

Advanced Portfolio Management
L7

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Introduction :

Portfolio management is the strategic selection and supervision of investments that align with a client's, company's, or institution's long-term financial goals and risk tolerance. It involves asset allocation, diversification, and re-balancing. Active portfolio

management involves buying and selling stocks to outperform the market, while passive portfolio management replicates the composition of indexes to achieve returns. Successful portfolio management requires well-defined long-term objectives, clear guidance from the IRS, understanding of investor risk appetite, and a readiness to scrutinize investment alternatives. Some individuals engage in self-directed investing portfolio management (Hayes, 2024b).

CLIENT BACKGROUND :

Mr. Sharp, a 45-year-old single lawyer in London, has recently inherited £300,000 from his late father's estate. The money is currently on deposit in his bank account, earning a poor 0.5% pa return. He is seeking your professional opinion to review his existing investments and make recommendations on how to invest his inheritance. Mr. Sharp is employed as a lawyer with an annual salary of £190,000 and has a substantial "rainy-day" fund in savings split between four other retail banks. His objectives are to achieve long-term sustainable capital growth, exceeding the return on the FTSE All-Share index, and his investment time horizon is ten to fifteen years.

EXISTING PORTFOLIO DETAILS :

Holding	Description	Index	Market Price (20.05.2024)	Value (£)
	ORDINARY SHARES			
2,300	Lloyds Bank (LLOY)	FTSE100	56.06	128,938
1000	HSBC (HSBA)	FTSE100	44.54	44540
1,200	Barclays (BARC)	FTSE100	217	260,400
500	Imperial Tobacco (IMB)	FTSE100	1955.50	977,750
400	BAT (BATS)	FTSE100	2480	992,000
1,500	Tesco (TSCO)	FTSE100	313.90	470,850
1,200	Sainsburys (SBRY)	FTSE100	285.60	322,320
1,050	Marks & Spencer (MKS)	FTSE100	279.95	293,947.5
400	Schroders (SDR)	FTSE100	371.80	148,720
600	Aviva (AV)	FTSE100	497	298,200
700	J P Morgan Chase (JPM)	NYSE	204.79	143,353
800	Wal-Mart Stores (WMT)	NYSE	64.65	51,720
	INVESTMENT TRUST			
1,100	Fidelity China Special	FTSE35	243.50	267,850

	Situations IT (FCSS) GB00B62Z3C74	0		
Nominal	BONDS			
£12,500	Barclays bank Plc 5.75% 2026 XS0134886067		112	14,000
£14,500	Severn Trent Utilities 6.25% 2029 XS0097777253		121	17,545
£20,000	0.5/8% Treasury GILT 2025 GB00BK5CVX03		98	19,600

Table 1

Diversification:

The portfolio seems to be adequately diversified across different industries and asset classes, such as equities, fixed income securities, an investment trust, and cash. Diversification is a strategy that reduces risk by distributing investments among several types of assets.

Equity Holdings:

The portfolio contains a substantial proportion of equity holdings, predominantly comprising shares in corporations such as Lloyds Bank, HSBC, Barclays, Imperial Tobacco, and others. These equities are spread out across numerous industries, giving investors the opportunity to participate in many sectors of the economy.

International Exposure:

The portfolio consists of multinational equity holdings, including J P Morgan Chase and Wal-Mart Stores, which offer exposure to worldwide markets. International diversification can mitigate risk by allocating investments across several geographical regions.

Income Generation:

The portfolio consists of bonds with fixed interest rates, specifically Barclays bank Plc and Severn Trent Utilities. These bonds offer a consistent source of income through interest payments and can assist in managing the risk profile of the portfolio.

Cash Allocation:

The portfolio maintains a substantial sum of money in a readily accessible current account, ensuring the availability of funds for possible investment prospects or unforeseen financial needs. Nevertheless, retaining excessive amounts of cash for a prolonged duration may lead to the loss of potential investment prospects and the risk of inflation.

