

# The Chelsea Guide to Choosing a fund



# Contents

- 3 Introduction
- 4 Think about your goals
- 5 What is your time scale?
- 6 How much risk are you willing to take?
- 7 The Chelsea Risk Thermometer
- 8 Decide on an asset class
- 9 Finally, pick a fund
- 10 Still too much choice?
- 11 Find out more



- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?
- Find out more



# Introduction

Choosing a fund can be a tough decision for investors, but getting it right (or wrong!) can have a huge impact on your investment.

With more than 3,000 funds available in the UK, it can also be a daunting task. This guide has been designed to help you in this process, by taking you through a logical sequence of questions to ask yourself and give you the information you need to help you make the best decision possible.



## Introduction

- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?
- Find out more

# Think about your goals

Every investor is unique, with different goals and aspirations. So one of the first things to do when thinking about building a portfolio and choosing a fund (or funds) in which to invest, is to think about what you personally are investing for. For example, is it for your childrens' education, your retirement or just a 'rainy day'?

Always keep your own circumstances in mind when picking a fund and remember to look at those which are suitable for you, not just those that happen to be popular at the time. What is right for one person is not necessarily right for another.



Introduction

**Think about your goals**

What is your time scale?

How much risk are you willing to take?

The Chelsea Risk Thermometer

Decide on an asset class

Finally, pick a fund

Still too much choice?

Find out more

# What is your time scale?

Next, consider by when you want to have achieved your investment goal. Do you need the money in the next couple of years or are you investing to pay off your mortgage or for your retirement, which happens to be more than 20 years away?

Generally, the longer the time horizon before you need to realise your investment the riskier you can afford to be, although obviously your personal attitude to risk is of paramount importance. For instance, if you are saving to pay off a mortgage, you may wish to have a higher risk profile in the early years when your investment has 25 years to run, but in later years a lower-risk strategy would be appropriate.



- Introduction
- Think about your goals
- What is your time scale?**
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?
- Find out more

# How much risk are you willing to take?

When choosing a fund it is really important to consider how much risk you are willing to take. Are you happy to sit out volatile markets in the short term, or will you lose sleep if the markets fall? Risk is very personal and what one investor may consider high-risk, may be medium-risk to another. A good question to ask yourself is: “How much can I afford to lose in the short term?”.

Different funds will have different risk profiles. For example, an emerging market equity fund will be deemed to be higher risk than a strategic bond fund. But within each sector, different funds will have different risk profiles too - one emerging market equity fund may be more risky than another.

Chelsea's fund research team provides a Chelsea Risk Rating on more than 400 of the funds available to investors. The Chelsea Risk rating is our proprietary rating to give investors some guidance on the relative risk of funds.

Our research team assesses the overall risk of a fund by analysing a number of factors including: the fund's volatility within its sector; the level of risk involved in the region/sector in which the fund invests; the size of the companies within the fund; the number of stocks held; the risk controls imposed by the manager; the use of derivatives and currency issues. Once we have appraised a fund, we then assign it a Chelsea Risk Rating, with 1 as the lowest risk and 10 the highest. However, even funds rated 1 are subject to risk.



- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?**
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?
- Find out more



