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## Why you shouldn't run from negative returns



In the world of Brexit, Trade Wars and the looming prospect of 'Trump 2020: Mission to Moscow', a healthy sense of apprehension is more than understandable. However, it is precisely in these uncertain times that the qualities of discipline and steadfastness are essential for successful investors.

While no one likes to see that the value of their portfolio has reduced, we accept that negative returns are part of the investment journey. Every long-term investor has seen the value of their assets go down, as well as up and the successful investors are the ones who understand that this is just part and parcel of investing.

The best approach is to take a long-term view, as you would if you bought a property that you expected to appreciate in value. As the 'Oracle of Omaha' Warren Buffet once said, "If you own stocks like you'd own a farm or apartment house, you [wouldn't] get a quote on those every day or every week".

Most people's largest asset is their house and in February 2019 the average value of a property in Scotland fell by 3.1% according to the Registers of Scotland. If you owned a house worth £300,000, then you may have lost over £9,500 from your largest asset – in a month. Of course, this news was met by most with the appropriate response of complete apathy. There was no panicked sell-off of houses to reinvest the proceeds in caravans, and no one was making the decision to buy a house

in Czech Republic (where property prices had increased over the month). There was little to no response from homeowners.

We should take the same approach with our investments.

The largest drop in the UK equity market occurred in 1974 when the market fell by -50.4% in one year. That would have been an extremely uncomfortable time to be invested in the UK and it is easy to understand why so many people decided to sell their investments and cut their losses. However, the best year ever recorded for the UK Market was the next 12 months, in 1975 when the market recorded an overall return of 145.2%. This pattern of strong positive returns following on from negative returns has happened at various stages over the years:

1990	-10.2%
1991	+19.9%
2002	-22.4%
2003	+20.9%
2008	-30.5%
2009	+31.6%

The lesson history has taught us is that if we cut and run following a negative return, we risk missing out on the positive years that may follow.

So for any turbulence in the markets over the coming months and years, try to remember that, while we may be disappointed by negative returns, we should not be surprised by them. The investment journey is long and, as always, we advocate that the best predictor of long-term investment performance is "time in the market" as opposed to "timing the market".

For more information please contact Carbon at [enquiries@carbonfinancial.co.uk](mailto:enquiries@carbonfinancial.co.uk)

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### Join us for a chat



If you would like to meet for a coffee and an informal chat about your financial planning arrangements, please call us on

0131 220 0000 or email [Gordon Wilson](mailto:gordon.wilson@carbonfinancial.co.uk) at [gordon.wilson@carbonfinancial.co.uk](mailto:gordon.wilson@carbonfinancial.co.uk)

# Second Opinion Service

In response to demand from prospective clients looking to put our services to the test, we have launched a 'Second Opinion Service'.

You might wonder why we are including this in a Newsletter which goes out mainly to existing clients? Around 80% of our new clients are recommended by our existing clients, which is a fantastic endorsement in itself. We think it might be even easier for you to recommend Carbon to friends and colleagues if you know about our new service.

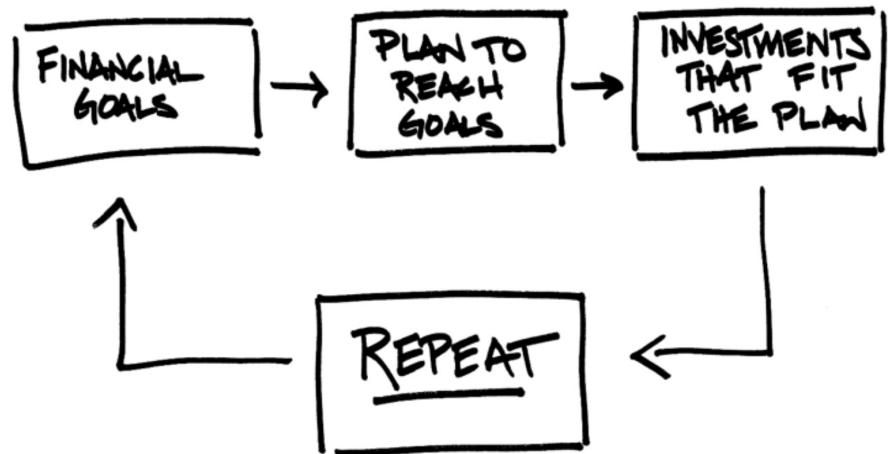
What will our Second Opinion Service include?

