pension access

The story of

the disciplined investor

and why it's your best route to pension happiness

HRC
Harbour Rock Capital

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Why is investor discipline so important?

How often do emotions affect the decisions you make in life?

More specifically: how happy would you be for raw, instinctive emotions to rule how your pension savings are invested? It sounds far from ideal; although, for a lot of people this is what happens. Let's have a look at a very simple example.

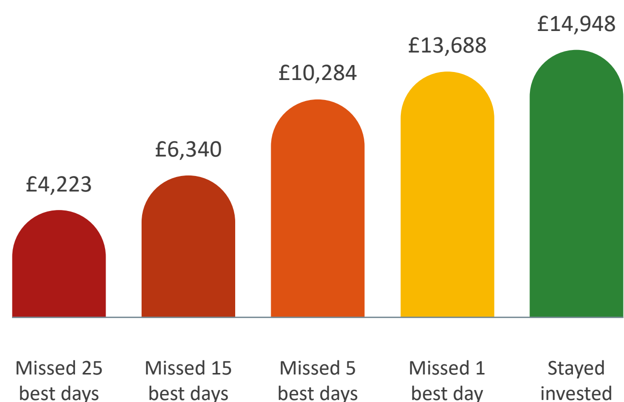
Stock markets can be very complicated. And yet, the way they are presented to us in the media taps into two of the most basic human emotions:

- **Fear:** "When stock markets go down, that's the value of my savings going down." This induces fear and the instinct is to get out as soon as possible.
- **Desire:** "When stock markets go up, that's my savings that could be going up… I'd better invest." This induces a desire to be fully invested in that upward curve.

What we are rarely told is that stock markets are going up and down all the time. It's what they do. Without this bigger picture it's understandable that for many people the fear kicks in and they want to withdraw their money when stock markets go down. And this approach can prove very costly. Research by Dimensional illustrates this perfectly.

Let's say you had invested £1,000 in the FTSE All Share Index[1] in 1986 and left it there. By 2014 your £1,000 would have grown to £14,948. Now let's look at what would have happened if you had reacted to market drops in that time by withdrawing your money, therefore missing even just some of the best days of investment growth in that 18-year period[2].

Investment days missed vs growth



Regret of withdrawals

As this graph shows, missing even a few days of the best market returns can have a dramatic impact on the growth of your investments.

Being a disciplined investor

It means staying invested, whatever the short-term stock market ups and downs look like. It's fundamental to giving your pension savings the best chance to grow as much as possible. And more money in your pot means more freedom to do the things you want to do.

> **It is important to remember that investments can go down as well as up and that past performance is not a reliable indicator for future results.**

[1] We explain what indexes are on page 8.
[2] Dimensional: performance does not reflect the expenses associated with the management of an actual portfolio.

What does your pension taste like?

Not an easy question to answer! That's one of the problems with pensions, they are so abstract. And if something fails to ignite our senses, it can be hard to get too excited about it. Yet...

Your pension is a hugely powerful tool for growing money

And that is worth getting excited about because the more money you have in your pension pot, the more freedom you will have to do the things you want to in life. And surely that's the goal?

Hitting your pension sweet spot

One of the most trusted and effective ways of growing your pension money is to invest it in stock markets. There are a number of ways to do this. And we believe that by being clever when it comes to the small details, our philosophy puts you one step ahead of the majority of investors.

The proof is in the pudding

As we have already mentioned, when it comes to stock markets, sensationalist headlines can get the senses racing... and not always in a good way. All those ups and downs!

The thing to remember is: market volatility is business as usual and we shouldn't be distracted by it. What really matters is how we invest your money in stock markets... and for how long.

As any keen baker will tell you, for the best results you don't keep taking your pudding out of the oven and then putting it back again. You trust in years' worth of baking experience and expertise, and leave it there for the allotted time. The same principle applies to your pension savings and the stock market.

Next we are going to introduce the two main ways of investing in stock markets. And we'll explain why you are in the best possible position, in every sense, when it comes to how we invest your pension savings **because you are a disciplined investor.**

What you will get from this guide:

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Stock markets: why perspective is everything 5

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What are stock markets?

Stock markets are spaces where lots of different shares from companies all over the world exist. That's a lot of shares!

What is a share?

If you own a share it means you own a small part of a company and you receive a proportion of the profits that company makes (also known as dividends).

What affects the price of a share?