Investment Trust:

The addition of Trust China Special Situations IT is a professionally managed investment vehicle that allows investors to gain exposure to a specific sector or area, such as China.

TECHNICAL ANALYSIS OF STOCKS :

Technical analysis is a method of evaluating stocks by analysing statistical patterns derived from trading data, such as volume and price fluctuations. To predict future price changes, it utilises historical price data, chart patterns, and technical indicators.

Lloyds Bank (LLOY) :



The stock reached its highest value of £545.9 on April 1, 1998. However, following significant historical events such as the 2008 financial crisis, the stock had a substantial decline to very low levels. Currently, the stock is trading at a price of 54.28 and it's it's having a rest and support and residence. It is a strong breakout and it has a potential to grow up to 62.

HSBC (HSBA) :



The stock currently forms a rising wedge and its breaking the resistance currently and the stock is already on bullish trend. Its has a potential stock to reach a 50.

Barclays (BARC) :



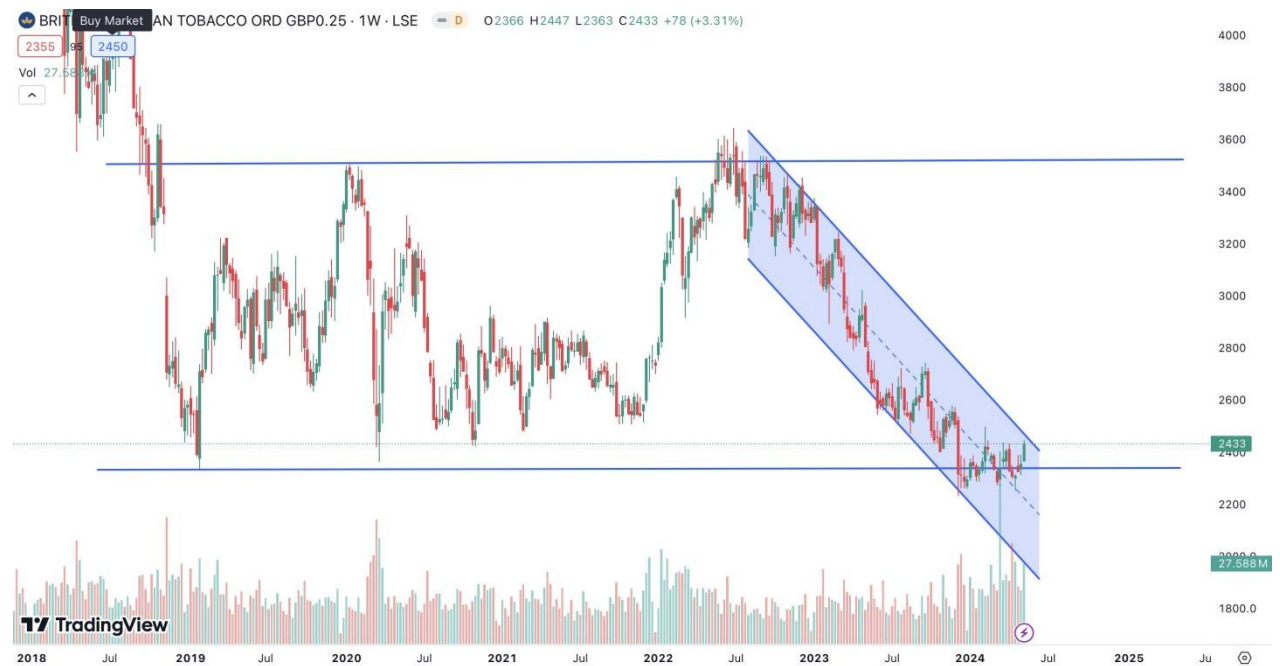
This stock is currently on up trend and its break the resistance line with the huge volume .It may go upto the price of 270 from its current price in upcoming months.

Imperial Tobacco (IMB) :



The stock form triangle pattern. Till now its not breaking the resistance line wait until the price breaks the resistance line with huge volume. It has the potential to go up to the price 2200.

