

Nice little earners

Robin and Ann's high-yielding portfolio is the fruit of decades of investment experience – and a few lucky breaks

You might expect an economics graduate to be a natural when it comes to investing. But Robin, a long-time *What Investment* reader from Sussex, says that all he has learnt about the subject has been done the hard way: by trying things out and making mistakes.

'Economics is really very little use,' says Robin. 'You know how the stock market works and what a gilt is, but there are a lot of silly precepts that don't work out in real life.'

Robin and his wife, Ann, are both retired; he was a senior lecturer in a teaching college and she was a headmistress. They have no children, so their aim in investing is to produce as much income as possible to enjoy without excessive risk to their overall capital, rather than preserving wealth to pass on. As they get older, they also want to move towards a portfolio that is easy to manage and doesn't need a great deal of watching.

'They own a number of income stalwarts such as Shell and Vodafone – 'I can't believe they're going to go broke,' says Robin – as well as a collection of investment trusts that are either high-yielding (European Assets, F&C Commercial Property, HICL Infrastructure) or very reliable dividend raisers (Temple Bar, Scottish American, Merchants). There is a conservative cast to the investments, partly due to the need for income, but also because Robin has been burnt before by some risky bets.

'My biggest mistake was going for small companies,' he recalls. 'Several years ago I bought eight to ten AIM-listed companies, and four of them actually went bankrupt.'

Another decision he had cause to regret came several years ago after he heard the then deputy governor of the Bank of England urging investors to sell gilts and buy shares. He followed the advice, only to



see stocks crash and gilts boom. 'So I've learnt not to listen to the Bank of England,' he quips.

However, the generally defensive portfolio contains a few surprises that bear witness to Robin's adventurous streak.

Spicing things up

There's Jarvis Securities, his own broker, which he bought shares in when it floated on AIM after being impressed by the service. The stock has proved to be Robin's best performer, enjoying strong growth and paying him an '8 per cent dividend'.

Dee Valley, a small Welsh water company, is another outlier. Its share price has powered ahead in recent years and it pays a chunky dividend to boot.

Robin doesn't trade frequently, but he does keep an eye on his investments to make sure that they are still performing well. He recently sold his shares in Manchester and London investment trust and 3i Infrastructure – the latter after a run of good performance.

He also keeps a 'wish list' of investment

ideas. This currently includes a range of stocks, from giants such as GlaxoSmithKline, HSBC and Legal & General to much smaller companies like Vimto maker Robinson and electronic components maker Solid State. Some of his ideas come from this magazine, others from friends and family.

Robin admits that the different weightings of his various holdings are as much to do with chance as planning. 'My thoughts are that I may be paying fund management charges that I don't need to pay, and I am trying to move more towards a very good portfolio of companies that I hold directly.'

Robin and Ann's portfolio

Holding	% weight in portfolio
<i>Direct shares:</i>	
Jarvis Securities	4.99
Dee Valley	3.90
Anglo Dutch Shell 'B'	2.78
Resolution	2.78
Primary Health Properties	2.69
Vodafone	2.68
Total	19.82
<i>Investment trusts:</i>	
F&C Managed Portfolio Trust	8.97
Temple Bar	8.97
Investors Capital Trust	7.67
Scottish American Investment Trust	7.38
British Assets	7.18
European Assets	6.37
Dunedin Income Growth	5.28
F&C Commercial Property Trust	4.99
Dunedin Smaller Companies	4.47
Merchants Trust	4.47
HICL Infrastructure	3.98
IRP Property Trust	3.80
Murray International	3.48
Edinburgh Investment Trust	3.38
Total	80.39

What the experts say...



■ Doug Millward is an investment manager at Lowes Financial Management

Doug Millward says: One of Robin and Ann's requirements is a portfolio that can be left alone in future. For this reason, I think they should consider moving away from single equities into actively managed collective investments.

While it's true that

buying direct shares saves fund management fees, this might be a false economy. An investment manager can provide more diversification and deal with the tricky decision of when to buy and sell. Fund managers will have access to far more information on individual firms, and they can meet management, in some cases even influencing strategy.

This does not mean that Robin can't play out particular themes that he feels strongly about through the portfolio. Fund selection can be tailored to his preferences: for example, rather than investing in HSBC

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and Legal & General, he could buy the Jupiter Financial Opportunities fund.

To meet Robin and Ann's income requirements, I'd suggest a portfolio made up primarily of UK and global equity income funds, but with a proportion allocated to funds producing steady growth.

He should consider taking some of his 'income' through encashing units of funds to crystallise the growth of his holdings. This utilises his annual capital gains tax allowance, making his investments and income more tax-efficient. Moving some of the investments into ISAs each year will also fully utilise his and his wife's ISA allowances.

I don't see any need for Robin to diversify into bonds and property, as he is clearly comfortable with investing in equities and this is the asset class that we consider to have the better prospects in the current environment.

However, he should keep an eye on his investment trust holdings to take advantage of any move to a premium in a strong market and protect himself against discounts widening in a downturn.



■ Jonathan Davis is an economist and wealth manager

Jonathan Davis says: Robin and Ann's portfolio is heavily weighted towards equities, with no direct government bond holdings. The lack of bond exposure makes sense if you think, as many do, that interest

rates have bottomed out and can only go upwards. However, Japanese rates went below 0.5 per cent for some 20 years, in somewhat similar conditions to ours. If deflation happened in the UK then the income from government bonds, however miserly, would be welcome.

Despite Robin's holding in Shell, there's also little in the way of commodities and 'hard assets' in the portfolio. In a world

where one of the major actions of policymakers is currency devaluation, commodity-related investments can help preserve the purchasing power of your money. Quality oil stocks in particular ought to provide a rising income.

'If the UK went into deflation then the miserly income from bonds would be welcome'

Given Robin's goal of not having to do much to the portfolio, a good spread of investment trusts is appropriate. However, he may wish to consider more broad-based multi-asset class funds rather than pure equity vehicles. A good example is Miton's

Strategic Portfolio, managed by the excellent (and cautious) Martin Gray.

No doubt this portfolio has grown handsomely in recent years on the back of a multi-year rise in equities. But every few years we tend to experience an equity bust, and the last one ended nearly five years ago. To counter that risk, a more active approach of reducing holdings after a great run and buying after a terrible run, could be useful.

I am not convinced that 'buy and hold' is an appropriate strategy for the current environment, unless the funds in which you are invested are actively rotating assets for you. Above all, be careful of investing long-term in assets that have grown largely due to rising debt levels and falling interest rates for the past 40 or so years: property is an obvious example. ♦