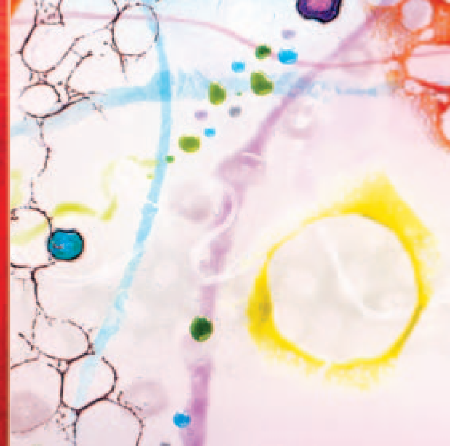
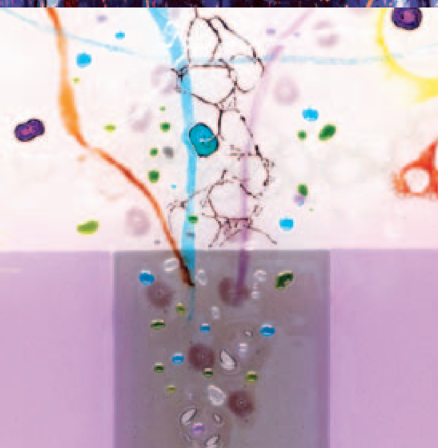
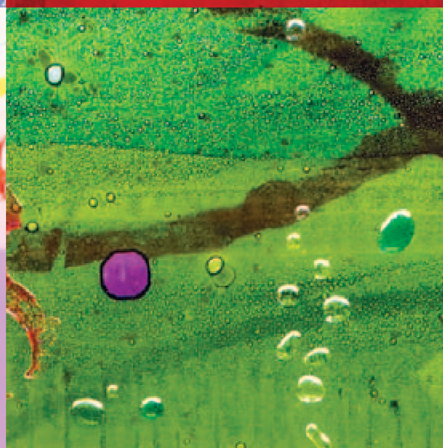
# The art of investing.

The True Potential Investment Philosophy

true potential LLP®

simple. effective. unique.

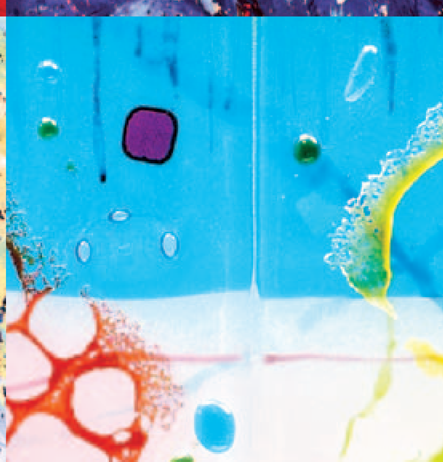
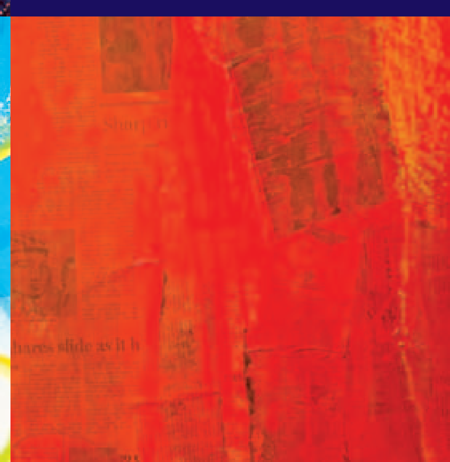


# Showing our true colours

This book is not intended in any way to provide advice on individual savings strategies or products; it is simply the True Potential philosophy.



# Setting the tone

## Our Philosophy

- Investing can be made simple, easy to understand, and fun
- Setting a goal for any saving is a key activity
- Understanding the effects of inflation and taking it into account is crucial
- Understanding your own attitude and capacity for risk is important
- Make the most of any tax benefits
- Monitoring your investments should be easy, interesting and educational
- Save on impulse, but avoid getting into debt on impulse
- The responsibility for saving is with the individual

# The responsibility is yours. Investing can be simple, great fun and easier to do than many would have you believe.

It’s your life;
it’s your money;
make the most
of it.

