

## JEP Wealth Supplement (October 2009)

### “A steady hand on the tiller”

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The Financial storm experienced during the past 12 months has drawn much commentary with focus recently centred on the shape of economic recovery and its timing. Perhaps not as obvious but just as important is the relationship between client and advisor in such turbulent times and the provision by the latter of good quality, suitable and most critically sensible advice or as I like to term it a “steady hand on the tiller”.

The role of an Advisory Stockbroker is wide and varied but even more so in times of crisis. Whilst there remains demand for both immediate and longer term recommendations in respect of the usual investment vehicles such as equities and bonds the collapse in markets has demanded an extension of our role in order to provide a shoulder of support. In such an environment there is an expectation that we comment in a much wider capacity in an impartial manner in respect of funds or investments issued by other institutions held by the client. More importantly we can allay some of the unnecessary fear created by sensational headlines.

Despite being armed with in excess of 20 year’s experience of world financial markets these were indeed testing times. On the one hand we were dealing on a daily basis with unheard of market volatility with stock prices swinging wildly, whilst the rumour mill churned out stories of banks and a multitude of other well known companies seemingly on the verge of going to the wall. How you may ask does one make sense of this all and provide a clear and concise view on which to make recommendations and decisions?

Simply put an ability to step back from the fray, even if just momentarily, is an important discipline that allows one to focus the mind and put aside poor or hurried judgements that could otherwise be made. In particular “following the herd” in my experience is the most ill advised decision. There is nothing more disconcerting and to my mind dangerous, and more often than not with a propensity to lose money, than a client who feels the pressure of the latter and feels they must act. In order to assess the state of play we will take clients back to their original reason for the investment, their attitude to risk and whether anything has changed in this respect. Added to this we will take into account market factors before arriving at a recommendation.

By way of example the recent collapse in deposit rates has forced savers to rethink how they generate returns particularly in the local environment where inflation remains an ongoing issue. At the height of the crisis a flight to quality and security of capital were uppermost in clients thinking leading to a rush into Government Bonds. With fear abating, however, and returns in this area now very slim the focus has once again returned to generating income. In the first instance Money Market funds were an attractive option but returns have now dwindled to negligible levels. The focus has, therefore, turned to the Corporate Bond market. This in our view requires a disciplined approach, as very much in the manner that savers came unstuck in

late 2008 chasing market defying interest rates, a minefield potentially awaits and it is essential to ensure that a good spread of quality issuers is held coupled with varying maturities.

A surprise to many is investor logic which in the main exhibits a contrarian philosophy. When world equity markets were at their lows in March it was an optimistic broker who believed that an attractive trading opportunity would receive a high response rate and yet following a 40% market rise since then investor interest is far greater due to the fear of being left behind and out of the market. Our response to this trait is to ensure a diversified approach both in terms of the companies held and their characteristics, i.e. a mix of growth and defensive stocks coupled with a propensity for those providing a solid and reliable dividend flow. In addition whilst there will always be a tendency to chase the “hot tip” doing the rounds on the dinner party circuit, we always encourage a culture of maintaining a core of blue chips which will see you through the best and worst of markets. For sure there is no harm in raising the stakes with higher risk plays, but these should always be kept in proportion thereby ensuring damage limitation in the event of the unexpected which more often than not will rear its ugly head.

The discipline of leaving something for the next investor is also an invaluable one. Invariably you will never catch the very top or bottom of a share price movement and it is a wise investor who recognises that the return achieved is the one they desired at the outset. Greed has often been the downfall of a perfectly sound investment that has been retained past its sell by date. In summary, our approach to wealth preservation here at Standard Bank centres around the long standing experience of our teams and their ability to deliver consistent and sensible advice at all times whilst retaining a “steady hand on the tiller” throughout all market conditions.

(873 words)