NEW MINERVA REPORT

The Collectives' Case

Every so often someone asks us at Minerva whether we invest our portfolios directly into shares. The answer is we used to, but found it hard to add value to client portfolios. In fact our hair was rapidly turning grey, and the portfolios in which we used the top collective investments for clients performed just as well, and in some markets better. That was in the 1980s, in these markets, not only would we turn grey rapidly, but probably we would be carried off by men in white coats!

Volatility in individual shares is now common place. If you look at the main movers in the FT350 Index each day, there are always a good handful of shares moving up or down six percent or more. Not infrequently you get some stomach lurching. On 13th November we saw the price of Cable & Wireless fall by 36.3%, and Corus by 27.3%. Two days later we had Invensys down 24.6%, Corus another 19.1%, Securicor down 17.2, and Cookson down 17.0%. What does a private investor do if they invest directly into shares?

The first question is how many different companies should you hold in a portfolio? Before the advent of index benchmarks, the optimum number of holdings held in a portfolio was reckoned to be eight. Sounds so few doesn't it! But that was the optimum. More shares lowered the potential portfolio return in relation to risk (being volatility), and visa versa. The second question is how many shares can you afford to own? That is if you take into account minimum cost dealing in your shares. Minimum commissions vary widely. If you want advice on shares as well, you will find that you will probably get charged a percentage fee, normally in excess of 1.5%. If you take an average flat fee of say £15, equate that to the 1.5%, you have a holding of £1000. So if you have eight holdings, you have a portfolio of £8000. To demonstrate how the eight holdings are probably still spot on: if one of your stocks fell by 25%, and the rest stayed the same, you get a portfolio drop of 3.125%. Not the end of the world! The problem nowadays is that unless you spend all your time monitoring your portfolio, you could get two or three bad ones in a row. How would you cope with that? What do you do then? Hold on hoping for recovery? Not a good policy if you held GEC, sorry Marconi. That's why we, and the majority of investors who we know, prefer to invest in collective investments. These are managed by a professional manager whose track record is visible for all to see. He can change the portfolio at much cheaper prices than the average investor. He should have the temperament or skill, or both, to know how to deal with the horror stocks when they occur. He may even be able to benefit from them.

At Minerva we prefer unit trust and OEICs to investment trusts. The main reasons are that the changes in share price compared to asset price increases volatility, and the ability to borrow can increase vulnerability. The one caveat is treat marketing departments' spiel with scepticism. The easiest sale's pitch is immediate past success. Remember technology!

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& Editor of the
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