tcf investment

A Little Book of TCF
Ten things everyone should know about investing

Who we are

About TCF Investment (the managers of the MAPS Model Portfolios)

We are a fund management business established in 2009 in Kent. We are wholly focused on delivering low cost, multi-asset investment products to UK advisers and their clients.

OUR CLIENTS

Our clients are all types of advised investors large and small. They are seeking transparent, consistent and fairly priced portfolios for their ISAs and pensions.

OUR PEOPLE

TCF Investment brought together experts from across the industry that shared our passion to deliver straight forward, reliable, evidence-based solutions.

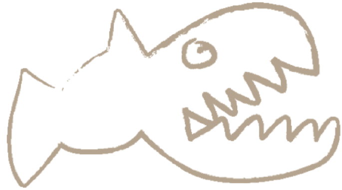
OUR PRODUCTS

The MAPS portfolios, that TCF Investment manage, are designed to meet the needs of advisers' customers, our business is designed to make advisers' lives easier.

OUR DIFFERENCE

- Our CEO invests the bulk of his savings in the MAPS portfolios
- We seek to deliver lower cost, transparent portfolios without surprises
- We never forget whose money we are looking after

Foreword



Investment is a scary subject to many people.

It involves your hard-earned savings and has risk and complexity. But there are a number of tips that can help everyone to become a smarter investor. We use them when we run the MAPS Model Portfolios.

At TCF Investment we invest money, but we do not give individual financial advice, so make sure that you speak to your own financial adviser to discuss your circumstances and needs.

However, you may choose to use these top tips to guide you when deciding what to invest in and they could help ensure you are on the right path.

As a little endorsement we have added some quotes from some recognised industry names, Nobel Prize winners and a famous cat!

David A Norman aka DAN, Chief Executive

Stay off the road to nowhere

TOP TIP
#1

Start with the end in mind. Unless you know what you are aiming at, how will you know whether you are on track?

It is no different with investment or retirement. It is important to understand your goals, the amount of risk you are prepared to take (how big the ups and downs along the way can be), how long you have to invest for etc. before you set off.

If you are not sure, then some independent professional advice is a good first step.

"Would you tell me, please which way I ought to go from here?"
"That depends a good deal on where you want to get to" said the cat.

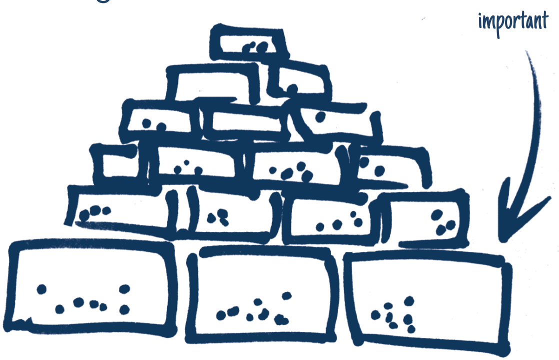
The Cheshire Cat. Alice in Wonderland.
Lewis Carroll

Get the big rocks in place first

TOP TIP
#2

Deciding the amount to invest between different types of assets, such as equities and bonds, is normally far more important to your long-term return than deciding which share or individual fund to buy. This is called asset allocation.

It is the foundation of successful long-term investing.



"The asset allocation decision is by far the most important factor in determining long term returns."

Sandler Review: Medium and Long-Term Retail Savings in the UK – July 2002.

Beware the cost monsters

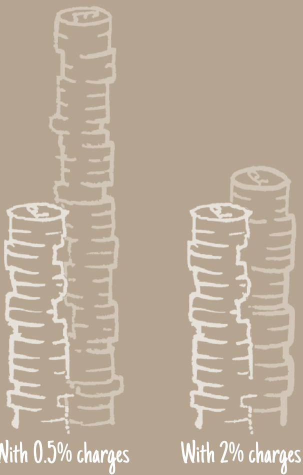
TOP TIP
#3

Ask what the fund is going to cost you, not just how it is expected to perform. Remember, every pound that is eaten up by costs is a pound that is not invested, and this can lead to an awful amount of money being lost over time.

Cheaper funds have, and continue to have, an in-built performance advantage.

If two investors invested £50,000 for 25 years and the market grew at 7% per year, but one had charges of 0.5% per year and the other had charges of 2.0% per year, the difference at the end would be over £70,000. (£241,385 and £169,317 respectively).

