PATTERSON-MILLS

INDEPENDENT FINANCIAL ADVISERS & CHARTERED FINANCIAL PLANNERS

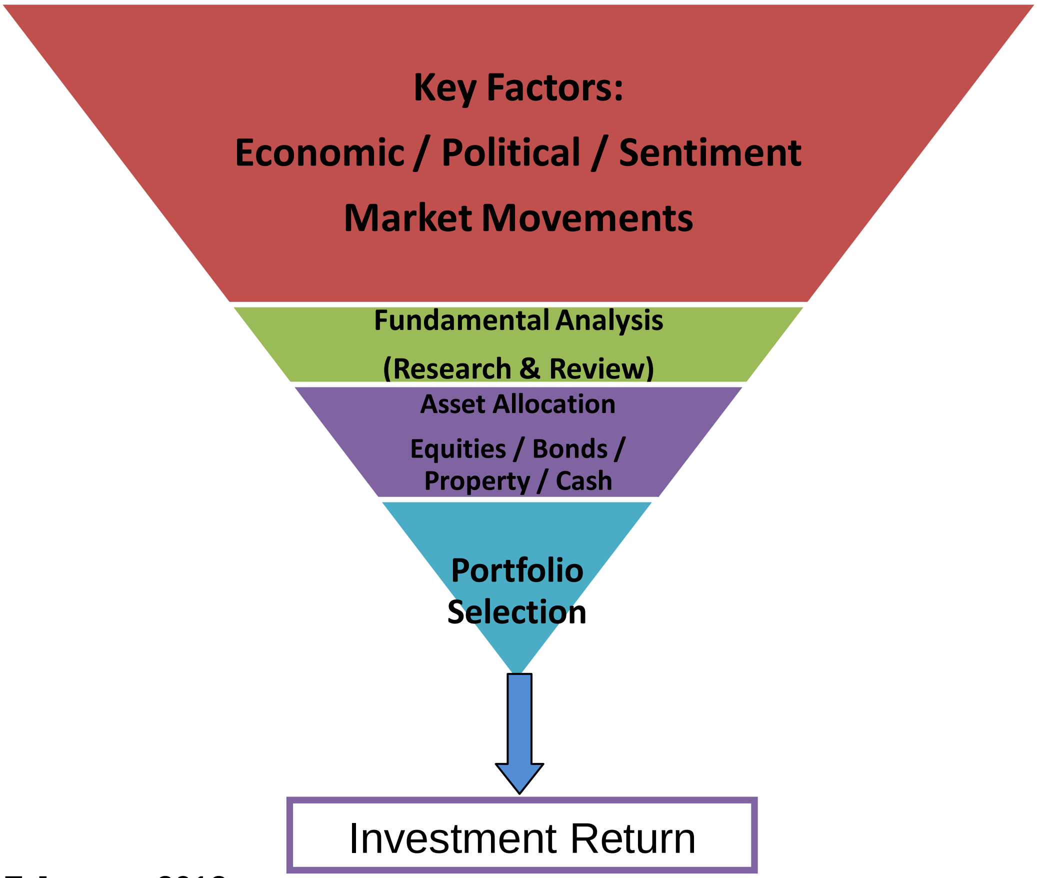
How Relevant is Asset Allocation?

In constructing an ideal investment Portfolio, studies have shown that general market movement is *the* most important factor in determining future returns (between 70% - 80%). However, fundamentally, any positive difference to returns, relative to markets, emanates from the success of the underlying analysis and choice of asset allocation, together with the stock / security choices made by individual fund managers. These combined factors govern whether the 'actively managed return' is above 'the benchmark return' (i.e. your fund managers' returns -v- that of the relevant market Indices' returns, allowing for management costs).

The inverted pyramid diagram is intended to reflect how your final investment return is generated by way of fundamental analysis of the key factors surrounding economic, political and market sentiments and specific asset allocation*. The conclusion, perhaps somewhat disappointingly, is that merely around 10% of your final investment return is generated from the specific stock selection within your Portfolio and the same for asset allocation decisions.

This 'investor conundrum' demonstrates that individual stock-picking and self-managing that some private investors undertake is, quite frankly, simply a gamble, without remotely the depth of research available to fund management houses. Instead, having a well defined, measurable and consistent approach to investment management is essential. Vitally, *good, active fund management with **pro-active** asset allocation has been shown to beat benchmark indices over the longer term*.

(*from research conducted in the US by Brinson, Hood and Beebower 1986 and subsequent papers by Ibbotson and Kaplan in 2000, updated by Xiong, Ibbotson, Idzorek & Chen in 2010 for CFA Institute of North America)



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