British American Tobacco (BATS) :



This stock shows the parallel pattern. This stock is currently in consolidation range show if the price broke the parallel pattern for now it will rise to 3600.

Tesco (TSCO) :



This Tesco stock also shows parallel pattern. It already gives a fake break out and started its bull run. After breaking parallel resistance line the price from now will rise to 340 in a few months.

Sainsburys (SBRY) :



This stock form descending triangle. The price starts to fall after touching the resistance line and it starts falling then it breaks the recent higher low wait for price to fill the imbalance again after picking up the order the price starts to going down, it will go the support line which 240.

Marks & Spencer (MKS) :



The stock is currently trading at resistance zone after breaking major high and low the price will go to support line which is 125.

Schroders (SDR) :



This stock shows a triangle pattern but this stock is already in bearish trend and continue in bearish trend.

Aviva (AV) :



This stock currently in uptrend and it formed an parallel channel pattern and it has an capacity to go up to the price of 550 in that range there is an strong resistance present.

J P Morgan Chase (JPM) :



This stock technical is bit stronger and it has formed an triangle pattern and it also breaks the resistance line started its bull run and it has an capacity to go much higher.

Walmart Stores (WMT):



This stock currently breaks parallel pattern inside the expanding triangle and it has an capacity to go up to the price of 68 and above in upcoming months.

Recommended Changes to Existing Portfolio:

Diversification Across Industries:

Reduce the proportion of assets focused in the financial sector and consider reallocating some of these funds to other industries such as consumer goods, technology, and healthcare. Implementing this strategy will reduce the risks associated with specific sectors and

enhance the variety of the portfolio.

Recommendation: It is advisable to consider divesting a portion of interests in the banking industry and reallocating the funds to consumer products, healthcare, and technology companies.

Geographic Diversification:

Diversify your investment portfolio by allocating a percentage of the inherited assets to international mutual funds, foreign index funds, or specific equities from the US, Europe, and Asia. This will expand your exposure to global markets. This would enhance regional diversification and provide opportunities for expansion across many markets.

Recommendation: Allocate a portion of the inherited fortune towards investing in international index funds or individual stocks from diverse nations.

Balanced Allocation Between Fixed Income and Equity:

Analyse the existing allocation of your investments between fixed income and equity, and consider reallocating a portion of your fixed income holdings to growth-focused funds or equities. This change enables the achievement of a balanced portfolio that effectively combines long-term growth potential with the protection of capital.

Recommendation: Maintain a well-diversified portfolio and transfer a portion of fixed income investments to growth-oriented companies or funds.

Preserve Liquidity and Protect Capital:

It is advisable to put a portion of the inherited cash to savings accounts or short-term fixed income investments that offer better returns. This will help maintain liquidity and protect the capital. This offers convenient access to funds for unforeseen emergencies or profitable initiatives while providing a respectable return.

Recommendation: It is recommended to keep a portion of the inherited cash in high-yield savings accounts or short-term fixed income investments to maintain liquidity and protect the capital.

By implementing these recommended adjustments, Mr. Sharp can construct a more diversified and growth-focused portfolio that aligns with his risk tolerance, retirement plans, and financial aspirations. Regular monitoring and revisions will be necessary to ensure that the portfolio remains optimal and responsive to changing market conditions and individual circumstances.

Revised Portfolio Recommendation for William Sharp:

In order to achieve sustained growth while minimising risk, it is necessary to create a new investment portfolio for Mr. William Sharp that is diversified across several industries and geographical regions. Mr. Sharp constructs a comprehensive investment portfolio tailored to his specific investment objectives and risk tolerance by blending global index funds, bonds, and stocks across various sectors including technology, healthcare, consumer goods, finance, and renewable energy.

Investing Goals:

Attain Sustainable Long-Term Capital Growth: Mr. Sharp's objective is to increase the value of his investment portfolio at a yearly rate that surpasses the performance of the FTSE All-Share index. He plans to achieve this goal within a timeframe of ten to fifteen years.