# Start with a blank canvas

## The importance of setting a goal

Setting a goal, or a destination, is the most important and least emphasised part of investing.

A goal gives you a purpose and will remind you and prompt you to carry on. Unless you know where you are going and why, you don't know how best to get there or how much money, or fuel, you will need.

So a journey without a destination, at worst is simply wandering, until you run out of fuel, at which point you are stranded.

Stretch the metaphor a bit, and this is where many people now find themselves, stranded without the financial ability to live truly independently.

Retirement age, redundancy, or the need to slow down can be forced on you. Better to set your own goal, your own destination and enough money to reach it in style, while you have the physical and mental means to do so.

Although you may have numerous goals, the ability to retire when you want with your mortgage repaid and with sufficient income to live in the style you want, is for many their primary need.

Goal setting should be fun. Bear in mind whatever goal you set, you are unlikely to hit that goal exactly. Nothing in life is certain, everything changes, but at least a broad aim is better than avoiding the process.

## Prioritising goals

Finally, although you may have many goals, it is important that you work on a first things first, second things never principle. Only one of your goals will be the most important, so take the time to really prioritise that one. Putting enough resource to work to achieve that one goal will almost certainly ensure other goals become attainable.

We encourage you to think about the income you will need if you were to retire today.

# Focusing on the big picture

## Converting tomorrow's goals and income to today's values

Quantify the goal in money terms, and in today's money.

It is impossible to predict how much you will need in 5, 10, 15 years time. But we all know what we need to live on right now.

If having a decent income in retirement is your goal, then you determine how much you will need in today's terms. "I want to retire on the equivalent of £20,000 pa when I am 60", is a sensible way of stating that goal.

So, if you were retiring today, how much capital would you need to generate an income of £20,000pa? There are lots of lifestyle planning tools available to quantify all of this more exactly, but an approximate guide would be to multiply the required income by 20 (which equates to a 5% pa return from your capital). So you would need a sum of £400,000 from which to draw an income of £20,000 at a 5% rate of return. A reality check: if you were retiring now how much of that £400,000 do you have, right now?

But you aren't retiring today. You are retiring (let's say) in 15 years time so you have to factor in inflation over that period. At the current (CPI) rate of 2.7% that means you will need £597,000 in 15 years to buy the same as £400,000 buys now.

Please note the government has had a target of 2% inflation for the last 10 years, so you may wish to use that figure. However you must not ignore inflation – the effects on your savings and on your life if you do so will be devastating.

Because no-one knows the rate of inflation over that time, or the rate that your investment will grow at, never mind your own personal circumstances changing, all these calculations are always approximate. You can only aim, not guarantee, but that should never ever put you off. Inflation may be greater, but it may be less. Your investment may grow faster, or slower. Better to know now, and act, while you have time.

# Painting your own picture

## Understanding the risk you are willing to take in order to reach your goals

Your attitude to risk is very important. Although living is a risk, most of us sensibly avoid doing things where the downside is oblivion. Always ensure you have, especially mentally, more to gain than lose.

Our view is that any investment, whether cash or asset-backed investments (shares, property or similar), should have as its minimum goal the ability to outperform inflation.

There should also be the intention to avoid money losing value, in other words try and retain gains, rather than risking the lot on a bigger return.

A quick word about the risks of relying too much on cash. Cash is portrayed erroneously as being safe. A cash deposit that is consistently at a rate lower than inflation is guaranteeing that you are losing the value of your money. Inflation is a hugely important factor, a destroyer of value and living standards, which banks and government seem to overlook.

For banks this is their lifeblood, paying savers less than inflation, whilst charging borrowers much higher than inflation. The difference between the two creating massive profits for them, for little or no work or risk.

Thus any return ahead of inflation, no matter what the investment, is a minimum outcome. Asset backed investments have tended, over the long term, to be the best way to achieve this. Therefore this needs to be encouraged, and understood in terms of the real risks to anyone saving. Asset-back investments can, and often will go down, as well as up, and sometimes they are down in value for quite a long time.

A lot of risk is about timescale, the time remaining before you need to en-cash your investment. Although cash at rates below inflation is risky over the medium to long term, it is the best place if your savings goals are short term.