Source: TCF Investment



"It is difficult to systematically beat the market; it is not difficult to systematically throw money down a rat hole generating commissions (and other costs)."

Michael C. Jensen. Harvard University

Don't be fooled by the adverts!

TOP TIP #4

The billboards are full of outperformance claims of star fund managers. But the reality is very different, on average most fund managers struggle to beat the market index that is their benchmark (largely because their costs are too high).

For most people, a well-diversified portfolio of passive / index funds, at least as the core of their portfolio, is likely to be a good way to grow their investments in the long run.

	UK Equity	North America Equity	World Equity	Global Bond
FTSE Index %	29.72	125.12	98.33	38.88
Average fund in sector %	33.61	112.64	88.30	24.21
Difference %	3.89	-12.48	-10.03	-14.67

Source: TCF Investment. 5 years to 31/12/2020

"Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) delivered by the vast majority of investment professionals."

Warren Buffett, Chairman, Berkshire Hathaway 1996

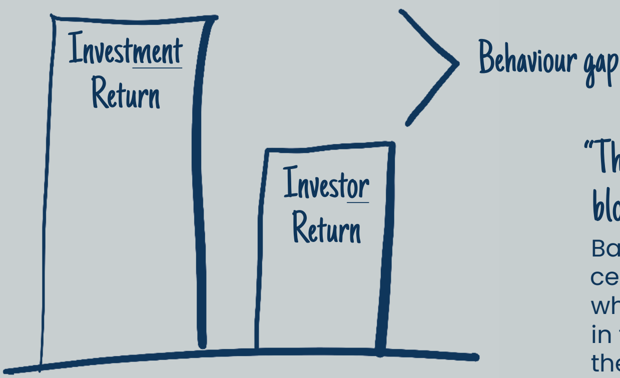
Avoid the madness of crowds

TOP TIP
#5

Many investors fall into the trap of buying high and selling low. It's like waiting for the price of something you want to buy to rise before buying or waiting for the price of something you want to sell to fall before selling.

There are various studies[i] into this phenomenon, the so-called Behaviour Gap. Even ignoring the worst estimates they suggest that we lose between 1% and 2% each year by getting it wrong.

Regular rebalancing, taking a long-term perspective and not following the crowd can help you avoid the risk of these losses.



"The time to buy is when there's blood in the streets."

Baron Rothschild an 18th century British Nobleman who made a fortune buying in the panic that followed the Battle of Waterloo.

Source: www.behaviorgap.com

[i]Clare & Motson (2010) Do UK retail investors buy at the top and sell at the bottom?
[i]Friesen & Sapp (2007) Mutual fund flows and investor returns: An empirical examination of fund investor timing ability

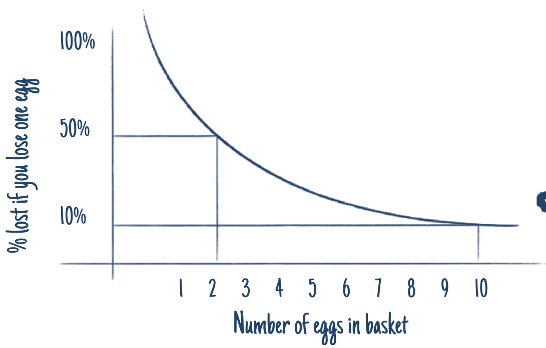
Don't put all your eggs in one basket

TOP TIP
#6

We all know that there is no such thing as a free lunch but there's also no such thing as a sure-fire bet on the stock market. Even the most fantastic looking investment opportunities can and do go wrong.

Therefore, make sure that you own a good spread of investments as it is the best way to spread your risks. This is called diversifying. Remember also that not all types of investments move in the same direction at the same time.

So, if one part of your portfolio is doing badly, you should be comforted that other parts of it may be doing well.



"Diversifying between asset class portfolios as well as within portfolios is more "efficient" than doing only one of those, or neither."

H. Markowitz*, M. Hebner, M. Brunson. Does Portfolio Theory Work During Crises? July 2009 *Nobel prize winner

Balancing act

TOP TIP
#7

Different markets will grow at different rates over time, this means that the amount you have invested in different markets will change. Your portfolio will drift away from your original long term investment plan.