Ensure a Well-Balanced Risk Profile: Although Mr. Sharp is open to a moderately more assertive investment approach, he is not willing to assume an excessive amount of risk. His objective is to create a portfolio that is well-balanced and reduces risk, while also seeking opportunities for development.

Generate Moderate Passive Income: Mr. Sharp's primary goal is to construct a portfolio that can potentially generate a steady stream of moderate passive income in the future, specifically through dividends and interest. While he does not require immediate income from his assets, he is focused on developing a portfolio that can provide a reliable source of income over time.

Environmental, Social, and Governance (ESG)

Considerations: Mr. Sharp is becoming more interested in sustainable and responsible investing, specifically in relation to Environmental, Social, and Governance (ESG) considerations. He aims to ensure that a substantial amount of his investments is in line with Environmental, Social, and Governance (ESG) principles.

Preserving Capital for Future Opportunities: Mr. Sharp intends to allocate a portion of his portfolio to assets that are easily convertible to cash and have a low risk profile. This strategy will enable him to capitalise on potential future investment prospects or market downturns.

New Portfolio Allocation:

Holding	Description	Index	Market Price (20.05.2024)	Value (£)
	ORDINARY SHARES			
2,300	Lloyds Bank (LLOY)	FTSE100	56.06	128,938
1000	HSBC (HSBA)	FTSE100	44.54	44540
1,200	Barclays (BARC)	FTSE100	217	260,400
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400	Schroders (SDR)	FTSE100	371.80	148,720
600	Aviva (AV)	FTSE100	497	298,200
700	J P Morgan Chase (JPM)	NYSE	204.79	143,353
800	Wal-Mart Stores (WMT)	NYSE	64.65	51,720
2168	NIKE Inc. (NKE)	NYSE	91.55	198,480
710	VISA Inc. (V)	NYSE	279.24	198,480
1033	Apple (AAPL)	NASDAQ	191.28	198,480

1078	Amazon (AMZN)	NASDAQ	183.56	198,480
3927	Tencent holding Ltd.	OTC	50.23	198,480
	Investment trust			
232	Scottish mortgage Investment trust (SMT)	LSE	848	198,480
	BONDS			
£12,500	Barclays bank Plc 5.75% 2026 XS0134886067		112	14,000
£14,500	Severn Trent Utilities 6.25% 2029 XS0097777253		98	17,545
£20,000	0.5/8% Treasury GILT 2025 GB00BK5CVX03		98	19,600

I have removed some stock from the old portfolio like Tesco (TSCO) and Sainsburys (SBRY) and also the investment trust Fidelity China Special Situations IT (FCSS) because of their performance is currently going down as we see in the technical analyse.

And I have allocated the new stock equal value because very stock that I have picked as very good potential so, I don't want to any chance that's why I have allocated for equal value.

New Allocation for the Portfolio :

Technology Stocks:

Apple Inc. (AAPL)

Exchange: NASDAQ

Reason : Apple is a leading technology company with a strong brand, consistent revenue growth, and a solid balance sheet. Its innovative products and services make it a good addition for tech exposure.

Consumer Discretionary Sector :

Amazon.com Inc. (AMZN)

Exchange: NASDAQ

Reason: Amazon is a global leader in e-commerce and cloud computing. Its continuous innovation and expansion into new markets make it a strong candidate for growth.

Nike Inc. (NKE) :

Exchange: NYSE

Reason: Nike is a leading athletic apparel and footwear company with strong brand loyalty and global presence. It's a good pick for consumer discretionary exposure.

Financial Sector :

Visa Inc. (V)

Exchange: NYSE

Reason: Visa is a leading payment technology company with a strong global presence. It benefits from the ongoing shift towards digital payments.

Emerging Markets :

Tencent Holdings Ltd. (TCEHY)

Exchange: OTC

Reason: Tencent is a major player in China's tech industry, with strong positions in social media, gaming, and digital payments. It's a good pick for emerging market exposure.