Using risk categories, such as defensive through to aggressive is our attempt to help investors relate that description back to them. But if in doubt, be more cautious. What this should mean is that to achieve the same amount, over the longer term, you will need to save more. And that isn't a bad thing - having too much rather than too little.

We recommend that no-one talks you into being too aggressive, or hoping that a fund manager will perform miracles each year, to ensure you hit your goal. It is your goal, not anyone else's. It is too important for you to delegate it to anyone, trusted or not. If you are not on target, save more, do not take a bigger chance.

# An eye for detail

## Fund managers and investment style

Good fund managers add value to your investment. There is a positive gap between what you save, and what they grow your money to, minus their costs and inflation.

Different fund managers may use different "styles" or processes to achieve these objectives. For example, some run their own funds and pick their own asset classes such as shares, property, bonds and commodities.

Others may use a "manager of manager" approach, choosing managers that have a proven track record of excelling in their own asset class investment. Some take the view that active fund management is not as good as passive (where the managers use passive investments such as tracker funds to keep pace with the market, rather than try to outperform it).

We seek to have some difference in style between each manager so that people have a choice, without giving so much choice that it becomes confusing.

All styles have their merits and supporters as well as detractors.

Our approach is to pick top quality investment managers who have a reputation to uphold and a clear process that can be inspected to ensure they are sticking to it. If they can't achieve what they said they would do over a shorter period, say 5 years, then you should not hope they will get it right over a longer period either. Asset backed investment is meant for the medium to long-term, say, 5 to 10 years plus, but those time periods start with the first 5 years, not the final 5.

Transparency, simplicity and clarity of intention are paramount to us. Not all funds will have a 5-year record, and to an extent, past performance is secondary. It's what they do with your money in the future, not other people's money in the past, that is of greatest importance to you.

Our view is that you should simply ensure you can beat inflation by a margin, over the long term, but that you should not lock your money into just one investment, unchecked for the long term and become complacent. Long-term investment is after all, a series of shorter time periods over a longer time.

If you set a destination and place it on a map, the job is simply to monitor it and ensure you stay on track. If the goal is set correctly and your attitude to risk is sensible, the real thing to worry about is ensuring you put sufficient money into your investment, whatever it is, to hit your goal. And like anyone on a journey, you will check from time to time as to your progress and adjust accordingly.

# Our palette of choice

**Understanding your options**

As a nation we have been told that we should have a pension. We should buy property. And we should avoid risky stock markets.

Current experience shows much of that has proven to be erroneous.

Regulators can't stop risk and adding layer upon layer of regulation adds to costs, opacity, and actually dissuades people from saving for their future benefit. So we should take whatever tax allowances the government gives, but with an eye on how simple and sustainable they could be.

Outlined here are 3 of the main savings vehicles used. This is not an attempt to detail each one or recommend them individually, just simplify them.