Essentially, it looks at the cost, risk, diversification and performance of your investment portfolio and compares it to what Carbon has to offer. We have a simple checklist which ranks these four key aspects positive or negative, so it is clear at a glance where improvements can be made.

We also take a high-level look at the overall situation to identify any available tax savings, unused pension, ISA or tax allowances.

The conclusions come in an easy to understand report, which should provide some valuable advice around improvements that could be made, or we might simply conclude that all is in order and the benefit is peace of mind and reassurance.

If you know anyone who might be interested in trialling our services, then please ask them to get in touch with me directly at [gordon.wilson@carbonfinancial.co.uk](mailto:gordon.wilson@carbonfinancial.co.uk) or contact their nearest Carbon office.



# Have you found 'the one'?



The most important thing about an investment philosophy is that you have one. By that, I mean not only that you should have one, but that you should have only one.

Having a clear set of beliefs, rules or principles and sticking to them will help you to sail through the choppy waters of your investment voyage. It will prove invaluable during the storms that you will undoubtedly encounter along the way and help you to ignore those that would have you change course into unknown, high-risk territory.

Carbon's investment philosophy evolved from decades of publicly available academic research into where investment returns come from and how to capture them in the most efficient, cost-effective manner.

The clear majority of this research led us to one conclusion: avoiding the industry's traditional high-cost, high-turnover practices and not employing crystal ball-gazers to predict market

movements was essential to stack the odds of investment success in your favour.

The evidence shows that trusting your chances of investment success to one, or a small number of supposedly skilled fund managers, who inevitably move firms regularly, retire or potentially won't live as long as you, is a high-risk strategy likely to lead to disappointment.

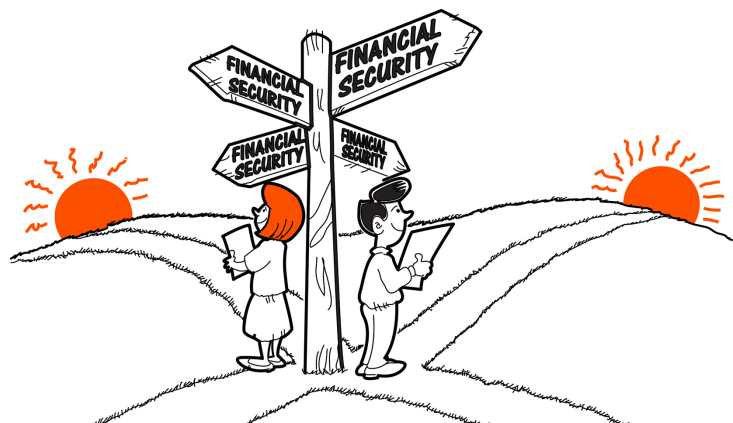
The industry norm was to have a portfolio consisting entirely of risk assets like shares. Although this has the highest expected return over the long-term, most people would not cope well with the variability of returns that is associated with this strategy. By using sophisticated cashflow modelling, we can establish the rate of return each of our clients requires to live the life of their dreams. For most, this is less than the rate of return from a 100% equity portfolio, so we can include lower risk

assets that reduce the variability of returns, but still deliver the target.

This principle, i.e. 'you should take the minimum risk necessary to achieve your target return' went on to become the first of seven that make up our overall investment philosophy more than 10 years ago. Despite the ups and downs of investment markets in the intervening years, this principle is still as valid today as it was in 2008.

