

Where do you invest in times of geo-political stress?

Recent geo-political and horrendous terrorist events have focused the mind of asset managers to address just what effects such actions have on their investment portfolios

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Helping you maximise the effectiveness of your financial planning

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In times of stress, diversification is essential

Many events have been well flagged, such as the impending rise in the US Federal Reserve's interest rate and the contra fall of the European Central Bank's interest rate into negative territory. Also the already escalating conflict in Russia and the Ukraine, and Syria.

These can have significant effects on the markets, as can be witnessed by the effect of sanctions imposed by the west on Russia and the subsequent impact these have had on the Russian currency and equity markets. As such an asset manager can factor in these decisions and their impact on the markets into their portfolio decisions.

However, terrorist attacks, such as in Paris, can have a varying effect on equity and other investment markets. Usually, such events have a relatively limited effect on the victim's local market, say the CAC index, which is then diluted further on a regional scale, say the Eurostoxx50 index, and diluted still further on a global scale.

Balancing the diversification of an investment portfolio to factor-in these risks is paramount and should be done on an asset-class, geographical, national, and industry level, to ensure that any investment portfolio matches your appetite for risk, by creating multiple and uncorrelated sources of return and income.

Quite often such investment decisions mean ensuring that some proportion of a portfolio includes AAA rated Government bonds, often utilised as a safe-haven in times of global market stress, whilst equity investment decisions concentrate on companies with a beta of less than one, which means that statistically they are less volatile than the overall market they are listed in. The beta ratio of any such equity is an integral part of any asset managers Capital Asset Pricing Model. To discuss any of the issues raised here, please do not hesitate to contact us, we are here to help.

If you would like us to help you solve financial problems, or to assist with financial planning, contact us on 0118 932 0600 or e-mail: twyford@osceola.co.uk *If you wish to be removed from future mailings, please reply to this email with the word 'Unsubscribe' in the subject.

