Oakwood Financial Advisors Investment Philosophy

Equities, or stocks, have historically been one of the most rewarding asset classes over the long term. They are suitable for long-term investors who can tolerate short-term volatility and benefit from compounding returns over time. While they can experience short-term volatility, equities tend to outperform other asset classes over extended periods. By primarily allocating your investments to equities, our goal is to leverage the potential of this asset class to drive portfolio growth.

For an investor who has a **time horizon of 5 to 7 years or more**, a predominantly equity-based approach is well-suited to meeting most growth requirements. A passive investment approach, weighted mainly towards equities, can capture market returns with minimal costs and hassle, while avoiding the drawbacks of active management, such as underperformance, behavioural biases, and market inefficiencies.

Equity Investment Approach

As a general rule, we predominantly lean towards a passive investment strategy that aims to replicate the performance of a market index or a specific asset class, rather than actively attempting to outperform it. This approach relies on the principle that markets tend to rise over time, and by holding a diversified equity portfolio of assets, investors can capture overall market growth. Moreover, a passive investment approach typically incurs lower costs and management fees compared to actively managed funds, ultimately enhancing your overall returns over time.

Depending on an investors **Attitude to Risk** we further tilt the asset allocation with holdings to include a value share element. In some instances, this may require an Active manager apporach due to the limited Passive Value fund options. Value stocks typically offer steady and more predictable returns compared to growth stocks.

In addition, many value stocks pay dividends, providing investors with a consistent income stream. Equities, including value stocks, can act as a hedge against inflation, especially useful for a retiree who is ideally would like to preserve purchasing power while taking an income.

Key Benefits of a Passive Approach:

1. Diversification: By investing in a broad range of equities, investors gain exposure to various companies and industries. This diversification helps spread risk and reduces the impact of any individual company's poor performance.
2. Cost-Effectiveness: Passive funds, such as index funds or exchange-traded funds (ETFs), typically have lower management fees compared to actively managed funds. This cost advantage enhances your overall returns over time.

3. Consistency: Active management may sometimes lead to fluctuating returns, depending on the fund manager's decisions. Passive investing, on the other hand, provides a more stable and consistent investment experience.
4. Time-Efficient: Passive investing requires less ongoing monitoring and research, allowing investors to focus on their long-term financial goals without the need for constant adjustments.

Disciplined Approach to Market Fluctuations
We understand that market downturns can be unnerving, and it may be tempting to make emotional decisions in response. A predominantly passive investment approach encourages discipline and a long-term perspective. History has shown that markets recover from downturns on average within 15 months from the lowest point, and staying committed to your investment plan during challenging times is key to reaping the benefits of long-term growth.

Diversification and Bonds
Depending on your investment timeframe and Attitude to Risk, there is the potential risk of over exposure to equities during periods of heightened market volatility which regularly occur. To mitigate these risks and achieve a more balanced and diversified portfolio, we usually recommend a bond weighting within the portfolio.

Bonds (fixed interest securities) have become an attractive investment option after an extended period of poor yields. Due to interest rate increases over since 2022 they now offer the potential for higher long-term returns. While also offering a steady stream of income they also provide a crucial hedge against potential equity market downturns, thus enhancing the overall stability of your portfolio.

Reviewing Your Portfolio
As part of our commitment to your financial success, we regularly review your portfolio to ensure it remains aligned with your risk tolerance and financial goals. Over time, we may make adjustments to maintain the desired asset allocation, ensuring that your investments are on track to meet your objectives.

Summary
In embracing a predominantly passive investment approach, mainly weighted towards equities, we aim to harness the power of the market to build and preserve your wealth. Our commitment to diversification, cost-effectiveness, and long-term thinking ensures that your investment journey remains steady, even amid market fluctuations.

Guide to Asset Classes

ASSET CLASSES EXPLAINED

CASH
Cash is generally considered to be the safest investment. However, in exchange for this security, you can expect to earn relatively lower returns.

BONDS
A bond is a type of loan given to a company or the government. Say for example if the government wants to raise money, they can issue a bond. If you loan money to a government, you get your money back after a set time frame and you will also receive a fixed interest rate (known as a coupon).

Bonds are considered to be a lower-risk investment than equities but run the risk that the borrower will not pay all of the interest or return the full value that was borrowed. Because of this extra risk, bonds tend to offer a higher return than cash. Index-linked bonds are a particular type of bond that provide interest and capital payments linked to changes in inflation, providing some protection against the effects of future inflation.

EQUITIES
These are also referred to as stocks or shares. They represent ownership of a company's assets and earnings. In the past, equities have earned higher returns than bonds or cash investments. However, they have also experienced periods of high volatility where investors have lost a significant portion of their original investment, so they are considered to be higher risk than cash or bonds.

ALTERNATIVES
This refers to investments that are expected to have the same level of expected return and risk as equities. However, alternatives will generally rise and fall in value at different times and for different reasons than equities which makes them a good addition to a well-diversified investment fund. Alternatives may refer to investments like commodities (gold, oil, sugar and so on) or emerging-market equities (investments in China, Brazil, India and so on).

PROPERTY
Property investment involves investing in commercial properties such as shops, offices and industrial properties. The returns from property investment can come from rental income and capital appreciation. However, property can experience periods of low or negative returns and may take a long time to buy and sell. For these reasons it is considered to be a higher risk than cash or bonds.

For many individuals they have significant property exposure through home ownership or investment properties they may hold. Hence, we do not include property funds (unless specifically requested) in client portfolios.