Some investments impose exit fees or have limitations on withdrawals. Other investments may be difficult to sell due to a lack of buyers.
- Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.

How is risk managed?

There are different ways that risk can be managed, ranging from a low exposure to equities, to reducing dependency on any single asset class or fund to deliver desired investment outcomes.

A widely used strategy for managing investment risk is **Diversification** which can be achieved at several levels, including:

Asset Class
(Cash, Fixed Interest, Property, Equities)
Geography
(UK, US, Emerging Economies)
Sector
(Financial Services, Pharmaceuticals, Retail)
Management of Asset Classes
(Fixed or Variable)
Investment Management Styles
(Active or Passive)
Stock selection

Understanding capacity and tolerance to loss is key

Often questionnaires will put people into a category of risk profile and whilst this can give a broad idea of someone's attitude to risk it is only part of the picture. We therefore need to consider someone's capacity for loss and take a reality check as to what this may mean in actual terms to them before determining the right investment strategy.

It may be that the level of risk you are prepared to take will be influenced by the potential loss or gain that could be achieved on a given sum of money and your intention for this portfolio. The table below* highlights the potential loss and growth assuming a £50,000 investment and based on how the portfolio might perform in the next 12 months. The figures used are only examples of what might happen and are not guaranteed in any way. Actual performance will depend on how any selected investments perform and on the tax treatment and charges incurred.

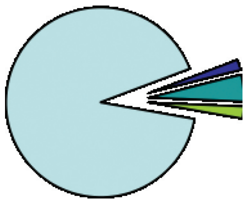
Amount Invested	Risk profile*	Estimated maximum likely loss	Estimated maximum likely gain
£50,000	1	£1,414.78	£1,027.66
£50,000	2	£2,756.00	£3,350.05
£50,000	3	£3,916.60	£5,265.08
£50,000	4	£6,441.00	£9,088.34
£50,000	5	£7,892.32	£11,311.48
£50,000	6	£9,368.28	£13,729.23
£50,000	7	£10,793.80	£16,087.00
£50,000	8	£11,984.04	£18,114.33
£50,000	9	£13,374.62	£20,473.43
£50,000	10	£15,500.43	£24,082.95

Source: Distribution Technology Ltd

Asset allocation

This refers to the proportion of invested money directed towards specific assets such as Cash, Equities, Property and Fixed Interest or Alternatives.

Asset Allocation generally has a much larger impact on a portfolios performance than the selection of a successful manager. Indeed, one study pointed to Asset Allocation accounting for over 90% of the differences in returns.



Source: Brinson et al 1991, Financial Analysts Journal

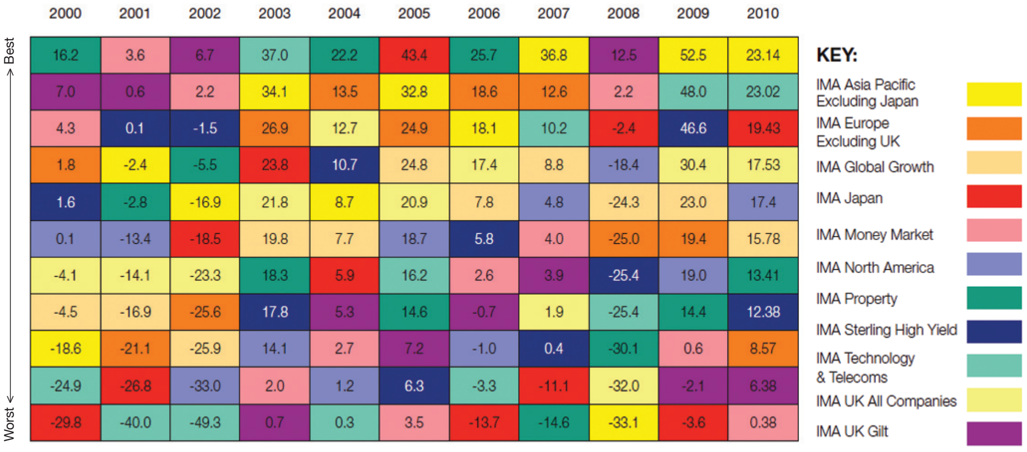
So what does Asset Allocation mean?

It simply means putting the right number of eggs in the right number of baskets… or in investment terms investing your money in the correct proportion and the correct assets.

Different assets tend to perform differently at different times and in different economic environments. The trick is to get the blend right. In order to do this thousands of pieces of financial data have been gathered. This data has then been financially modeled (back and forward tested) over numerous different economic cycles and outlooks (boom, bust, war etc) to see how they could perform together.

The objective is to identify an "efficient" Asset Allocation strategy to gain the maximum rewards for a given level of risk. As can be seen from the table below*, over a period of 10 years there is very little consistence apparent within any one sector.

