Harry:

Hello. Good morning, good afternoon, depending on when you're listening to this. I'm Harry. I'm a financial planner at Emery Little.

Michael:

Hello, I'm Michael, also a financial planner at Emery Little.

Harry:

And we thought it would be useful in light of our recent investment committee meeting as well as various questions and communications. We've had some clients say, you guys wanting to know more about our investment process, our investment proposition, how we think about investments. We thought it'd be useful to have a conversation today between Michael and I to give you some context and give you some thinking around what we're doing, some output directly from the meeting that we had just a couple of weeks ago. So it's going to be very conversational, very informal, but we hope you'll find it useful. Michael, do you want to kick us off with just giving some background at this point as to what is the role of the investment committee?

Michael:

The Emery Little investment committee, it's quite timely, we're doing this video, we met last month and the role of the Emery Little investment committee really is the group of people that make up the committee, are focused on implementing an investment process, which is aligned with the academic research and evidence that's available to us. Really ensuring that what powers our clients' financial plans is as robust and rigorous as possible. The context of that being, that the academic research always changes, there's always lots of information available and our investment process is not a set and forget process. Harry, would you add anything to that to begin with?

Harry:

I agree with everything you've said there. I think really it's a collection of individuals, a group of individuals comprising the financial planning team, Emery Little, as well as our investment partners, the excellent people over at Albion Consulting. That's down in Exeter. They've been hugely helpful to us in, not only introducing the academic evidence of systematic investing as you should all be familiar with, but actually enhancing our own knowledge of it and continually refining the processes that we take and the strategy that we apply across the board for our client portfolios. As Michael said, really this is such an integral part of our process because a financial plan, without an appropriate strategy, it doesn't work. So it needs the fuel and really that's what the investment strategy's all about.

So just a bit of background from a personal perspective. I joined Emery Little in 2021 and a key part of me joining Emery Little, or one of the non-negotiables for me was to work for a firm with like-minded people who invest in line with the academic evidence to invest in systematic portfolios. And Albion have for a number of years, been one of the leaders in this space. And it was actually back in 2018, I read a book by a chap called Tim Hale who happened to found Albion. He's the founder of Albion Consulting. I read a book called Smarter Investing, which completely changed my beliefs in terms of how we invest, where returns come from and actually it's neat that it's come full circle for me in the sense of I'm now working directly with Tim and his team who have been absolutely superb.

And so with them we have a huge amount of confidence in their work. They really do specialize in this field. So it's a pleasure to be able to work with a team that are just only making everyone in the Emery Little team, better. And of course the knock-on effect to that is that our clients get the best outcome in terms of the investment portfolio. Michael, have you got anything from your perspective working with Albion and how have you found the process over the last year and a half or so?

Michael:

Albion are a fantastic group of people, a fantastic team and as I think you said, Harry, they were the leading light in the systematic investing space and they're the ones in the investment committee who are really immersed in the data and the academic evidence and on an ongoing basis when we meet formally, because they are independent, they're not members of the Emery Little team, they really provide that independent insight and challenge to our discussions, which are really, really helpful.

Harry:

Absolutely. I think what might be useful as well just to mention, is the investment committee meetings as they take shape now, the form they take is very different to perhaps previous Emery Little investment committees from years has gone by where it might have been crunching the numbers on whether we think certain regions or certain asset classes might be the ones to be in for the coming months and years. Really that all gets stripped back with the way we invest now. We invest in accordance with the evidence, which means we're not speculating around what might or might not work. We invest in a way that has always worked, in the knowledge that markets are broadly efficient and actually owning the market and taking sensible tilts in certain directions such as value and small cap, again, which should be familiar to most of you, that we position the portfolios in a way that gives your plan the best possible chance of working and that's what we're here to do.

