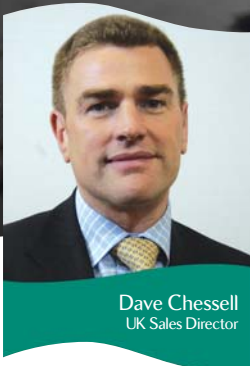


a marathon or a **sprint**?

– the changing face of advice



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UK Sales Director

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As you might expect, I regularly review our sales data and it's always interesting to see how this gives a view on advisers' business models. It is particularly interesting in this climate of market volatility to study how the different adviser models respond to these challenges.

We are certainly witnessing a sea change in adviser attitudes to market volatility, in part perhaps due to increasing familiarity with the cyclical nature of the markets, but more importantly because the journey towards broad holistic advice is well under way. Those firms which are building their business models around

clients' long-term personal financial goals, with a greater emphasis on ongoing (and regular) advice rather than pure product sales, are winning through. Periods of market volatility are always difficult for individual sales based on a one-off transaction as this often exposes any lack of diversification, as well as any lack of alignment with an investor's changing attitude to risk.

long-term approach

The key is the determination of attitude to risk rather than appetite for growth. Our MI clearly shows that those new model adviser firms are thriving through

embracing a robust, auditable process to adapt a portfolio of assets and wrappers that accurately represents their clients' current attitude to risk.

They are simply better placed to manage market turbulence because of their long-term approach. Their portfolios are more closely aligned with client expectations, so they can exploit periods of weakness by discussing further investment opportunities rather than having to spend time explaining unexpected corrections. They are also less prone to the vagaries of the latest investment fad asset classes – their portfolio construction is geared to a

mutually agreed time horizon, with proactive rather than reactive strategies in play.

For those adviser/client relationships more focused around one-off transactions, it is far more difficult to move the focus away from the here and now and towards a longer-term view. Our statistics show spikes of reactive switch activity in early 2008, when a few days later many of those funds had rallied and the client had incurred unnecessary cost.

'ever-present' bear market strategies

Another interesting dimension is the perception of the role and need for bear market funds. These are almost completely ignored by advisers whose model is based on objective asset allocation. For them their bear market strategy is ever-present in the portfolios they recommend. It is this which represents the real solution to current market conditions.

While timing investments is difficult and dangerous during periods of market volatility, the position for diversified asset allocations matched to risk tolerance is different. Conservatism and downside protection means that clients can invest with more confidence. Withdrawing from markets and trying to time market entry, or even withdrawing and then re-entering when things have calmed down, is inherently risky and can prove the wrong thing to do.

Adviser firms that have followed a strong, auditable risk assessment with their clients have the confidence of knowing how they will react to volatility, and will have built a strategy around constructing a portfolio of assets that reflect these values. The launch of Skandia's Selestia Investment Solutions platform in 2007 offers a suite of web-based investment tools to simplify this process and provide a consistent, auditable approach to asset allocation. These tools can be the cornerstone for expanding advice horizons to consolidate a client's overall assets.

While disciplined asset allocation matched to personal risk tolerance simply amounts to investment advice that reflects the personal circumstance of individual investors (TCF outcome no. 4), there are still too few investors benefiting from common-sense advice like this. The Selestia Investment Solutions model embodies this discipline in its processes and this is why new model advisers have been able to focus on more proactive client interaction in this period of market turbulence.

Long after the markets have regained their poise we expect the new model approach to dominate the UK advised market, as firms make the transition from single transaction sales to holistic financial planning. Although many may be thinking this transition to a new style of operation can wait until the FSA's Retail Distribution Review is concluded, I firmly believe current market conditions and the implementation of their Treating Customers Fairly initiative mean that the race to the line has already started.

If you add to this those clients who have benefited from sound advice through attractive tax wrappers, it is not difficult to understand why we see more stable and profitable businesses in these new model firms.

embracing change

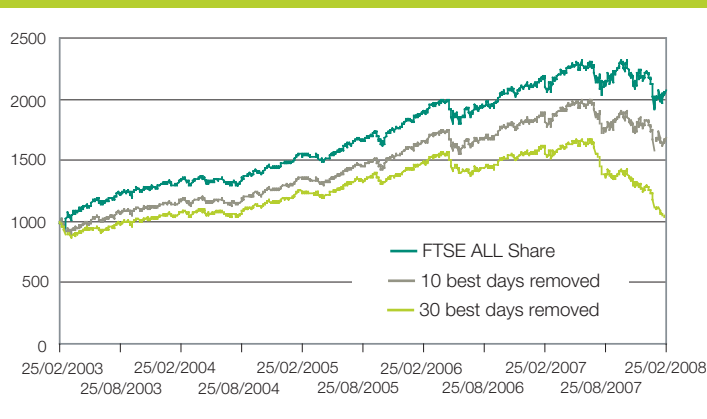
I am delighted to see sales growth from those advisers who have already made steps to introduce broader holistic planning into their businesses. There is no doubt in my mind that loyal clients are perfectly willing to pay fees for added value, ongoing advice and service, supporting those firms which believe in true long-term financial planning. It is the financial equivalent of a marathon and not a place for short-distance runners. ●

If you aren't familiar with the tools available through Selestia Investment Solutions, contact your Skandia consultant who will be pleased to run through a demonstration with you.

time, not timing

Getting market timing right is nigh-on impossible, and the odds of getting out at the highest point and reinvesting at the lowest are reserved for those with masters degrees in hindsight. Indeed, even the well-practised argument around missing the best days in a particular time period (as illustrated in Figure 1) is much easier for clients to comprehend when markets are in the ascendancy. However, clients who appreciate the work and care taken to assemble a portfolio of assets, who see their adviser on a regular basis to review progress and any changes in circumstances, are much more likely to remain solid in times of market adversity.

Figure 1 – FTSE ALL Share five-year performance



Source: Financial Express. FTSE ALL Share (Total Return), 25 February 2003 to 25 February 2008. Past performance is not a guide to future performance.

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