

# investments in emerging economies, writes Raymond Ellis



Our IFAs are gathering momentum as the race heats up

## THE SCENARIO

CHRIS Anderson is a self-employed retailer who runs a chain of fashion boutiques. His wife, Fiona, is a partner in a law firm. They are both in their mid-30s and have no children. Chris's mother recently died, leaving her estate to Chris, who is an only child. The net estate after paying the inheritance tax liability was valued in excess of £1.25 million.

Now that Mrs Anderson's estate has been confirmed, Chris and Fiona have decided to clear the outstanding mortgage on their Edinburgh property - circa £250,000 - and buy a small flat in the south of France for £150,000. A further £450,000 has been set aside for a future business development and another £100,000 has been placed in two separate high-interest deposit accounts.

Chris is keen to invest in the stock market but, because of his limited knowledge of financial matters, he is seeking the services of a professional independent financial adviser.

Chris and Fiona have discussed their financial future at length and have decided to commit a minimum of £300,000 to an investment portfolio. The couple have decided to take a speculative/ growth approach with this investment and are prepared to invest their funds for at least a five to ten-year period. They are determined to ensure that their nominated beneficiaries will not have to pay any inheritance tax on any part of their estate.

ties and emerging markets because that is where all the growth is likely to be for the next five years while the developed economies of the West work their way through their austerity measures in an attempt to bring themselves back to some sort of even keel.

Some market commentators are suggesting that at least two thirds of global economic growth will come from emerging economies over the next

few years. This situation, unfortunately, is hugely under-appreciated by the average UK investor. Most investment portfolios will increasingly reflect the re-orientation of the sources of global growth in coming years and those who adjust early will be richly rewarded.

● Raymond Ellis is director of Scott-Moncrieff Wealth Management and a judge of this year's IFA of the Year Competition

GIVEN Chris and Fiona's speculative attitude to investment risk, you would typically expect them to be invested mostly in equities with a bias towards overseas. That said, whilst these markets are currently showing some of the most significant returns, a portfolio with such a lack of diversity is potentially subject to large falls and this can damage long-term returns, regardless of whether or not the investor can tolerate the possible volatility involved.

At outset, we considered the main asset classes suited to the clients and constructed their portfolio accordingly. As we would not normally be so active with making changes to funds held for a client over such a short period of time and have been actively seeking short-term opportunities, this in itself makes our strategy more adventurous than normal, which coincides with their appetite for achieving returns far greater than expected over the long term or indeed on deposit.

For a speculative investor, we feel that the portfolio should be completely unconstrained as not to limit ourselves to only 'high-risk' investments as low-risk asset classes may offer

## SCOTT MACKINTOSH: SHORT-TERM IS RISKY, BUT STRATEGY HAS WORKED

better prospects at different stages of the economic cycle, particularly given the various stages of 'recovery' currently in investment markets generally. This does of course mean we are trying to time the buying and selling of markets for the prospect of short-term returns, which, regardless of how 'risky' the underlying portfolio is, is in itself a speculative strategy for any client.

Our investment approach can be seen through the client's portfolio and the changes made to date. We currently hold around a third in UK equities, almost a third overseas (with a bias towards Asia and emerging markets), 13 per cent in gold shares and the remainder in corporate bonds, proper-

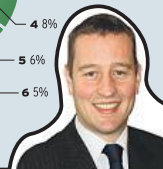
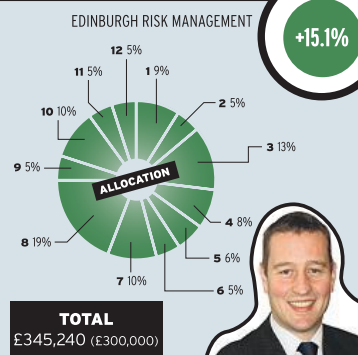
ty and absolute returns. During the course of the year, we have reduced the amount held in the UK due to concerns around the domestic economy. We have also increased the amount held in gold shares as this sector continues to offer opportunities. Given the election of the leader of the Democratic Party of Japan and intervention by the Bank of Japan to devalue the yen, we have incorporated Japanese exposure as we feel this is opportune for investors.

Our strategy has worked well for Chris and Fiona with significant outperformance since initial investment. This is illustrated by portfolio returns of just over 18 per cent as at 25 October 2010, compared to the MSCI World and FTSE 100 Indices which have returned 6.4 per cent and 6.5 per cent respectively during the same period.



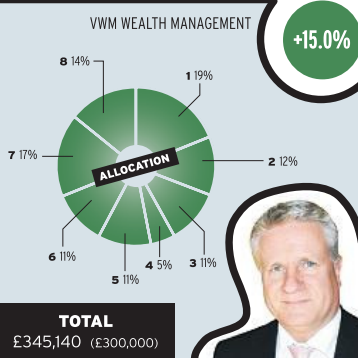
## Alistair Brown

FUND CHOICES	£
1 JPM Emerging Markets Infrastructure	£29,570
2 M&G Global Basics	£17,640
3 Allianz BRIC Stars	£44,360
4 Marlborough Far East Growth	£27,080
5 Marlborough Special Situations	£20,220
6 Newton Income	£17,010
7 7IM AAP Adventurous D	£33,070
8 Standard Life Global Absolute Return Strategies	£69,830
9 Standard Life UK Opportunities	£17,220
10 Schroder Life Income Maximiser	£34,660
11 Schroder Recovery	£17,690
12 Schroder European Alpha Plus	£16,890



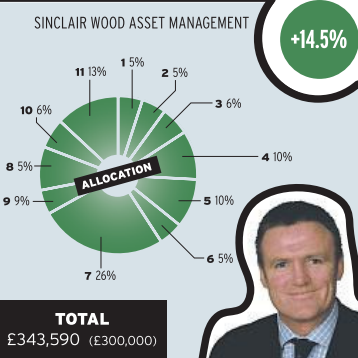
## David Thomson

FUND CHOICES	£
1 Standard Life UK Equity Unconstrained	£61,110
2 Jupiter European	£42,330
3 Investec Global Gold A	£39,390
4 7IM AAP Adventurous D	£17,950
5 Marlborough Special Situations	£38,020
6 Newton Oriental R	£36,600
7 Aberdeen Emerging Markets	£60,310
8 Schroder Asian Alpha Plus	£49,430



## Tony McPhee

FUND CHOICES	£
1 Allianz RCM BRIC Stars	£16,640
2 Marlborough High Yield Fixed Interest	£17,610
3 Marlborough Special Situations	£20,220
4 7IM Adventurous Portfolio	£34,810
5 Newton Oriental	£33,740
6 Newton Global Opportunities	£16,430
7 Neptune China A	£89,030
8 Schroder Asian Alpha Plus	£18,560
9 Standard Life Global Absolute Return Strategies	£30,670
10 Standard Life UK Smaller Cos	£21,170
11 Allianz RCM Brazil A	£44,710



## Robert Bell

FUND CHOICES	£
1 Aberdeen Emerging Markets	£93,950
2 Marlborough Special Situations	£16,160
3 7IM Adventurous Portfolio	£3,090
4 Newton Managed	£22,970
5 Newton Higher Income	£39,070
6 Schroder UK Alpha Plus	£31,990
7 Standard Life Asia Pacific Growth	£16,890
8 Jupiter India	£29,000
9 Newton Asian Income	£29,290
10 Standard Life Global Absolute Return Strategies	£39,780