A share is worth whatever someone else will pay for it. So, almost anything can affect the price of a share, which makes predicting what will happen next to its value very difficult. It could be something obvious such as the release of a new product, a change in government policy or fluctuating exchange rates. It could even be the weather (seriously!), a misplaced joke or a throwaway comment by someone influential... remember Gerald Ratner?

> **Through your pension you own a small part of thousands of different companies. Many of them will be household names you might recognise.**

What makes stock markets so powerful?

As you can imagine, with so many factors affecting their value, share prices go up and down a lot (often changing from one minute to the next). This makes stock markets very volatile environments where swings in value can be huge over a short period of time.

It's the combination of this volatility, the sheer volume of different shares and people's willingness to buy and sell them as they spot opportunities that make stock markets so powerful.

Harnessing the power

It's important to be clear that this power can be both positive and negative. Big swings in value mean big potential rewards and equally big risks in the short term. Yet, despite this volatility, investing in stock markets is almost always in the best interests for people with long-term investments such as a pension. As long as you take a sensible and measured approach.

This is where things get interesting because what constitutes a sensible and measured approach to stock market investing is a hotly contested topic!

To show you why we think our approach puts you in such a strong position we need to introduce the two main schools of thought. It's a rivalry with more clout than Senna v Prost. More shouting than McEnroe v Borg. And more posturing than The Beatles v The Stones.

To set the scene, let's look at just how much stock markets can go up and down.

Meet the bull and the bear...

...when a market is going up or expected to rise, it is often called a bull market. The bear looms into view when markets are on the way down.

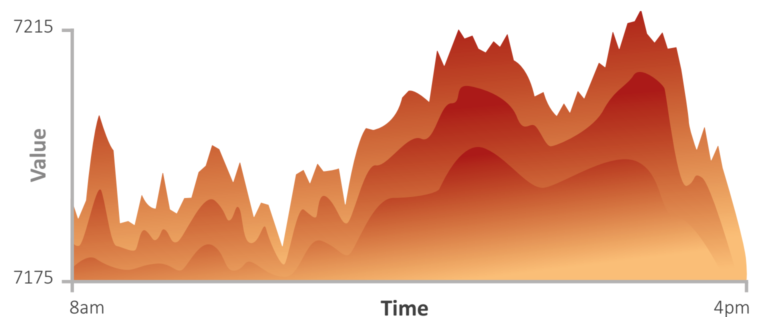
Stock markets: why perspective is everything

The best way to demonstrate how much stock markets go up and down is to consider real-life examples. So let's have a look at the performance of one of the UK's best-known stock markets, the FTSE 100[1], over 1 day, 1 year and 10 years.

A day in the life

A rollercoaster ride

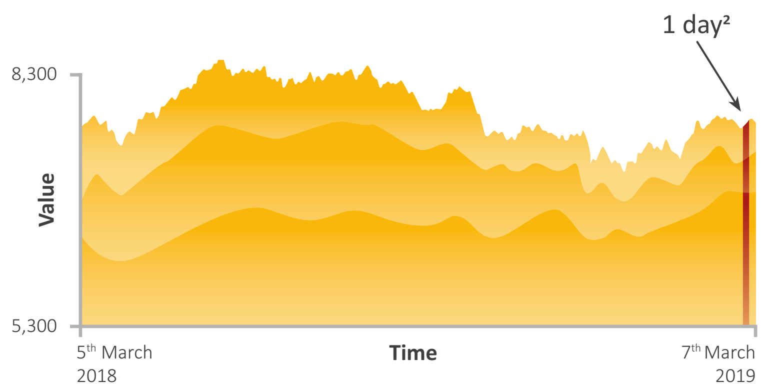
Over the course of one day a stock market can look like a scary proposition, with lots of ups and downs.



A year in the life

A calmer view

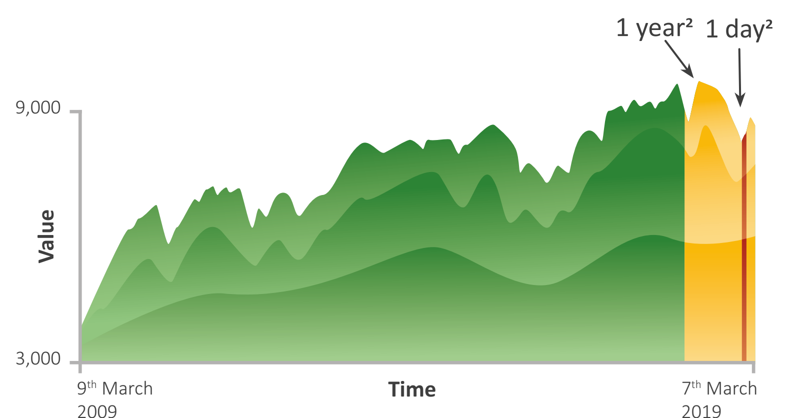
While the ups and downs are still there, over the course of a year they begin to smooth out.



