FOUR CORNERS
FINANCIAL MANAGEMENT

100% of our clients would recommend a Four Corners adviser*

Rules for Surviving a Recession

NO: 1 DIVERSIFY

This is also the first rule of investing but worth reaffirming. Different asset classes perform well or poorly at different times. If your portfolio is exposed to a single asset class – say, equities – its performance will follow the fortunes of only the equity market, and returns will be volatile. However, if your portfolio contains a selection of different asset classes, and is also spread across different countries and regions of the world, the different elements will perform differently – so if one is doing badly, the chances are another will do better and compensate for some of the downside.

No: 2 CONSIDER LOOKING OVERSEAS

With diversity in mind; perhaps you can start looking overseas for opportunities. A UK-focused portfolio is a sensible and conservative option for a UK-based investor. However, this strategy leaves you at the mercy of only domestic sentiment. Other areas of the world might offer a more positive outlook during this time, or could simply be better placed to help through a domestic downturn. You need to be aware of the additional risks involved with international markets but even a first step into developed, western economies could diversify some risk.

No: 3 INVEST WITH A LONG-TERM VIEW.

It's hard work – and largely pointless – trying to time your investment so you buy right at the bottom and sell right at the top. Similarly, trying to make short-term profits by turning over investments quickly can also prove fruitless, can get expensive - and carries a high risk. In the short term, markets are highly volatile and what happens today is no indicator for tomorrow. However, longer term, things are more predictable. Therefore, target your portfolio at appropriate, quality companies or funds and give them the time and space they need to grow.

NO: 4 IF AN INVESTMENT GOES UP SHARPLY, TAKE A CLOSE LOOK

There is an old rule of thumb that says 'if one of your investments doubles, sell half'. Short-term sentiment in stock markets can drive the value of shares up sharply (in exactly the same way as it can drive them down). When this happens, you may want to take some of that profit while you can. In most cases, a sharp bull run in markets will eventually be followed by a sharp correction so if you see this happening, don't get greedy – you should not be ashamed to cash in while you can.

NO: 5 NEVER BUY WHAT YOU DON'T UNDERSTAND

Some investments might sound exciting - and even appear to have delivered. Yet history is littered with simple-sounding ideas that, when tested by the pressures of markets, came crashing down. Think Long Term Capital Management, the now defunct hedge fund that traded in bond spreads. Think split capital trusts, which resulted in millions of pounds of investor compensation. And now, think how banks bundling up sub-prime mortgages has affected the whole economy. If you don't understand something fully, steer clear.

NO: 6 DON'T GET TOO ATTACHED

When a holding performs particularly badly relative to its peers; it is time to consider cutting your losses and selling it. It could prove more profitable to sell and reinvest the proceeds elsewhere rather than sit back, hoping it will recoup your loss. But very few do sell. Instead, they get attached, feel sorry for it, almost, and wait for it to get back on its feet. Remember, you don't have to feel grateful - you need to review every holding with the same objectivity as you did when you first invested and, when it's time to sell, do so with a clear conscience.

NO: 7 REVIEW YOUR PORTFOLIO REGULARLY

When you first invest, you take time to consider your position and set up a properly diversified portfolio to meet both your risk profile and objectives. The idea is you can then sit back and give it the time it needs to grow. This is indeed the whole point of planning. However, over time, your needs and circumstances can change - and the markets can also change. Therefore, rather than forget your portfolio completely, give it the odd check up so that tweaks can be made. A review every two or three years should be enough to keep it on track.

* Figures are based on Four Corners Client Satisfaction Surveys received between 1/11/2006 – 31/12/2007, a sample of 188 surveys.