## Individual Savings Account (ISA)

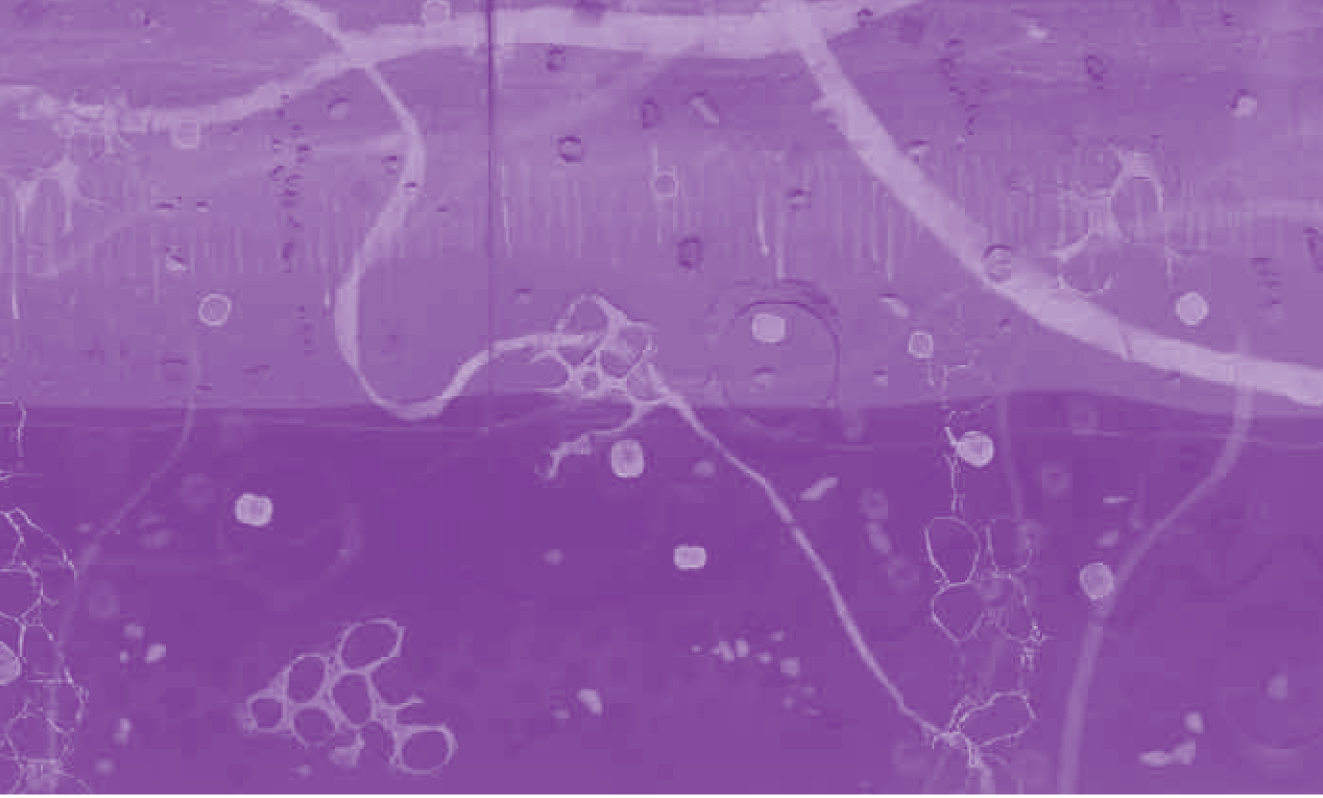
There are two main types, Cash and Stocks and Shares, plus a Junior ISA.

They are relatively simple – you invest in them from after-tax income.

Your investment grows free of all UK taxes. You can have access to all of your investment at any time.

Any money coming out of the ISA is tax free, so income in retirement, for example, isn't taxed and you don't have to purchase an annuity with your money. You take as much as you require, when your require it.

ISA's are therefore a flexible retirement option. They do not attract tax relief on payments going into them, but after that enjoy great tax benefits.



### Pension

The main benefit of a pension (the name is misleading – it is simply a savings or accumulation vehicle until you actually "retire' and begin taking money out of it as a "pension"), is that you receive, within certain limits, tax relief at your highest rate on payments going into it.

Your money then grows, more or less, tax-free.

However you can't gain access to your funds until you reach the age of 55, which may have the effect of putting people off funding them in the early years. Clearly the logic here is to ensure people don't raid their pension pots for minor items, after receiving tax relief, and still end up with insufficient funds at the point of retirement.

The effect of all this may be to massively under-fund pensions in the early years, which are the crucial years.

When you decide to take your pension, there are several things to consider. Currently annuity (the thing you purchase with your pot of money) rates are extremely low, and are likely to stay low based on increased life expectancy. Other options are available but any income coming from a pension is also taxed. Our view is that most pensions are more complicated than they need be. Governments change the rules too frequently and in turn increase the uncertainty about their long-term use, so a combination of ISA and Pension savings may be more suitable for the long-term saver.

### General Investment Account

Although these are taxed, they are useful for any money in excess of your ISA allowance, or for investments that you do not wish to tie up inside a pension.

# Keeping you in the picture

**Monitoring your investments**

Most people have savings and investments scattered across different products and providers. This makes the job of understanding how well you are doing nearly impossible, even if you do understand each product after cutting through the inevitable jargon.

This lack of understanding is often based on an asymmetry of information (the difference between what the seller and buyer know), and can be wrongly exploited.

We believe it is crucial that people understand their savings and thus we have a total bias towards simplicity and providing as much information, in an understandable fashion, in one place.