10 years in the life

Smooth and steady

Step back to take a long-term view and the FTSE 100's rise in value looks much smoother and steadier.



[1] All figures from investing.com covering 6th March 2019, 5th March 2018 to 7th March 2019, and 9th March 2009 to 7th March 2019.
[2] These graphs and the day and year slices are for illustration purposes only.

A closer look at the FTSE 100

When you see a graph representing a stock market on the news or in a paper, what you are usually seeing is a specific slice of one stock market.

The FTSE 100 is a slice of the London Stock Exchange. There are around 2,000 companies trading on this exchange and the FTSE 100 aggregates the performance of… you've guessed it… the top 100.

There are lots of these slices (generally known as indexes) and they give us a view on how stock markets are doing through a very specific filter.

Over the 10-year period we have shown for the FTSE 100 it grew by more than double, despite all the ups and downs. Factor in contributions, tax relief, compound interest and dividends, your pension would probably have grown by a lot more, had you remained invested in this part of the stock market for the whole period.

Managing the ups and downs

If you were managing your pension investments, what would you do to get the most out of your savings amidst all the market ups and downs? Let's have a look at the two main schools of thought…or investment herds as we are going to call them. And then we'll look at the Pension Access way.

Introducing the dividend dynamo…

Through your pension you own shares in lots of different companies. When these companies do well they pay you a share of the profits, which are called dividends. These payments are **one of the reasons** your pension can still be earning you money, even if stock markets are not doing so well.

Dividends rarely get mentioned and yet they are a vital and often extremely valuable part of your pension.

Introducing the two main investment herds

Herd 1: the crystal ball approach

Predicting the future is still by far the most common approach when it comes to investing money in stock markets. We'll call fund managers who adopt this approach predictors. Let's look at how they work.

The aim of the predictor

To outperform markets during all their ups and downs.

The methodology of the predictor

The really proactive predictors will research stock markets thoroughly, considering many different factors to work out which company shares they should invest their clients' money in.

They will then regularly reassess these decisions, which can mean lots of costly trades as investments are bought and sold in an attempt to chase the best returns.

And you do have to pay a premium for the predictor's insight: hopefully for knowing something about the future that you or other people don't know. And yet…

It's all about predicting the future

The predictor is making decisions about where, when and how your money should be invested based on what they think will happen in the future. And how many people do you know who can consistently predict the future and get it right?

The question is: would you be happy for your pension savings to be invested based on what is essentially guesswork, however educated that guesswork may be?

> **Less than a quarter of predictors achieve their goal of outperforming stock markets[1].**

In summary

The predictor's investment philosophy is built on:

High fund management fees

You are paying for the reputation and expertise of those involved with constant company analysis.

Concentrated investment risk

Predictors have to invest in dozens of companies rather than whole markets.

Predicting what will happen next

Predictors have to make a judgement call on how specific companies will perform in the future.

[1] *Active or passive investment*, Which? April 2018.