IMA Sector Average Returns



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Best	16.2	3.6	6.7	37.0	22.2	43.4	25.7	36.8	12.5	52.5	23.14
	7.0	0.6	2.2	34.1	13.5	32.8	18.6	12.6	2.2	48.0	23.02
	4.3	0.1	-1.5	26.9	12.7	24.9	18.1	10.2	-2.4	46.6	19.43
	1.8	-2.4	-5.5	23.8	10.7	24.8	17.4	8.8	-18.4	30.4	17.53
	1.6	-2.8	-16.9	21.8	8.7	20.9	7.8	4.8	-24.3	23.0	17.4
	0.1	-13.4	-18.5	19.8	7.7	18.7	5.8	4.0	-25.0	19.4	15.78
	-4.1	-14.1	-23.3	18.3	5.9	16.2	2.6	3.9	-25.4	19.0	13.41
	-4.5	-16.9	-25.6	17.8	5.3	14.6	-0.7	1.9	-25.4	14.4	12.38
	-18.6	-21.1	-25.9	14.1	2.7	7.2	-1.0	0.4	-30.1	0.6	8.57
	-24.9	-26.8	-33.0	2.0	1.2	6.3	-3.3	-11.1	-32.0	-2.1	6.38
Worst	-29.8	-40.0	-49.3	0.7	0.3	3.5	-13.7	-14.6	-33.1	-3.6	0.38

KEY:

- IMA Asia Pacific Excluding Japan
- IMA Europe Excluding UK
- IMA Global Growth
- IMA Japan
- IMA Money Market
- IMA North America
- IMA Property
- IMA Sterling High Yield
- IMA Technology & Telecoms
- IMA UK All Companies
- IMA UK Gilt

Source: Financial Express. Past performance is not a guide to future performance. The value of investment can fall as well as rise and is not guaranteed. Investors could get back less than they invest.

Asset allocation *(continued)*

There are essentially two perspectives on creating and reviewing Asset Allocation.

Strategic Asset Allocation

Strategic asset allocation is very much the core of portfolio strategy. It is a base position from which we create a portfolio of assets designed to generate long term competitive returns consistent with a clients' stated risk profile.

It combines asset types with an understanding of the varying risk/return properties in order to help create an efficient and optimal portfolio designed to provide a smoother ride for investors but with the potential for as competitive returns as a focused single asset investment.

Of course, the world changes, therefore this is an ongoing process, which must be regularly reviewed and monitored, to test assumptions and the robustness of the data.

Tactical Asset Allocation

Tactical asset allocation is the process of making short term changes to asset proportions (portfolio tilting) to exploit current market and economic opportunities in an attempt to generate additional investment returns or manage risk. Tactical adjustments are a measured 'temporary' departure from the long term strategy, in the belief that some markets are temporarily over or undervalued.

Our belief is that adopting a long term view of the behaviour of asset classes is a sensible foundation upon which more tactical or short term actions can be taken to address potential market risks or take advantage of opportunities.

Asset Class Expectations

With the strategic approach, efficient portfolios are developed from research and a clear understanding of the return/risk of each asset class.

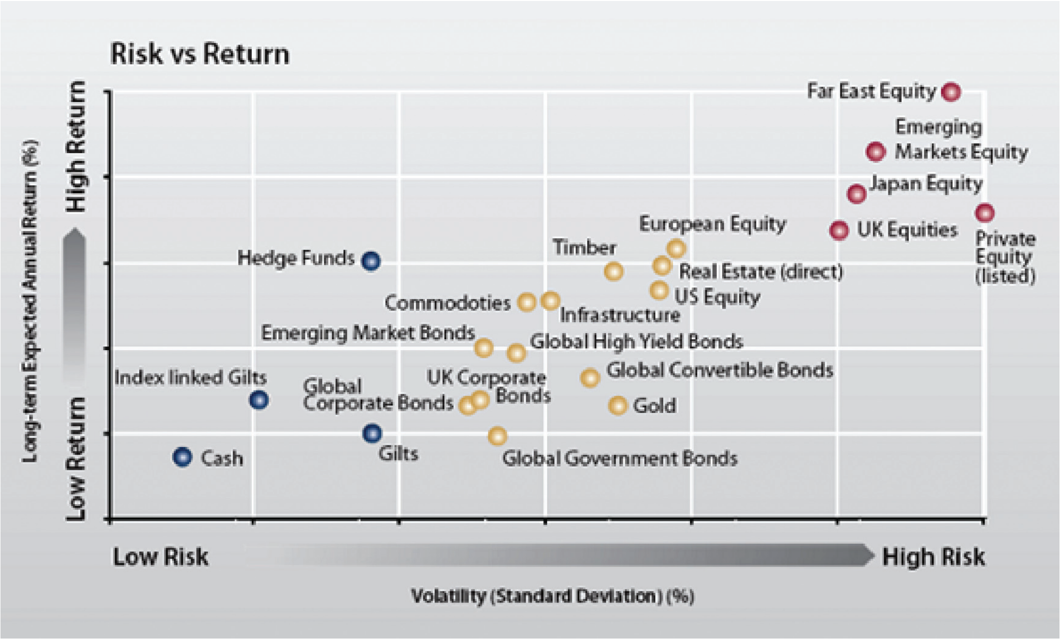
The Risk vs Return graph* illustrates the strong relationship between expected risk and return: lower risk, lower return assets at the bottom left and more volatile but historically higher return assets at the top right.