Therefore it makes sense to bring everything back into line occasionally but not too often as it costs money to do this. This is called rebalancing.

"The bottom line is it's your hard-earned money. You should pay attention to it over time. ...If your approach is, "I'm not going to pay attention to it," then it is your fault that it doesn't work."

Certified Financial Planner Jon L. Ten Haagen

Don’t be shy

TOP TIP
#8

When you go and buy a refrigerator you understand what it is supposed to do for you, how much it costs, how much it costs to run, and what happens if it goes wrong.

The same goes for investment. It is worth asking the dumb questions to really find out what you are investing in. Or if not, paying someone who is expert and independent to find out for you.

As many people learned to their cost in the credit crunch, financial products are designed by some very clever people. Unfortunately they aren’t always so clever when it comes to explaining the risks.

Make sure you know what you are investing in… if in doubt leave it alone or ask for help.

“If it looks too good to be true, it probably is” almost always applies to investment.
Proverb

Time and time again

TOP TIP
#9

Markets are volatile so one way to invest is to drip-feed your money into the market over a period of time.

If you are very risk averse, regular saving may be a good way to invest as it slowly adds your money to the market rather than investing all in one go, smoothing the ups and downs of your investment.

"Little and often fills the purse."
Proverb

Ensure interests are aligned

TOP TIP
#10

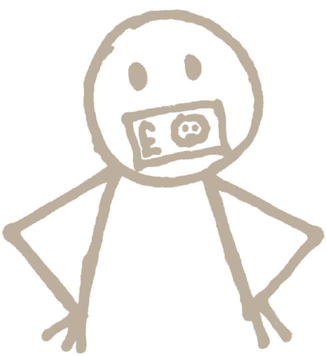
Make sure that you trust your adviser. Most will happily spend an initial hour with you for free.

Try a few out until you find one on your wavelength – it's your money so it makes sense to get it right.

If you are investing online, it is worth trying to find out if there are any connections between the website and fund managers. Is the website really independent?

And when you invest, we think it is a good idea to find out if the manager invests in their own fund. It's a simple way of seeing if your interests are aligned.

Is their money where their mouth is?



"Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway."

Warren Buffett, Chairman, Berkshire Hathaway

The answer is not in the stars

BONUS
TOP TIP

There are lots of companies giving awards, stars and "A"s for performance. But do they work?

Unfortunately, even funds with great track records can fall from grace.

Research published by Morningstar in the US looked at what the best predictor of future performance was. They looked at returns over three years and then what happened in the next two years. And they concluded:

"If there's anything in the whole world of mutual funds that you can take to the bank, it's that expense ratios help you make a better decision. In every single time period and data point tested, low cost funds beat high cost funds."

"To pay no attention to costs is probably the biggest dumb mistake investors can make."
John Bogle. Founder Vanguard. FT 02/03/2009

Summary – what we do

1. Stay off the road to nowhere – We recommend you seek an independent adviser to build a plan

2. Get the big rocks in place
Your adviser will help get the right mix of assets for each portfolio's risk profile

3. Beware the costs monsters – We use passive only funds or a core of passive funds in all our portfolios

4. Don't be fooled by the adverts – We ignore the claims of managers and do our own research

5. Avoid the madness of crowds – We are contrarian investors – we seek to buy low and sell high

6. Don't put all your eggs in one basket – We use a wide range of assets, funds and fund managers

7. Balancing act

We usually rebalance portfolios quarterly, unless there is a good reason to do otherwise

8. Don't be shy – We check and check again – if it doesn't make sense, we don't invest

9. Time and time again – Your adviser can drip-feed your money into a portfolio if needed

10. Ensure interests are aligned – Our CEO, has most of his money in our portfolios

11. The answer is not in the stars – All our portfolios contain at least some low cost funds – it all adds up

How do I find out more?

The MAPS portfolios that we manage are only available through financial advisers.

They will be able to tell you more about how to invest.

TO FIND AN ADVISER:

www.unbiased.co.uk

www.mylocaladviser.co.uk

SOME FREE GUIDES FROM THE MONEY ADVICE SERVICE:

www.moneyadviceservice.org.uk

The little book of TCF is not investment, legal, credit, accounting or tax advice. It is not a guide to suitable investments appropriate to your individual goals.

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www.tcfinvestment.com