If you're not already a Carbon client and you think your investment strategy is more expensive or riskier than it needs to be, come and speak to us for a second opinion. We may be able to help you with both.

If you have any investment questions please contact our Investment Director Barry O'Neill at [barryoneill@carbonfinancial.co.uk](mailto:barryoneill@carbonfinancial.co.uk)





# The Pension Transfer Gold Standard

Carbon has welcomed the launch of the Pension Transfer Gold Standard by the Personal Finance Society (PFS), whose role is to promote ethical behaviour and high standards in the financial advice profession.

The Pension Transfer Gold Standard is a voluntary code of practice, which financial advice firms can subscribe to, aimed at raising consumer awareness of the need for high quality advice when considering transferring a 'safeguarded pension', such as a Defined Benefit or 'Final Salary' pension scheme. It also aims to improve the standard of pension transfer advice and make it easier for consumers to recognise which firms provide the specialist advice required.

Its launch is a result of the increased interest in transferring safeguarded pension schemes, following the introduction of the new pension

freedom legislation in April 2015. The new flexibility in how and when pension funds can be accessed has led to increased complexity in pension rules and regulation. This, coupled with the significant impact the decision on whether to transfer a safeguarded pension can have on an individual's financial security in retirement, makes high-quality, specialist advice essential.



The Pension Transfer Gold Standard is based on a set of nine principles and these go beyond the existing core principles of the Financial Conduct Authority, which require advice firms to act with integrity, skill, care and diligence and treat customers fairly.

Firms who subscribe to the Pension Transfer Gold Standard must, for example, make sure that any client considering the transfer of a safeguarded pension has a clear understanding of the implications and risks, the costs involved and how the advice given supports their overall financial well-being and objectives. The firm must also maintain the most up-to-date technical skills and qualifications required to advise in this area.

Although the Pension Transfer Gold Standard is a recent initiative, its fundamental principles are very much in line with those that Carbon already upholds. Carbon has always been committed to maintaining the highest professional standards and our core values are to be the best we can be, by going the extra mile for our clients and providing the best quality advice and service.

Julie Wild, Paraplanner

## Events



It has been a busy first half of the year for Carbon supporting charitable causes. Some of the highlights include:

On February 1st we got behind 'Dinner for Doddie', a spectacular evening held at The National Museum of Scotland in Edinburgh, raising money to help find a cure for Motor Neurone Disease (MND).

Doddie's moving speech and incredible resilience touched everyone in the room. It is remarkable that when he was diagnosed he was told not only that there is no cure, there are no drugs or treatment that can help either. Hopefully with the success of the fundraising, a cure will be found.