Herd 2: trusting markets as a whole

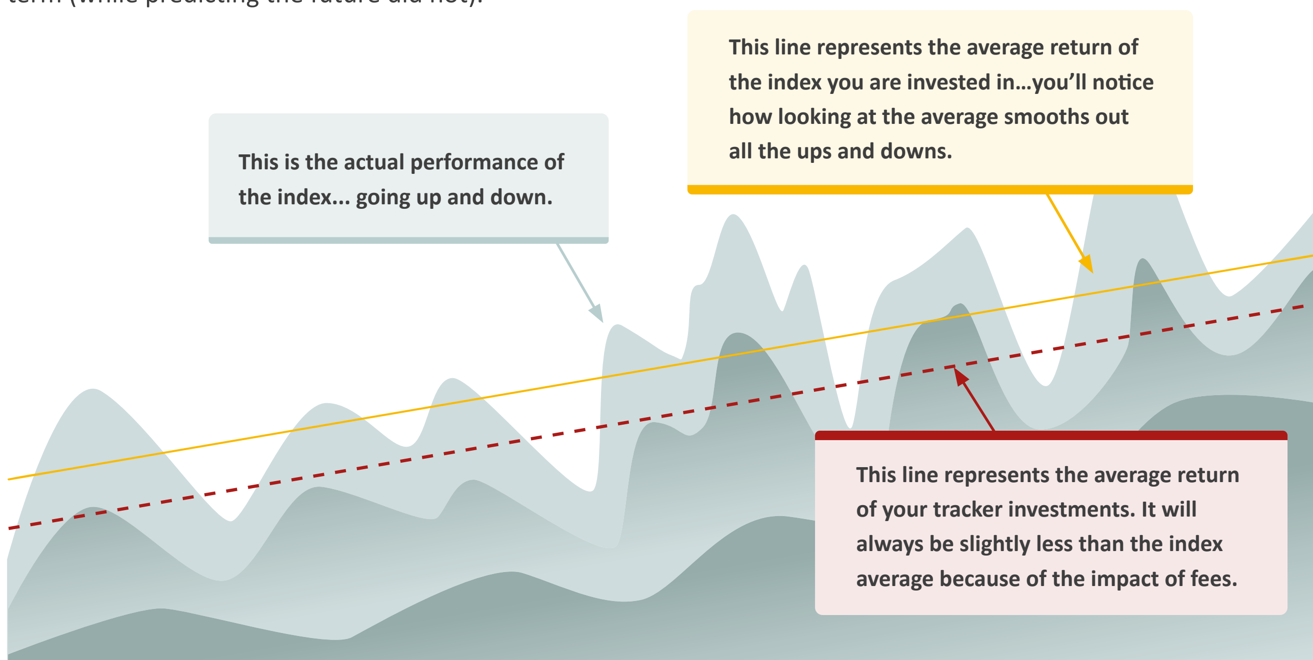
History shows us that stock markets have always risen over time.

In the 1970s some inquisitive scientists started to question why they were paying fund managers so much money to manage their stock market investments when it seemed to them that decisions affecting their future wealth were ultimately based on guesswork.

So, these scientists (some of whom were later awarded Nobel prizes for their work) spent a lot of time analysing all the data they could find about stock markets. And their results showed, conclusively, that trusting stock markets as a whole works over the long term (while predicting the future did not).

Introducing the tracker principle

This led to the creation of tracker funds, which aim to replicate the performance of a specific slice of one stock market. For example, a FTSE All Share tracker fund. This means your savings are used to buy shares in every one of the 600 companies that make up the FTSE All Share index. Apart from a little rebalancing now and again the idea is to then leave your investments alone as you trust the wealth of evidence showing that stock markets have always risen over time.



In summary

The tracker's investment philosophy is built on:

Lower fund management fees

You are paying for technological efficiencies without constant market analysis.

A broad spread of investment risk

Your money is invested in hundreds of companies.

Historically proven facts

Trackers work on the evidence that, over a long timeframe, stock markets have always risen.

Which herd should you follow?

Tracking feels like a much stronger and reliable philosophy compared to putting your faith in predictions about the future. But tracking does have its limitations. For example:

- By investing in a tracker fund, you are still restricted in terms of the shares you can buy.
- Tracker funds have to make trades at specific times of the year and this reduces their potential performance.

The good news is, we can improve on the tracker philosophy.

It's the small changes that can make a big difference

Take Mo Farah, for example. In terms of talent, training and commitment, there's arguably very little separating the top long-distance runners in the world over the last few years. What Mo and his team have done, though, is focus on making tiny adjustments and improvements where they can and this has given Mo the edge when it has counted the most.

This is like the approach we have taken with the standard tracker method to investing. We believe in making small yet important changes to give your investments the best possible chance of beating the average market return over the long term. Such as:

