Growth is the new gold

After a bull run of more than a decade it was only a matter of time before the market turned. While its cause couldn't have been predicted, **Ian Leech** assesses where opportunities lie in a new era

Significant economic uncertainty has seen investors sit on the sidelines or play into safe havens where their money is secure. The FTSE 100 has regained the psychologically important milestone of 6,000 points again, but Britain's blue-chip index might struggle to gain more ground as we face worsening Covid-19 infections and growing trade tensions.

The truth is that the stock market hasn't performed for many years. Analysts believe that is down to constituent companies being old economy industries in structural decline.

Anthony Higson, executive director at JP Morgan Private Bank, tells *Insider* that his firm has a global approach with a skew to the US. "The UK market is a relatively small part of that. The FTSE is still down around 20 per cent for the year to date whereas the S&P 500 in the States is up 5 per cent. A huge driver for that is that the S&P has a significant weighting towards some significant household tech names which have been beneficiaries of our reliance on technology at this time."

Fund managers have been looking for opportunities with industry disruptors in growth industries.

Michael Craven, head of the Leeds office at wealth managers Brewin Dolphin, says: "As we move forward, many investors want to focus on the opportunities in growth sectors because generating income has become so problematic with dividends largely suspended and so many traditional areas of value struggling."

The coming years will likely see low interest rates continuing as well as an increased tax take to recoup some of the nation's expenditure on Covid-19. The next ten years have also been billed as the "decade of retirement", as the baby boomer generation retires and ensuring a sustainable income for that demographic becomes a key challenge for wealth management. Several funds are launching In-Retirement portfolios to 55 to 58 year olds as they reach the decumulation phase and their wealth needs to be transferred to income.

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James Rowbury, who heads the investment research team at Redmayne Bentley in Leeds, says his firm had always relied heavily upon dividends to provide retirement income for clients.

He says: "Because bonds and equities are all becoming very similar we have been steering more into the alternative space. So things like music royalties – the music industry was on a downward trend until a few years ago when Spotify came to the fore and now it is effectively a utility.

"And then a classic millennia-old diversifier is gold. The gold price has rocketed recently and that is on the fear that inflation is outstripping the returns you can get on cash or bonds."

The traditional 60/40 equity-bond model got blown out of the water because of a low interest rate environment and post-financial crisis climate. Bonds have gone on a mammoth bull run where the capital values have risen and yields gone down. While they are now hitting negative rate territory, many investors take reassurance from the fact that they will always get their money back on government bonds.

Over the years property has been a popular investment as an appreciating asset. Though Brewin Dolphin's Craven warns: "Property is usually seen as an alternative to equities when there is extreme equity volatility, but property investment, particularly retail and office, has so many issues to deal with that we are not seeing clients migrating to this asset class."

Jonathan Rowley, owner of Sheffield's Hamnett Wealth Management, adds: "I would split property down into different areas. In certain parts of Sheffield demand for residential property has gone ballistic. We are seeing more appetite from people to put a 50 per cent deposit on a property, take some money from a bank because it is cheap and in a low inflation

environment, if you can take money cheaply and buy a real asset like property, believing that there is a national shortage of accommodation, then it is just basic supply and demand."

CHOOSING A WEALTH MANAGER

How to choose a wealth manager is not just a billionaire's dilemma. A total of 3.6 million households in Britain hold wealth of more than £1m, according to the Office for National Statistics. That equates to one in five over the age of 65.

Find out what areas of specialism the financial planner has. Make sure everything is transparent, particularly charges. And also be clear on exactly what level of service you are getting in return.

Will you get quarterly updates or more frequent communications? Is an investment manager available at the end of a telephone? How proactive are they? How quickly will they move when shares under-perform or a company gets a series of profit warnings; will your holding languish in your portfolio for months?

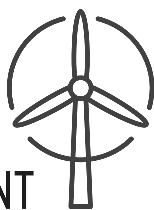
Fees vary enormously. Some charge 1 per cent plus 0.2 per cent VAT a year of the portfolio value for discretionary management. Financial planners may operate on an hourly fee basis.

As well as ensuring they are suitably qualified and regulated, other warning signs could be a lack of experience and/or a lack of clarity over charges. If the investment manager can't show you long-term performance records against an appropriate index, avoid them.

Jonathan Rowley at Hamnett says the present crisis has made the need for good advice even more important.

"Some very clever people who run their own business might sometimes question whether they need advice. They have put money into a cheap FTSE100 tracker fund but weren't expecting it to fall 38 per cent in March.

"Now is good to have cash that you can put your hands on straight away as an emergency fund or to weather a storm. And it is amazing how many high-flyers actually get into trouble because they have maybe overstretched themselves. Cash is king when markets go volatile."



ETHICAL INVESTMENT

There was around £5bn invested in ethical strategies in 2010 according to the UK's Investment Association. Today, that is more than £20bn. The environmental, social, and corporate governance investing space was gaining traction before the coronavirus pandemic, but the outbreak has pushed it into overdrive.

Global investment manager Federated Hermes found 85 per cent of independent financial advisers have seen a rise in client requests to allocate capital to ESG-integrated funds since the start of Covid-19.

UBS, the world's leading wealth manager and sustainable investment manager, is the first major global financial institution to announce that sustainable investments are now the firm's preferred solution for private clients investing globally.

And HSBC Global Asset Management has also announced it is making its first foray into 'natural capital', with plans to launch a new asset management firm dedicated to investing in natural assets.

Key factors in wealth management relationships

Ranked by percentage of clients who rated the following of high to very high value

56% PRICING

53% PERSONAL ATTENTION

52% QUALITY AND REPUTATION

49% TECHNOLOGY

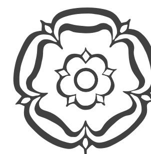
EY 2019

"A classic millennia-old diversifier is gold. The gold price has rocketed recently."

James Rowbury
Redmayne Bentley

JP Morgan's Higson says: "People used to talk about ethical investing and there used to be a negative screening approach to an investment portfolio – so you say I don't want exposures to certain sectors. Today, the focus is on positive screening and it is about how the business is run.

Is it a company doing the right thing for the world going forward?"



KEEPING IT IN THE COUNTY

York wealth boutique Mole Valley Asset Management has created a portfolio to invest exclusively in Yorkshire-based plcs.

According to the firm's website, there are more than 80 companies trading on the stock exchange with head offices within the county. The T20 Portfolio holds 20 companies, and therefore has additional company-specific risk.

Director and portfolio manager Duncan Sanford said the company's portfolios were recognition of an ongoing trend of localism. "We've seen the tide starting to turn for some time, with people looking increasingly to be part of their local economies. We can only see that counter-globalisation drive increasing post-Covid-19 as people reassess their priorities. And if they are increasingly looking to shop local, why not invest local as well?" ■