betashares

Your investment philosophy

Putting your principles into practice

What is an investment philosophy?

Your investment philosophy is a set of investment beliefs and principles that guide the strategies you use to invest client funds. It is a strategic way of thinking about markets, provides direction and acts as a framework for investing.

Running a financial planning business without a well thought out investment philosophy is akin to steering a rudderless boat. Having a clearly defined investment philosophy for your advice practice will help you to better articulate to clients the rationale for your decisions and recommendations, support your client conversations, as well as your own investment decisions.

Developing an investment philosophy can add immediate value.

Articulating your investment beliefs and processes should be a priority for all professional financial planning practices and is an important part of business planning. It allows you to:

- Reflect on your own experiences and beliefs.
- Concentrate research only on the investment choices in your preferred methodology.
- Work more closely with preferred product providers.
- Share your philosophy with strategic and referral partners.
- Allocate the right amount of time and resources to the construction and review of investments.
- Match the right philosophy to each client segment.
- Consider other aspects, such as tax and rebalancing strategies.

How does an investment philosophy enhance your client value proposition?

A good investment philosophy doesn't have to be long or complicated. It will, however, help your clients stick to their long-term wealth creation plans and avoid the temptation of trying to time markets. It also forms an integral part of your client value proposition, helping to demonstrate your value to clients.

Investment philosophies help you deliver value to your clients by:

Providing clarity and comfort around your approach to investment markets.

Demonstrating the research and due diligence undertaken in creating your investment strategies.

Setting expectations around when and how changes will be made to portfolios.

Providing the right educational materials to your clients at the right time.

Having a clear view on your approach to investment markets supports your business in the following ways:

Provide clarity on what investment managers and asset classes you should investigate.

Give referral partners valuable insights into your business.

Enable you to build the right team and resources to effectively manage portfolios.

Help to build your brand presence.

How do I develop an investment philosophy?

To develop your investment philosophy, give thought to your own investment beliefs and document them.

You should also consider the following factors:

1.

What is your view about how markets behave and how they fail?

What research have you read and agree with? Articulate your views on market efficiency and inefficiency. This will lay the foundations for your philosophy.

2.

Where do your own thoughts and convictions lie?

What have your experiences been and what have you seen work and not work? (For example, asset allocation, diversification, using active managers versus passive managers?)

3.

Is your approach robust and will it withstand the test of time and market volatility?

4.

What parameters do you have?

For example, do you have an MDA (Managed Discretionary Account) licence? Does your licensee have restrictions in place around asset allocation? Can you execute your approach across various platforms?

5.

Is your philosophy flexible enough to meet the needs of different segments of your client base?

Some clients may be more interested in investment markets and others not so much. Do you need different approaches for different clients?

6.

Do you plan on insourcing or outsourcing investment implementation?

7.

How much time and resources do you have to contribute towards maintaining your approach?

Are you skilled enough, or are you prepared to upskill, if you are building portfolios that require constant monitoring and adjustments? Do you enjoy conducting this type of analysis?

8.

Does your philosophy maximise your firm's profitability and scalability?

Are your clients prepared to pay higher advice fees for your approach? More bespoke approaches can add value, but often come at a higher cost, in terms of your own time and management fees for clients.

9.

What are your preferences in managing risk and taxation for clients?

What types of investment philosophies should I consider?

An investment philosophy can be based on and prioritised by:

Asset classes

Investment style

Factor

Return patterns

Academic research

The resources of your firm

Some options to consider when formulating an investment philosophy that best aligns with your beliefs:

Active vs. Passive	Index (or passive) investing	Indexing seeks to match the risk and return of the overall market and assumes that the market is efficient.
	Active investing	A form of investment that seeks to outperform the broader market through stock selection and fundamental analysis of stocks and bonds.
Asset allocation and portfolio construction	Strategic asset allocation	This investment strategy involves setting target allocations for various asset classes and rebalancing periodically to bring the portfolio back to its starting point.
	Dynamic asset allocation	This portfolio management strategy intermittently alters the mix of asset classes to suit prevailing market conditions. These portfolios are generally run by investment professionals and use a strategic asset allocation base.
	Core and satellite	An approach that combines a passive core with active satellite funds selected to achieve '"alpha"' or outperformance.
	Lifecycle investing	Otherwise known as age-based investing, this approach involves changing the allocation of funds between growth and defensive assets with a client's age. As a client becomes older, their allocation to defensive assets will become higher.
	Risk budgeting	In this approach, a portfolio is constructed around the idea that there is a finite amount of risk that a client should take. The risk budget is distributed across different asset classes and sectors with the goal of maximising total portfolio returns.
Responsible investing	SRI investing	This involves selecting assets based on a screening criterion. Environmental, social and governance factors are considered in choosing the investable universe.
	Impact investing	This involves investing with the intention to generate positive, measurable social and environmental impact, alongside a financial return.*
	Sustainability themed investing	Sustainability themed investing involves investing in themes or assets related to improving social and environmental sustainability.*
Investment style	Factor investing	An approach that involves targeting specific drivers of returns within asset classes. As financial conditions change so too will the performance of different factors. Factors include value, momentum, quality, yield, and volatility.
	Thematic investing	An approach that targets trends that may play out over the long term. Examples include technology, cyber-security, cloud computing, renewables, resource scarcity and social change.

Formulating your philosophy and principles.

After developing your philosophy, it needs to be embedded into your practice. Set out your beliefs and goals in the philosophy document and share it with clients.

Describe your firm's operational strategy and internal processes that support implementation of that strategy. Don't forget to include your governance processes and strategies for researching and monitoring investment structures.

Highlight any tools/calculators and resources you provide to clients that will help them stay focused on their long-term goals.

Consider your client base, time and resources. → **Work with your beliefs.** → **Research and select your approach.** → **Document and share your beliefs.**

Some statements you could consider including in your philosophy document are:

"We will...

monitor and rebalance your portfolio on a _________ basis."

measure your portfolio against a benchmark of _________."

ensure that you invest in a diversified manner."

"We believe...

in [active or passive] investing."

in providing a low cost, diversified portfolio."

"We want...

to maximise your tax effectiveness and minimise fund turnover."

Contact us

For further assistance or to learn more about creating your investment philosophy, please contact your Betashares Account Manager or our Head of Practice Development.

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