Investing in stock markets globally, rather than just a specific index

Using technology to make small gains every time you trade, which is often

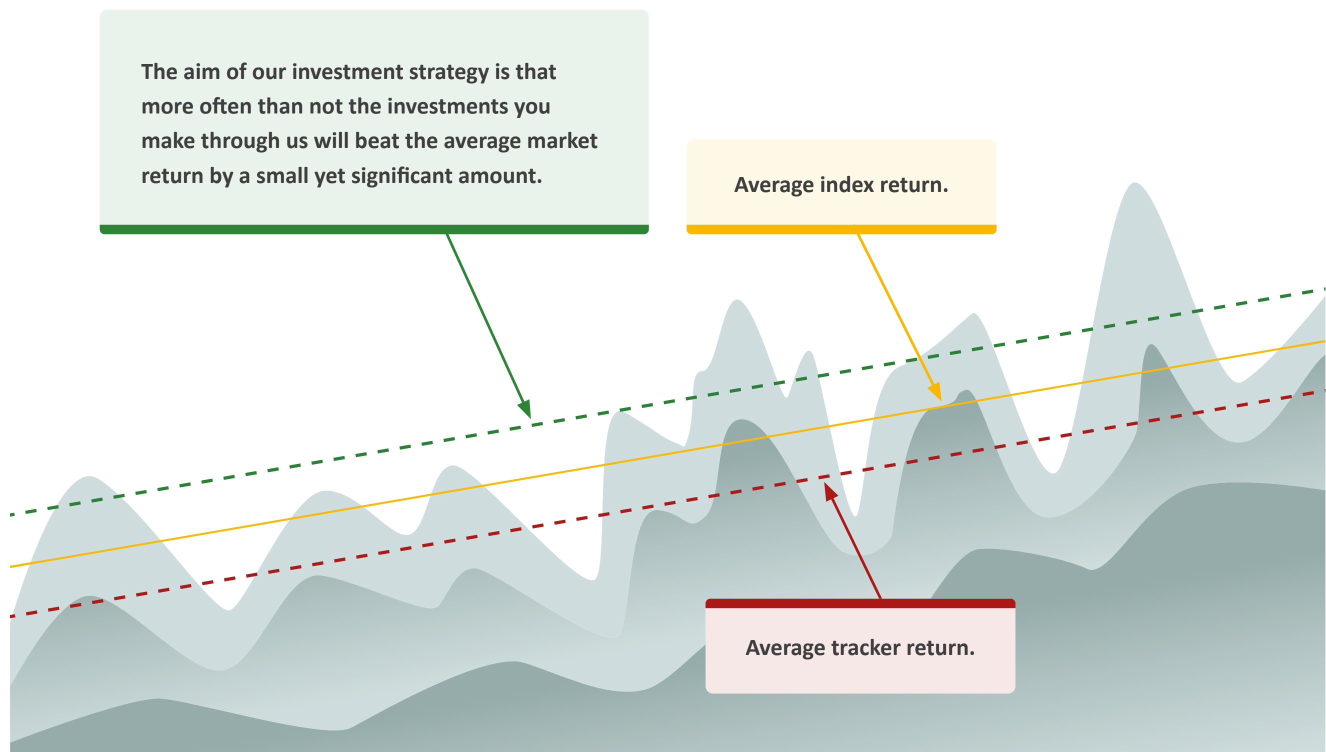
Avoiding elements that consistently carry higher risk, such as companies that are new to the market

> **"The good news is, we can improve on the tracker philosophy."**

Investment option 3: the Pension Access way

Our approach to investing is all about being disciplined. This means not being distracted by short-term noise, such as sharp stock market ups and downs, and instead focusing on squeezing every last drop of potential growth out of your savings over the longer term.

Let's have a look at how this works in principle. The graph below is exactly the same as the graph on page 8. As you can see, the average return of standard tracker investments is still below the average market return. In contrast, the green dotted line shows how we expect our clients' investments to perform in relation to the average market return.



In summary

At Pension Access, our philosophy is built on:

Low fund management fees

You are paying for technological efficiencies and constant market analysis.

A broad spread of investment risk

Your money is invested in thousands of companies rather than hundreds or even just dozens.

Scientifically proven facts and processes

Compelling research underpins our philosophy giving your pension savings the best possible chance to grow.

Being disciplined…

It’s all in our investment philosophy

Our investment philosophy is based on scientific evidence, mountains of data and the use of modern trading systems. Not fortune telling. For us, the best funds in the UK are those that allow our investment philosophy to work as efficiently as possible without high charges that may affect performance.

Here’s a quick snapshot of what our investment philosophy means to you:

We carefully balance risk and reward

We invest as widely as possible

We stay in it for the long term

We trust scientific evidence where it exists

We use investment funds that trade as efficiently as possible

The peace of mind of being a disciplined investor

- **Managed risk:** your savings are invested in many baskets
- **Transparent:** investment decisions are based on known facts
- **Understandable:** a calm and rational approach to investing
- **Efficient:** using technology wherever possible to reduce costs and increase gains
- **Right for you:** taking into account the big picture

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