Checking on how your money is growing, versus your goals, should be as easy and interesting as possible. And it needs to be done on a reasonably frequent basis, say once a week. Why, after all these are long-term investments? The answer is so you get to know your investments well and can see how well they react in volatile times.

This does not mean when stock markets go down you rush for the exits, or even buy more guessing that the market has reached its bottom. You don't know that. In fact, few can ever call that moment on a regular basis. There is an old saying "It is time in the market, not market timing, that makes the difference."

But it is your money, and you should have the right and responsibility to keep an eye on it. The main thing to watch for is that your investment is doing what the fund managers said it would do; it is behaving appropriately. For example, a more adventurous fund should go up faster when stock markets are going up, than a defensive fund that will have less shares and more cash inside it. And vice versa.

Track your investment against your goal – if it is under-shooting then simply top it up with as much as you can reasonably afford. There is nothing wrong with this – this is exactly what you would do in real life, on a real journey, you would put more fuel in the tank. better to arrive early, than late.

# Our view is that we get into debt on an impulse.

We want that house, so we borrow.
That may be OK, as long as house prices go up, interest rates stay low enough, and our personal circumstances mean we can afford the cost of borrowing. At the end of the mortgage term we have an asset backed investment, and no borrowing.

But many are tempted to continue to borrow against the same property for things which are not asset backed, or are much more risky, such as property that others live in, or property abroad.

In addition, we all use our credit cards for purchases, without a thought.

Good habits and bad ones are just habits. Getting into the habit of saving small amounts rather than buying that extra coffee, or if you decide to stay in, put the money saved straight into your investment account becomes a very good habit. And it helps ensure you have money to go out more often, when you really want to.

Whenever you get the impulse to borrow (like a credit card purchase), or over-indulge, just pause. That coffee and cake - you don't really need it, pop the money instead into your savings and not into the pockets of others preying on your temporary weaknesses.

# The True Potential Gallery

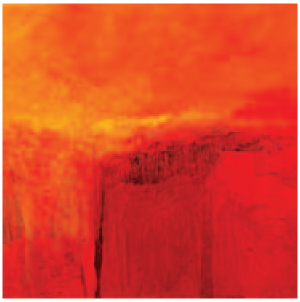
**Commissioned artwork**

## Vision

**Frank Briffa**
Oil on canvas

In keeping with Frank's normal practice "Vision" is based on a piece of music, in this case, An Alpine Symphony by Richard Strauss. This is a large orchestral work that describes 11 hours –just before dawn to nightfall –during which there is an ascent up a mountain followed by descent.

The work comprises 22 continuous sections and is based specifically on the section called "vision" during which the summit of the mountain is reached and the music here seems to describe a sudden clear vision of achievement following the arduous and sometimes chaotic climb.

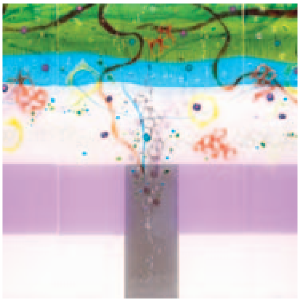


## Resolution

**Glynnis Carter**
Oil on canvas

True Potential LLP wants to create organisation out of chaos and wishes to present itself as a clear thinking leader in a marketplace that presents itself as a chaotic one.

From a seemingly chaotic beginning the artist explored the formal aspects of colour, texture, line and tone to make a painting that draws an immediate response but which also has the depth and interest to reward sustained viewing and evokes a sense of landscape.



## Order from Chaos

**Iris Houghton**
Fused Glass Panel

Working on the True Potential philosophy, the design starts with busy and chaotic forms at the top of the piece, with no straight lines, which lead down the piece gradually diminishing into complete calm at the bottom.

The grey oblong pieces form chaos catchers into which all the chaos falls to emerge as calm.

simple. effective. unique.

**True Potential LLP**
Registered Head Office: Newburn House, Gateway West,
Newburn Riverside, Newcastle upon Tyne, NE15 8NX
London Office: 42-44 Grosvenor Gardens, Belgravia, London, SW1W 0EB

T: 0871 700 0007 E: discover@tpllp.com **www.tpllp.com**

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