Global Equity Investment Trusts

Scottish Mortgage Investment Trust (SMT)

Focus: Global equities with a strong emphasis on growth companies.

Manager: Baillie Gifford.

Reason: Known for its long-term growth strategy, investing in innovative companies worldwide. It has a strong track record and experienced management team.

Allocation of Assets After Retirement:

Mr. William Sharp is likely to modify his investment goals post-retirement to prioritise capital preservation and income generation, while also considering some growth to counteract inflation. To achieve these objectives and ensure long-term financial security during retirement, it is crucial to use a well-balanced approach to asset allocation. It is recommended that the allocation of Mr. Sharp's post-retirement portfolio be as follows:

Investments using Fixed Income:

In order to enhance the stability of the portfolio and provide a steady flow of income, it is advisable to allocate a larger portion of the portfolio to fixed income products such as bonds and government securities. This category may encompass municipal bonds, government bonds, and investment-grade corporate bonds. To mitigate the risk

associated with fluctuations in interest rates and provide a consistent stream of income, it is advisable to dedicate a significant portion of the portfolio to high-quality bonds with varying maturity dates.

Dividend-Giving Companies:

Maintain your investment in dividend-paying stocks from sectors such as utilities, consumer staples, and healthcare, which are well-known for consistently delivering reliable dividends. Select organisations with a proven history of consistently increasing dividends over time, as this demonstrates financial stability and a strong commitment to shareholders. To mitigate risk, focus on established enterprises with long-lasting business strategies and a competitive advantage over rivals.

Actual Resources:

Integrating physical assets, such as infrastructure funds or real estate investment trusts (REITs), into the investment portfolio can provide protection against inflation and enhance diversity. To enhance retirement income, consider investing in infrastructure projects or income-generating real estate developments that provide stable cash flow. Consider allocating a portion of the portfolio towards investments that act as a hedge against inflation, such as natural resources or commodities, as these assets tend to perform well during periods of inflation.

Money & Flows:

During retirement, it is advisable to allocate a portion of the investment portfolio towards cash and easily convertible assets in order to meet living expenses and unexpected financial obligations. If your goal is to protect your initial investment and achieve a modest profit, you should consider investing in short-term

certificates of deposit (CDs) or high-yield savings accounts. Ensure that you possess an adequate amount of liquid funds to account for unexpected costs and take advantage of investment opportunities when they arise.

Risk Control:

Monitor the distribution of assets in the portfolio and make necessary changes to align with changing market conditions, risk tolerance, and retirement goals. Implement strategies such as regular portfolio rebalancing and systematic investment of a fixed amount at regular intervals (dollar-cost averaging) to effectively manage volatility and mitigate potential losses. Consider the combination of insurance products such as annuities or long-term care insurance to augment your income and protect yourself from unexpected medical costs.

Conclusion:

Mr. Sharp, a 45-year-old lawyer, has inherited £300,000 and aims to establish a diversified portfolio for sustainable capital growth. To achieve this, he suggests diversifying the portfolio by minimizing financial sector concentration, incorporating equities from technology, consumer discretionary, and healthcare sectors, and incorporating multinational equities and investment trusts. Balancing the potential for growth and capital preservation through fixed income securities and equities is also crucial. Sustainable investing involves integrating ESG concepts into investment strategies, and stocks like Lloyds Bank, HSBC, Barclays, and Imperial Tobacco show promising growth prospects. Allocating a percentage of assets to liquid investments ensures preparedness for future financial needs and capital preservation. After retirement, Mr. Sharp should allocate fixed income towards bonds, government securities, dividend stocks, real assets, and cash to ensure stability

and income generation. Regular monitoring and rebalancing ensures the portfolio maintains diversification and adjusts for risk. By employing these strategies, Mr. Sharp can build a resilient investment collection that not only seeks sustained expansion but also effectively manages risk, ensuring fiscal stability and potential capital appreciation.

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