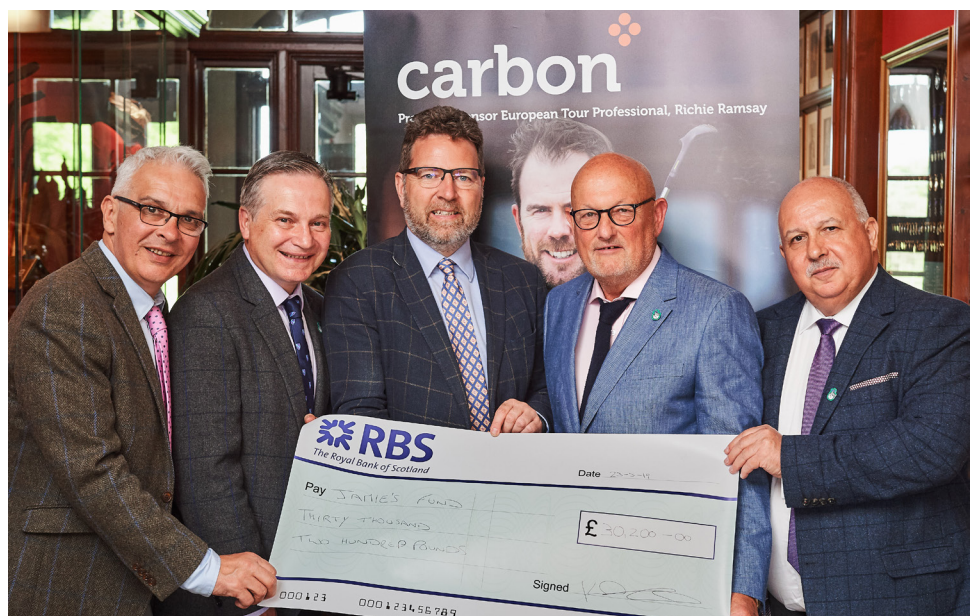


The Bill McLaren Foundation (BMF) dinner followed in March. We have been sponsors of the annual dinner at Prestonfield House now for seven years. The Foundation has distributed over £1m since its launch in 2010 to support individuals and organisations to actively promote and develop rugby union and its values.

May saw the third Golf Day we have sponsored for The Jamie King Uro-Oncology Fund, a prostate cancer research charity which is very

close to our hearts. The event was hosted at Royal Burgess Golf Club and raised over £30,000. This money will be carefully spent on ground-breaking research into a disease which affects 47,000 men every year.

In June we lent our support to the Barrie Douglas Foundation Junior Masters held at Strathmore Golf Club which was a great success. Dean Walsh, Gregor Graham and Carmen Griffiths won and will go on to "The Race to the Machrie".



Pictured above: The Jamie King Uro-Oncology Fund Charity Golf Day  
David Fernie, Dr Duncan McLaren, Gordon Wilson, Graham Falconer, Alan Fernie.

If you have any questions arising from the newsletter or if you have any other financial questions for our team of experts, please e-mail Alison Whyte on [alison.whyte@carbonfinancial.co.uk](mailto:alison.whyte@carbonfinancial.co.uk) or call any of the offices.

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To register your interest in receiving future issues of Carbon Copy please e-mail [enquiries@carbonfinancial.co.uk](mailto:enquiries@carbonfinancial.co.uk)

## World's largest investor feedback survey

One of Carbon's core values is 'be the best you can be'. This stems from our mission to continually improve every aspect of what we do. To help us measure how well we are living up to this value and to define what we should devote most resources to in terms of improvement, we have been participating in the world's largest investor feedback survey.

The last survey, in 2017, saw almost 19,000 investors from over 430 of the best financial planning and investment firms from around the world answer questions about the relationship

they have with their advisers and what is important to them.

The 2019 survey is now under way and is expected to have an even bigger sample size, making the results even more insightful. If you received an email from us requesting that you complete a short survey, you can rest assured that this was indeed genuine and that your answers are confidential and anonymous.

Most of us are inundated with requests to take part in surveys but most instantly hit the

'delete' button as we simply don't have time to complete them all. We are extremely grateful to our clients who chose to spare us some of their precious time, helping us to learn what we are doing well and what we need to work on.

The survey closed on 9th June and we expect to receive the results very soon. We will share the headlines from the survey in our next newsletter, along with our initial thoughts about what action we plan to take to ensure we continue to improve our service to you.

## Office news

Exam success continues at Carbon with **Liam Kerr** tackling two Personal Finance Society (PFS) exams in one day and achieving his Advanced Diploma in Financial Planning.

Meanwhile, **Ben Lingard** keeps his skills sharp after achieving Fellowship status last quarter. On top of that, **George Sampson** achieved the Diploma in Regulated Financial Planning after sitting another exam in April.

**Minna Berglund** and **Kirsten Pryde** both have upcoming exams and we wish them the very best of luck.

We have also recently welcomed **Polly Reaves** and **Steven Hurley** to Carbon. Polly, a qualified CA has joined the Trainee Planner team and Steve has joined the paraplanning team.

We look forward to welcoming some more new faces to Carbon over the coming months and introducing them in our Autumn newsletter.

