WHAT RATE OF RETURN DO YOU NEED FROM YOUR INVESTMENTS?

For many years we used the Finametrica system for our initial assessment of a client's risk tolerance. Recently we have moved to EValue through FE Analytics, this links to our new Back Office systems, and whilst this system is recognised as a "best in field" we believe that it is the starting point for our discussions concerning your investment management, rather than the definitive answer to set where your money is invested.

To try and get clients to better understand the risks of asset backed investments we have summarised possible investment returns as follows:

Over the last 20 years you could have achieved gross returns as follows:

Average	Best	Worst	STD
-		-	
1.00%	4.00%	(3.60%)	2.50%
2.00%	8.00%	(6.00%)	3.50%
3.00%	12.00%	(8.00%)	4.00%
4.00%	25.00%	(20.00%)	5.70%
5.00%	42.00%	(28.00%)	7.50%
6.00%	44.00%	(35.00%)	10.00%
7.00%	48.00%	(40.00%)	13.00%
8.00%	50.00%	(45.00%)	14.00%

The columns represent:

1. **AVERAGE RETURN**

   The average annualised return over the 20 year period.

2. **BEST YEAR**

   The best year achieved by this asset allocation over the 20 year period.

3. **WORST YEAR**

   The worst annual return achieved by this asset allocation over the chosen period.

4. THE STANDARD DEVIATION OF RETURNS

This is industry jargon which basically means that the average return usually varies by an amount plus or minus the standard deviation figure. For instance, line an average return of 1% over 20 years has a standard deviation of 2.5%, so during the 20 years the annual returns were usually between 3.5% and -2.0%. As this represents cash, the negative figures allow for management charges.

At the other end of the scale when the average return over 20 years is 8% with a standard deviation is 14%, so during the 20 years the annual returns were usually between 22% and -6%.

5. NOW PICK YOUR RETURN

Look down the chart and decide what average rate of return you would ideally like from your long term savings. For example, if you would like 5% net of charges from your savings you understand that over a 20 year period you may ***lose*** perhaps 28% of your savings in a bad year and your average return will be around +12.5% to -2.5%. Your returns ***will not be linear***.

Once you have picked your number please share it with us and we will take this into account the next time we review your affairs.

6. FURTHER EXPLANATIONS

We have an extensive library of notes similar to this document on our website under "Library, Personal Investments".