

Let The Funds Begin

News from Louis Letourneau.

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[Louis Letourneau](#) looks in depth at the risky world of investment funds; after all, it pays to have a good financial strategy

[Six months ago](#), I suggested that investors should be cautious in 2006, and it now seems the markets have entered into a very volatile period, which is likely to last well into the autumn. Analysts agree that some markets were due for a correction and this is what we've seen, with the price of gold and most commodities falling and emerging markets taking a tumble as well. Naturally, the other major stock markets followed the slide but to a lesser degree. This should teach us something about risk.

[Last month](#), I said that we'd be looking into investment funds and the risk attached to them. It's important to understand clearly that a good portfolio should only reflect the risk that you're prepared to sustain. The more risk you take, the more reward you should expect, but also the more you can lose. This is why choosing an asset allocation that fits your attitude to risk is the key to success, and then - and *only* then - the choice of funds make the difference.

At the lower end of the scale you can invest in fixed interest, which includes gilts (Government loans) and corporate bonds. Most of these funds should have a low volatility, with a steady but relatively low growth expectation. One could see a downturn occasionally but by no more than a few percentage points. The risk is rather low in most cases. I recommend good, solid names like Fidelity Moneybuilder Income or Old Mutual Corporate Bond. Both funds would balance each other out in an overall portfolio that should always have a fixed interest element. I also favour using some index-linked gilts against inflation, which should do well going into next year. But if you want excitement, this isn't where you are going to get it.

A commercial property fund is the next best thing, merging a low volatility with a higher potential for growth over time, but you need to take care to choose funds that own their own properties as opposed to investing in the shares of property companies – that's a lot more risky. The market is due for a small correction in these property company shares but not in the bricks and mortar itself, so I'd stick to the old-fashioned commercial property funds such as Norwich Union Property or M&G Property, which tend to avoid the stock market if possible. Nevertheless, property funds should be in everyone's portfolio either as income funds or as a buffer to higher-risk funds.

Then the fun starts. Equity funds are numerous, so it's difficult to know where to start. I always suggest starting at home, with some good solid UK income funds and a few growth funds such as Rathbone Income, Invesco Perpetual High Income or Rensburg UK Select Growth.

It's prudent to diversify between income and growth funds, as the managers tend to focus on different cycles and sectors in the economy. Because these funds invest solely in the UK, there's no additional currency risk as there would be if one were to invest abroad. This is one reason why the more a fund invests overseas, the more risk there is.

After the UK, the next obvious market is Europe, which I'd subdivide into old Europe and new Europe, the latter being much more risky and often associated with emerging markets. The favourites are Fidelity European or Jupiter European for old Europe, but Jupiter Emerging European Opportunities is a good one for reaching the new markets of the old Communist bloc.

The US equity market, the largest economy in the world, is often the next area to look at, although, despite being the largest stock market in value, it's increasingly less popular because of the size of the American deficit and the increased volatility of the dollar. If one must invest in the US, we recommend one of the Fidelity American funds, which are always reliable in the long term because of the strong American knowledge of this Boston-based US investment house. One thing to note is that many multinationals are listed in London and therefore give us access to much of what's happening in the US without having to invest there directly. At the moment, I prefer it that way but I'll look again at the US, perhaps sometime next year.

Further afield is only for the brave of heart, with exotic funds in Asia, Japan, India and even South America. First State Pacific Leaders or Newton Oriental give a good introduction to that region; others, like Fidelity India or JPM Emerging Markets, can produce fantastic returns – or falls. One shouldn't get too exposed to these funds as the volatility can be enormous, but that said, this is where the excitement will be.

If you're taking a very long term view, my favourite fund (and it has been for some time), is the British Empire Securities investment trust, one of the oldest funds still in existence. It's a global fund that takes a long-term view in terms of regional exposure and asset allocation, and has produced over 18% per year over a 5 and 10 year period, which can't be bad.

Always remember that you should seek [expert financial advice](#) before jumping into the arena. Managing your wealth needs a strategy (as I outlined in last month's article) and the patience to stick with it.

Louis Letourneau, MA is an experienced independent financial adviser (IFA), specialist in financial planning and wealth management. He founded Rainbow Finance in 1995 and has consistently challenged financial companies and Government on their attitudes to gays, lesbians and same sex couples and was instrumental in the Inland Revenue to changing its guidance notes to recognise unmarried couples in pension benefits. His work has also resulted in life insurance companies starting to relax the discriminatory underwriting criteria toward gay men and people living with HIV. He was a founder of the Rainbow Research Project which surveys and educates private pension schemes in how they recognise unmarried couples on death benefits. He was also a founder member of the Stonewall Immigration Group (which campaigned for Immigration rights for same-sex couples, achieving a significant victory in April 1997) and helped set up the gaypartners.org initiative with gay.com in early 2001, campaigning for same-sex partnership rights. He speaks regularly on national and local radio.

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