We want each of your financial plans to work and be successful. So that's really the name of the game and therefore the conversations take a slightly different form. It's constant challenge. It's constantly assessing each fund within the portfolio and saying, "Is this continuing to do the job that we set out to do at outset?" And if it isn't, why is that? Have the charges gone up? Has there been a new entrant into the market that might be able to capture the particular part of the market that we're looking for? There's always something changing in the investment world and therefore we need to ensure that we are staying on top of that. But what we're not doing is sitting there looking to make vast changes to the portfolio. The less we change, the better. And really it's a case of continuing continually banging that drum. Just because it doesn't appear that much is happening to the portfolio, it doesn't mean that there is nothing happening. It just means that actually the way the structure is set up is good and it's sound and continual refinements are really the end of the game on that front.

Michael, anything to add from you?

Michael:

Obviously completely agree, Harry. We are not in the business of making changes for change sake and definitely not speculating, but even though we say that, we still look to make sure the funds which were put in the portfolios originally are in there and are still effectively for that purpose, they're still doing a certain job. So we do look at certain metrics such as fund turnover, which for example shows the fund manager of a specific fund, how many sales or purchase of individual holdings they're making. So again, looking at just individual metrics to make sure everybody's on track.

Harry:

You mentioned metrics there. The interesting thing as well that we obviously talk about in those meetings is performance. We talk about performance but very much over a far longer term horizon than perhaps what had been the case in the past. And obviously the fund performance itself is not necessarily the issue, it's broadly, the portfolio is tilting towards certain themes here or certain areas of investing such as value and small cap. And part of that process is, it's all very well having it written down in academic papers and what have you, but does the data stack up? Does it still correlate that these areas are the ones to be in over the long term, the multiple decades, our financial plans need to be structured to meet the needs of?

So we did that again in the meeting, Michael, didn't we? And thankfully the data still looks positive. Of course you'll always have periods of time where certain types of investments do better than others. It's just par for the course and it's all part of long-term investing. But I think what I found really reassuring was actually just seeing, etched into the long-term hard data is, you can see here that small in value has been a long-term performance enhancer in accordance with the evidence. And taking some emphasis away from the short-term and just reverting back to the important numbers, which of course are the long term numbers.

Well, I think what's something that we are very keen to continually bring to client meetings, client interactions, is that focus on the long term. We're very conscious of the fact that the world that we live in, bombard bombardment of bad news and mainstream media seems to love trying to make people as miserable as possible. And there's actually a very useful chart that Michael and I use with clients regularly. We call it the Wall of Worry and here it is. Just to give you a bit of a sense over the last 30 years of some of the global events that we've been faced with and the markets have been faced with, and looking through some of those will be very familiar to some of you, some more than others. There's a few in there that, for example, I'd forgotten a bit about actually. But again, you soon cast your mind back to them.

But I think what's really important here is to look at these high level numbers at the top. Despite the ongoing uncertainty, $1 invested in August, 1992, we ignore the fact that it's a dollar, the theme is still the same, grew to 572 by the end of July '22. That's an average annual return of 5.98%. And I think that really does speak volumes. You think of all of the events that have happened in that time, the dot-com bubble, serious global financial crisis, pandemic inflation at levels we haven't seen for 50, 60 years. It's an incredible number of serious events, yet look how resilient the great companies of the world have been through that time. And I think that's where Michael, myself, the other financial planners at Emery Little, we have such an important role to ensure that you don't get lost in the bad news. And it's very easy to do that. It's very easy to be worried to be concerned.

And it's also very difficult to fight human nature when it comes to investing. It's very easy to press the red button and say, "Oh, I'm out, I'm done. I can't face this anymore." That's a big part of our value to you and what we do is ensuring that doesn't happen. You stick to the plan, you believe in long-term markets and the great companies of the world continuing to prosper. Michael, have you got anything to add to that, my friend?

Michael:

Yeah, just every time I see that Wall of Worry chart, it's just shocking actually how many different global events impact stock markets and how frequently occur and sometimes we can forget about that. But it is, as Harry said, everyone's investing for the long-term, the long-term financial plan, and it's about being invested during those periods. Because as you'll have seen when there are specific dips, then there are always increases and it's about actually benefiting from those increases and remaining invested. So your financial planning team, your financial planner will always talk about that kind of risk volatility and also the importance of holding an emergency cash reserve so you can stay invested.