Combining multiple asset classes can produce a portfolio with attractive expected returns but much lower volatility.

Reducing the volatility of investment returns appeals to most investors. Lower volatility can reduce the emotional or psychological stress of investing - the fear of losses - and this can help investors stick with a long term strategy.

In order to build robust and efficient portfolios we also need to consider the correlation between expected returns from different asset classes.

Asset allocation *(continued)*



* ***Risk profile***

You should seek independent financial advice in relation to your investment risk and capacity for loss before embarking on any course of action. The information provided by Sterling Scott is for information purposes only.

The value of an investment can go down as well as up and past performance is not a guide to future performance. Investors may lose some or all of their investment.

Risk profiles used in this document assume a range from 1 to 10 where 1 represents a cautious and 10 an adventurous attitude to risk.

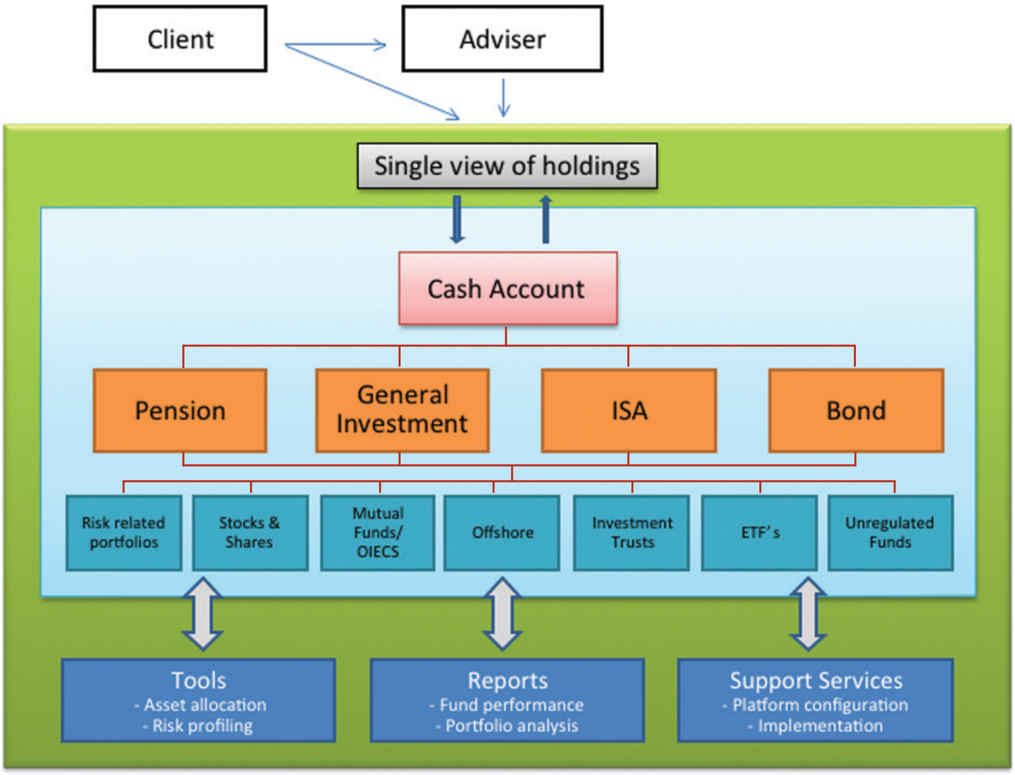
Investment via a platform

Many clients we meet have funds held in products which have become obsolete in terms of the flexibility and choice they offer. Changes can be very slow to administer and information very hard to come by.

Technological innovations mean we are now able to assemble, implement, monitor and administer our clients' investments in a modern, efficient and cost effective manner. The technology we use is called a wrap platform.

This means we are able to create a secure on-line investment account on a client's behalf and use that account as the venue for the investments we make on his or her behalf, cutting out reliance on third parties and the potential loss of control that often entails.

A Platform brings all your investments and pensions together, allowing you to view them on-line using a confidential password. It gives access to a huge range of investment options available through a range of tax wrappers. The charges are clear and easy to understand with no hidden costs. It provides a clear picture of your entire portfolio and how it is performing. It puts you, via us, in control of your investments and there is less paperwork!


Client
Adviser
Single view of holdings
Cash Account
Pension
General Investment
ISA
Bond
Risk related portfolios
Stocks & Shares
Mutual Funds/ OIECS
Offshore
Investment Trusts
ETF's
Unregulated Funds
Tools
- Asset allocation
- Risk profiling
Reports
- Fund performance
- Portfolio analysis
Support Services
- Platform configuration
- Implementation

Our investment platform *(continued)*

How does a Platform help us to help you?

- We can provide you with instant access to valuations and information about the funds held in your portfolio.
- We can deliver a range of service that would cost clients far more without the use of a Platform.
- We can provide quick access to your money with no penalties on exit in most cases.
- You can access our new investment proposition and management service.
- We are able to review your investment more efficiently than ever before.

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