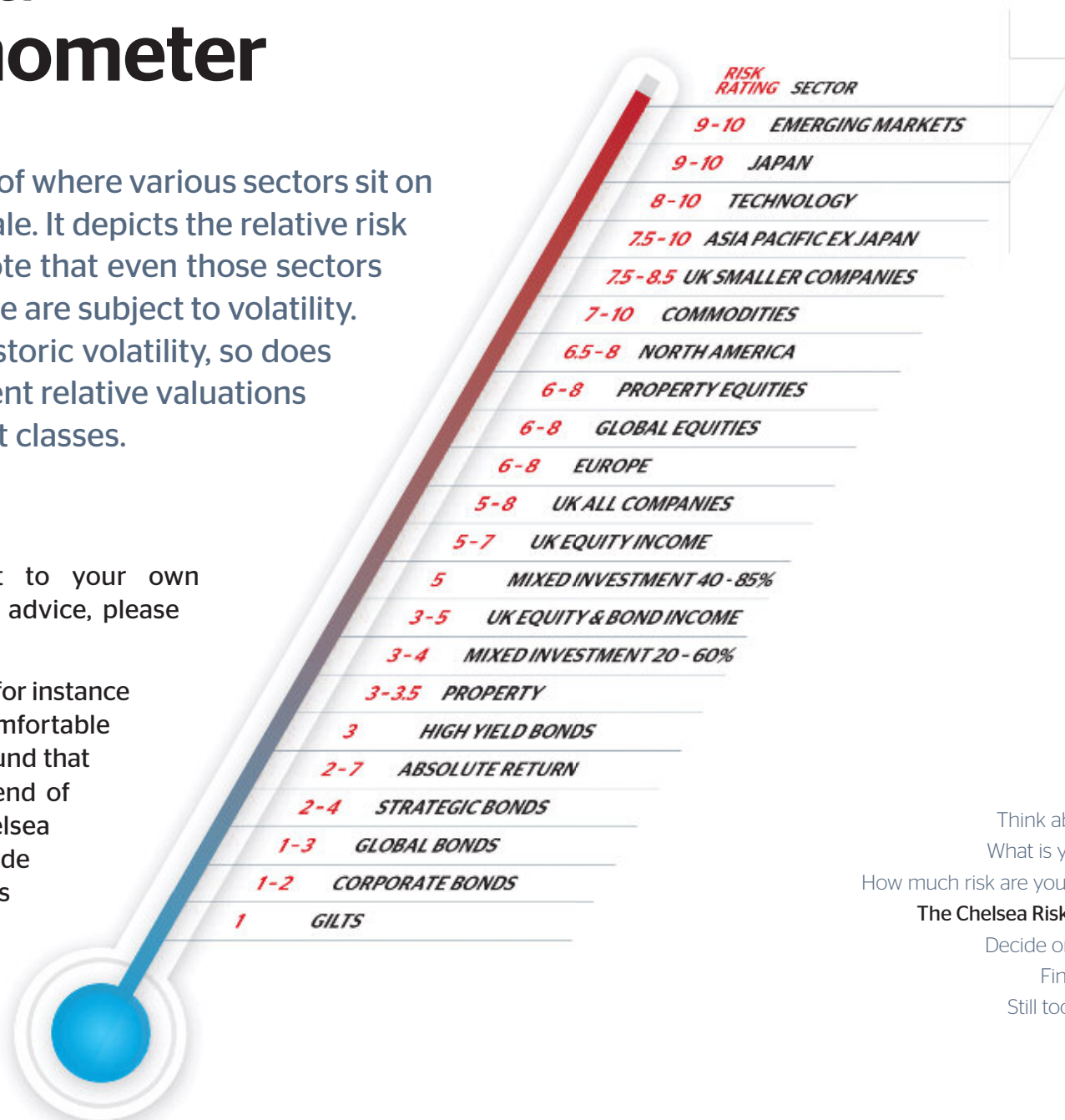
# The Chelsea Risk Thermometer

This is a simple illustration of where various sectors sit on the Chelsea Risk Rating scale. It depicts the relative risk of those sectors. Please note that even those sectors at the lower end of the scale are subject to volatility. It is based on long-term historic volatility, so does not take into account current relative valuations of different sectors or asset classes.

Please note

Risk profiling is also subject to your own circumstances and, if you need advice, please speak to a financial adviser.

To some extent risk is subjective, for instance a cautious investor, who is uncomfortable with volatility, might consider a fund that is risk-rated 5 to be at the top end of their risk spectrum. So the Chelsea Risk Rating is simply a generic guide to the relative risk of all funds within the market.



Introduction  
 Think about your goals  
 What is your time scale?  
 How much risk are you willing to take?  
**The Chelsea Risk Thermometer**  
 Decide on an asset class  
 Finally, pick a fund  
 Still too much choice?  
 Find out more

# Decide on an asset class

Once you have in mind your goal(s), time horizon and attitude to risk, you can think about in which asset class you wish to invest. For example, you may want to consider equities, bonds, property, commodities or a combination.

Be realistic about what you want to achieve, over what time period and what risk you are willing to take. You may need to adjust your expectations.

If you are adding to an existing portfolio of funds, consider what effect any new fund will have on the overall balance of that portfolio. Will it make your stance more aggressive or more cautious? Will it mean that you are over-exposed to a certain asset, market or sector, or will it be filling a gap?



- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class**
- Finally, pick a fund
- Still too much choice?
- Find out more



# Finally, pick a fund

Having asked yourself these questions, hopefully you are now feeling more confident about making a fund choice. When looking at individual funds, it is important not to simply look at its past performance – it may have done well in the past, but there is no guarantee it will do well in the future. Some points to consider:

## Research the manager:

- How long has the manager been running the fund and do they have experience of managing money in different market conditions? What support/resources does the manager have?

## Understand the fund:

- One rule of thumb is: never invest in something you don't fully understand. So make sure you know exactly what the fund is investing in.
- The size of a fund may also affect the decision you make. A small fund can be more nimble but a larger fund may have more clout to influence a company's management.

## What will it cost?

- The cost of a fund can impact on the returns it makes so is an important consideration. However, at Chelsea we are firm believers that returns after costs are more important. We would rather pay a little more for a fund that should do better for us over the longer term, rather than pay less for a fund that will under perform.

- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund**
- Still too much choice?
- Find out more

# Still too much choice?

The vast number of funds available can still be daunting for many people. So, we do some of the hard work for you and whittle the universe down to around 100 funds on our Selection list and circa 40 on the Core Selection.

You can use these lists as a guide when choosing a fund, with the comfort of knowing that our dedicated research team has interviewed every manager and every fund has undergone a rigorous process to earn its place in our research tables.

We are very lucky at Chelsea, as we have access to virtually all managers on a one-to-one basis. Most fund selectors are not given the opportunity to cross-examine fund managers on their process and investments.

We aim to select the best funds for your consideration and try to provide you with as much information as possible, without bogging you down with too much industry jargon.



- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?**
- Find out more

# Find out more

For more information please visit our website [chelseafs.co.uk](https://chelseafs.co.uk) or, to talk through the investment options available, please call our client service team on **020 7384 7300** who will be happy to help.

## IMPORTANT NOTICE

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- Introduction
- Think about your goals
- What is your time scale?
- How much risk are you willing to take?
- The Chelsea Risk Thermometer
- Decide on an asset class
- Finally, pick a fund
- Still too much choice?
- Find out more**