Harry:

Absolutely. That final point's critical. I think it's all very well us sitting here saying, "Stick to the plan, remain calm." Volatility really isn't a problem in most situations, particularly for you, our clients. We ensure that financial plans are set up with a very comfortable cash buffer in place to ensure that when the markets do have their temporary wobbles, that you don't need to draw on your investments during that time. You have an adequate cash buffer that's there, ready to be drawn on to avoid you having to make a temporary decline, a permanent loss. And that's exactly what we want to avoid. So having that cash buffer there is integral. I think just again, just to close that one out, there's a book Psychology of Money written by Morgan Housel. It's a favorite within the financial planning team and there's a really useful way of thinking about volatility in the context of investing and returns.

And it's that volatility is the price of admission for long term, but inflation returns. We are absolutely not trying to reduce the volatility in our portfolios. So volatility is not risk. The risk that our clients face is that you don't have enough money or you don't have enough money to do the things you want to do, or inflation outstrip, your ability to live the lives you want to live. That's what we're really focusing on here. So volatility is the price of admission, you have to stick with it and that's a big part of what we do as financial planners. We are here to ensure that we're with you on that journey and keeping you invested to the plan. So that's a book that if you haven't read, I would a hundred percent, and Michael, I'm sure you've read it yourself and have, I know, sent it to clients as well in the past. It's an excellent book. The Psychology of Money by Morgan Housel is an excellent read, so worth putting on the list.

In terms of direct changes from the investment committee meeting we've had, you won't be surprised to hear there is nothing happening in terms of fund turnover or changes being made to the portfolios. All we are doing at the moment is ensuring that our client's portfolios are being rebalanced to their original weighting. So when you have an annual planning meeting with your financial planner, it will be mentioned that we're going to be bringing the portfolios back into line with its original weightings as you expect when markets move around, the weightings change. So we need to ensure that the portfolio is remaining broadly in line with where it was intended. But aside from that it's very much business as usual, stick to the plan, buy and hold long-term investments, long-term strategy, long-term horizon. That was really the important thing that we're continually going to be looking at. Michael, have you got anything to add to anything I said there?

Michael:

No, I don't think so. The only thing that we haven't touched upon is diversification and in terms of the portfolios, just reminding everybody that portfolios are incredibly diverse in terms of underlying unique holdings, 12,000. So again, that's a really good, when we are looking at risks and volatility and the risk of loss of capital, actually we are trying to build a portfolio that weathers all seasons because nobody's got a crystal ball. So on that basis, having such a diverse portfolio is really good position to be in.

Harry:

Great point. That's why it's so good to have two people talking because you can easily forget these things. Absolutely, right. Look at the portfolio on the surface. Oh, there's certainly less funds than have been in the past. That's not a problem. It's the underlying diversification. How many companies, how many of the great companies of the world are you owning? That's the critical factor when we talking about diversification. And in the true wealth portfolios, you're looking at over 12,000 companies, which is significant diversification. One of the key risks that many of you face and certainly not a bad risk to face, but it's one that really needs to be taken off the table, is having over exposure to one company or a very small number of companies. Now owning companies in line with their market cap just keeps that risk down, and ensures that you're not overexposed to the ups and downs of a particular business or stocks. So that's a great point, Michael, thank you for bringing that and reminding me of that.

I think we are roughly 13, 14 minutes in now. I think we've broadly covered what we expected to cover. As always though, if there is any question off the back of this, if you've got anything that you want to run by Michael or myself or even your financial planner, just get in touch. We're always only too happy to talk about this sort of thing. We've probably talked more about it than many people had interest in, but it's our world. We live and breathe this stuff. And as we say, it's critical to the successes of your financial plans. Anything to close off, Michael?

Michael:

No, just echo that point really. Any questions, any concerns, don't just wait for your annual planning meeting, please get in touch with your financial planner.

Harry:

Excellent. Thank you very much for listening. Have a great day and we'll be in touch with you soon.

Michael:

Cheers.