COUNTY FINANCIAL
MAKING SENSE OF MONEY

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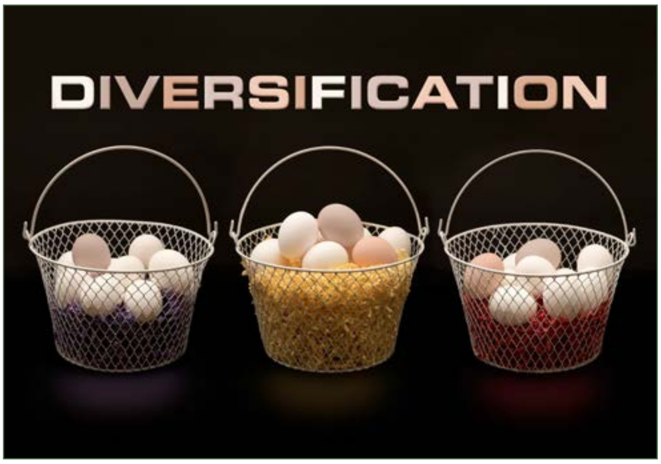
Why Diversification Matters



County Financial have been recommending Discretionary Investment Management for over 11 years.

Our responsibility is to analyse different investment firms to ensure that their processes are robust, their charges are reasonable and that they perform well against a given benchmark.

This has become even more important in recent weeks in the light of headlines concerning Neil Woodford's fund. He was once the "darling fund manager" who could do no wrong when he managed money with Invesco Perpetual, but his performance has suffered badly in recent times, causing him to issue a public apology. However, this probably hasn't gone far enough in the minds of some investors who are unable to withdraw their funds and are now nursing significant losses.

This is why we, at County, use investment companies that have expertise in Discretionary Fund Management where investors' money is spread across many different funds and have a strict volatility management process. In our experience, investing in a variety of assets offers the opportunity of mixing both higher returns with lower risk. Put simply, this form of diversification is a risk management strategy that mixes a variety of investments within a portfolio.

This means that Discretionary Investment Managers can get on and operate without having to worry about whether you should be in UK Equities, US Bonds or Commercial Property, as long as they are not breaching the parameters that were set at the inception of the investment . More importantly, it ensures that your exposure to any one individual fund is extremely limited.

We also recognise that as soon as active investing gets a difficult press, people are drawn to banks as a place to save their money, opting for the chance to get some interest and a sense that they are somehow protecting their capital. But, in a time of rising inflation, this strategy may result in you watching your money devalue over time.

The wealth of many people in the UK is under threat as inflation is outstripping savings account returns by around 2%, thereby slowly reducing the buying power of this asset. With cash suffering from a steady decline as time goes on, it may be better to look at other avenues to diversify your savings and help them grow.

There is no question that for the purpose of security or as a guarantee of capital, cash is an excellent asset class. It's the ideal place to hold money in the short term or to ringfence for a specific purpose. However, it very rarely offers any more than that. It is important, therefore, to consider your savings as part of your overall investment strategy, to ensure that you hold cash for the right reasons.

We will continue to encourage clients to invest within diversified risk rated portfolios, always looking long term whilst ensuring cash is set aside for an emergency and contingency fund, as well as for planned expenditure. This robust process then leaves you to get on with more important matters, like deciding how you will spend your money.

Remember, it's not how much money you have, but what you do with it that matters!