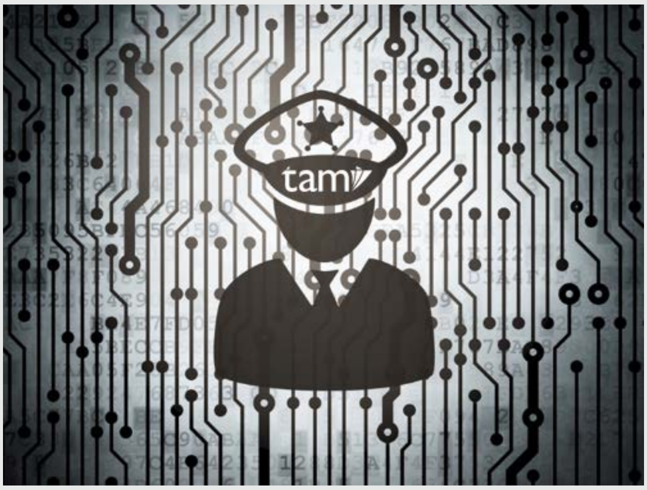
CORPORATE UPDATE

To Serve and Protect: Protecting clients' wealth through turbulent times



'To Serve and Protect' is a phrase of singular simplicity coined by the LAPD in the 50's to embody its mission statement. Since then, it has cemented itself as the cornerstone of US, and arguably global law enforcement. So what's a US law enforcement adage doing in an investment update to our clients?

Unfortunately in our industry we are often lulled into the false sense of security that stepping into the stock market delivers returns month on month and even year on year into perpetuity. After all, we are nearly 9 years into a bull market that began in April 2009 and economies are well set (aren't they?). The stark reality is this is simply not the case, and committing capital to markets requires the need to consider how one may be protecting against the demise of markets and not just the strength of them.

We at TAM like the message within the title phrase, as it lends itself to any endeavour where responsibility for others remains paramount. Wealth management carries huge responsibilities when it's undertaken and with active managers comes the onus of outperformance. We guess the beauty of running a passive investment portfolio is you are, to an extent, absolved from having to deliver any sort of outperformance over that of the market you have purchased. That's one reason they are cheap!

The truth about wealth management is that not all clients are high net worth individuals, many are ordinary, hard working people who rely on investment managers to deliver them a more financially stable future - be it a first house, retirement, school fees, inheritance. That commitment to delivering financial goals to our investors is even more important in times of market downturns... whenever they materialise. In a nod to the boys in blue, this is our 'serve' element of 'serve and protect'.

This brings us nicely onto the 'protect' element as it relates to portfolio management, which is really the business end of what we do day in, day out. Unfortunately, our industry is still obsessed with pushing the message that stepping into the stock market delivers you returns year in, year out (the hackneyed phrase… of course being long term!) It's the way of the world in a long running up cycle. The stark reality is this is simply not the case, committing your capital to markets under this assumption is often ill-advised.

Anyone reading today's headlines can see the world is alight with political and economic upheaval, forebodings of low growth, a lack of wage inflation and an alarming rise in terrorism. Ticking along nicely, are we? (See TAM's recent 'The Walrus and the Carpenter' article)

What you might not have noticed is, behind the troubling headlines, global stock markets are nearing all-time highs. All-time highs in the stock market are usually reserved for times of rising global prosperity. So there is a somewhat, short-term disconnect somewhere, isn't there?

Now, we are not here to wax lyrical as to the demise of markets, size of this correction or rationalise what might kick it off, but to say that at this present point, what little upside on offer in global markets is arguably dwarfed by the potential for a downward slide.

I think you would agree, whenever a downside event occurs, an investment management firm with a historic record of providing down-side protection and a focus on capital preservation ought to be a valuable commodity … one hopes!

There is one beautifully simple illustration to demonstrate our commitment to the names sake of this article, 'serve and protect'. It is a measure of performance we at TAM take as seriously as we do the level of absolute gains we deliver to our clients.

Over the last 5 years (60 months) our benchmark (a combination of FTSE All Share and UK Gilts) has returned 22 negative months. That may be a surprise, but it outlines that things do not just go up in straight lines!

Of these 22 down months witnessed, TAM's investment strategy has protected capital and outperformed (significantly on occassion) the falling market around 90% of the time. That for us, is an unprecedented level and clearly outlines the element of 'protect.'

	Benchmark Down Months in 5 years	**No. Months Portfolios Outperformed**	**%**
Defensive	25	24	97
Cautious	23	21	91
Balanced	20	17	85
Growth	20	16	80
Adventurous	20	17	85

Source: TAM Asset Management Ltd. Performance figures quoted are net of TAM's investment management charge and have been compiled from a 10% sample of unencumbered TAM Premier portfolios where external influences (tax impaired, locked funds, transfers in etc.) have not influenced performance and therefore accurately portray TAM's manage-ment strategy. Past performance is not necessarily a guide to future returns. The value of investments, and the income from it, may go down as well as up and may fall below the amount initially invested. The value of investments denominated in foreign currency may fall as a result of exchange rate movements.

It has not been easy to consistently achieve and does not always happen, but through a consistent steady process lasting over 5 years, we have developed a strategy that clearly shows an undeniable correlation to protecting portfolios in negative months.

Now, inversely, we accept that the quality we perceive to have in our portfolios won't keep up with a boiling market rally because stocks that our fund managers don't own may be speculative, or to put it bluntly, "trashy".

However, and this brings us nicely onto the crescendo of this piece, with markets trading at all-time highs and talk of a short-term stock market correction being thrown around most City boardrooms, you have to ask yourself, 'What kind of strategy do I want when a downdraft is likely?'.

The natural protection we have seen in our historic numbers, we think, could be in stark contrast to the millions of investors tied into passive investments whom we cannot say are going to have many places to hide - the lifeboats will all be full.

TAM are very much active investors and have taken the recent highs in equity markets as an opportunity to de-risk our portfolios ahead of the summer period, by reducing our overweight to equities and bringing our portfolios to a more neutral position. We may indeed take that further. We also anticipate re-investing this capital towards the end of the summer, with the prospects of more clarity.

We are not saying, 'run for the lifeboat!', just that it is sensible to know where they are. TAM has long built the 'serve and protect' mantra into the core of its investment strategy and believe it's worthy of note that this approach over the long term has paid dividends within our clients' portfolios.

Long may that be the case!

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