Financial Planning
infobyte

DFM Research reveals widespread under-performance

Report says a basic asset allocation model has out-performed most discretionary managers

Neil Hewitt
Chartered & Certified Financial Planner

Discretionary Fund Managers - v - Asset Allocation Models

When compared to the performance of a basic asset allocation model, most discretionary investment managers have under-performed in the past three years, according to a report from the Asset Risk Consultants (ARC).

The report has revealed that an investor who had passively followed the FTSE APCIMS indices - a range of wealth management indices - would have ended up in the top 10% of discretionary managers in terms of performance in the past three years.

The FTSE APCIMS indices are designed as a strategic benchmark for wealth management portfolios. They are decided by a committee that sets and picks indices for the asset allocation, so the Balanced index has 42.5% in UK Equities, represented by the FTSE All-Share index, for example.

The report said the reasons for much of this under-performance were “an over-cautious stance with respect to equity markets and a lack of exposure to UK Government bonds”.

ARC said that “In the aftermath of the financial market crisis in 2008, with the benefit of hindsight, private client discretionary managers placed too much emphasis on capital preservation strategies, thereby capturing only part of the ‘relief’ rally.

These figures are very worrying and they show there needs to be far more transparency over discretionary management performance.

We are not surprised by the figures due to the charges incurred by active management that will drag on performance.

A More Effective Approach

A more effective approach is a passive portfolio with an appropriate asset allocation. Here, the portfolio will still have a diversified approach with exposure to the various asset classes and sectors, but will do so through index tracking funds.

These funds will provide the market return without the risk of under-performing the market (other than minor tracking error) at normally much lower cost.

However, care still needs to be applied here and advice should be sought, as not all passive funds are the same. Recent research shows that some passive funds (which include some large household names) carry “highly uncompetitive” charges.

The research showed annual expenses for some passive funds vary unbelievably between 0.15% to 1.5% per annum. The higher end of this scale is not offering good value for money. High expenses are not necessary and charges really should not exceed 0.5% per annum.

Passive investment strategies have increased in popularity in recent years with overall shares in funds at an all time high.

The investment strategy may be passive, but we must still be active in the selection of passive funds

May 2013

Please Contact:

Ipswich :	***Neil Hewitt***	*neil.hewitt@scruttonbland.co.uk*
Colchester :	***Gary Riches***	*gary.riches@scruttonbland.co.uk*
	Grant Buchanan	*grant.buchanan@scruttonbland.co.uk*

820 The Crescent, Colchester Business Park, Colchester, Essex CO4 9YQ t: 01206 838400 f: 01206 838401
Sanderson House, Museum Street, Ipswich, Suffolk IP1 1HE t: 01473 259201 f: 01473 281779