Aim to keep costs low and settle in for the long term to see profit

Investments are not like goods in a car boot sale, says Barry O'Neill, investment director at Carbon Financial Partners in Aberdeen

YOU'RE FIRED: Finding the right funds to buy can be difficult

The hunt for Lord Sugar's next business partner continues in the hit TV show The Apprentice.

This year's batch of "wannabe" entrepreneurs were tasked with spotting desirable items in a batch of curios and collectibles and then selling them at a Wimbledon car boot sale to make a profit.

Fund managers in the active investment world face a similar dilemma when deciding which stocks and shares to buy and sell.

Trading is good for business when it comes to car boot sales and market stalls. Goods are purchased at wholesale rates and then sold to customers at the retail price to earn a reliable profit.

Sellers are keen to turn over products quickly, because stockpiling involves storage costs and the risk that goods could perish or lose their value if they go out of fashion.

By contrast, most investments should be purchased with the expectation they will reward investors for continuing to hold them for the long term, either by price appreciation or by delivering regular dividend or interest payments.

It makes sense to limit "turnover" as much as possible because every trade incurs dealing costs.

Research from ratings agency Morningstar shows that keeping investment costs low is one of the most reliable ways to earn an above-average return.

Why do costs matter so much? It's simple arithmetic. The higher the costs, the smaller the amount left to pay a return to investors.

Actively managed investment funds will often buy and sell regularly as managers try to exchange unwanted shares for the next "winners" they feel are likely to outperform the market.

These funds normally cost more than those which simply buy and hold investments, because trading and research costs will be higher.

Managers seek to justify the increased fees by claiming to be able to beat the market through a combination of superior research and efficient implementation of their strategies.

The twice-yearly Spiva reports from financial services company Standard and Poor's – comparing the performance of active-managers and their benchmarks – show the vast majority of actively managed investment funds underperform the broad market they invest in over any meaningful time period, of say five years or longer.

So what can you do to stack the odds of success in your favour? Invest in funds with low management fees and low turnover rates.

The hard part of this is to find funds which buy and hold for the long term as information on turnover rates is notoriously difficult to find.

If you are wondering why, it might be because, like Lord Sugar, investors would utter the immortal words "you're fired" if they knew the truth.

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20 Rubislaw Terrace Aberdeen AB10 1XE
For more details telephone: 01224 633263, or email enquiries@carbonfinancial.co.uk