A Golden Opportunity

A rare opportunity for ISA and pension investors with over £100,000 actively invested.

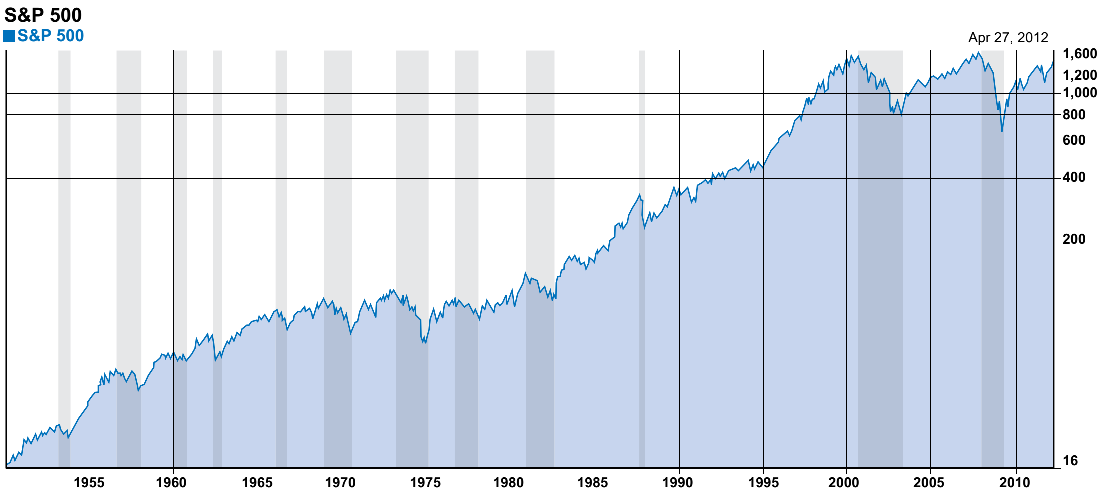
ISACO

LET'S BUILD WEALTH TOGETHER.

Stephen Sutherland.
ISACO's Chief Investment Strategist and author of *Liquid Millionaire*.

My name is Stephen Sutherland and today I'm going to share with you details of an investment opportunity that could seriously boost your ISA and pension portfolios over the coming years. This same opportunity is right under everybody's noses but because they have not been informed about it, they have no idea it exists. There is an English Proverb that sums this up beautifully, 'Some men go through a forest and see no firewood.'

To explain how it's possible to capitalise on this rare opportunity, we are going to start with some basic lessons about the stock market. Let's begin. Most Britons have heard of the FTSE 100 but fewer have heard of the S&P 500. The FTSE 100 is an index in the UK that has the top 100 companies trading in it. The S&P 500 is its equivalent in the United States and, you guessed it, this one has 500 companies that belong to it.



What long-term trend has this index formed? Is it up, down or sideways?

Yes, that's right, it's in an uptrend.

Can you see the grey vertical shaded areas on the chart?
These represent the down periods in the market. They are known as bear markets. On the other hand, the white areas on the chart are the times when the market rose. These periods are called bull markets.

What do you see happening after each bear or down market?

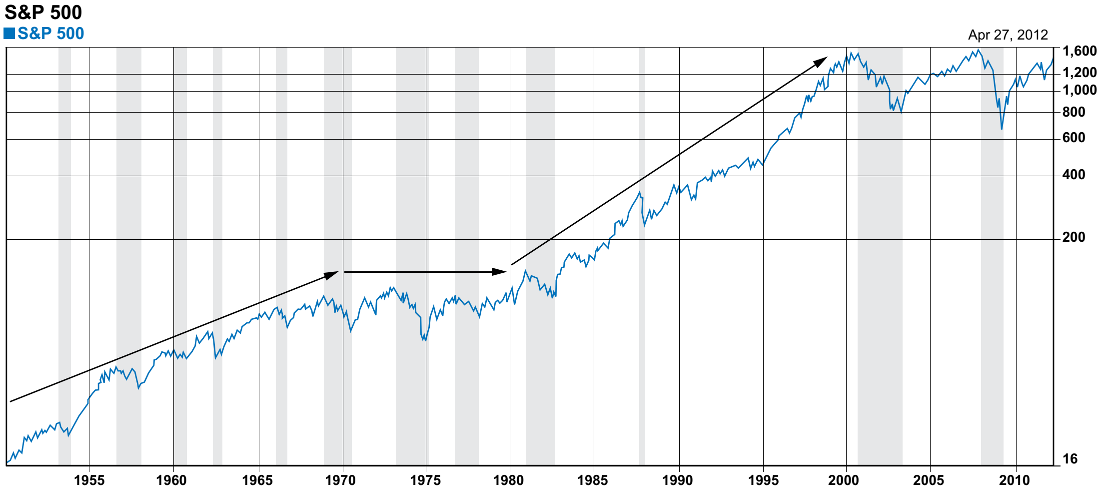
That's right. The market goes up. Would you agree that, prior to the year 2000, after every bear market the index has always eventually moved into new high ground?

Excellent!

Did you know that historically, bull markets or up markets have lasted between two and four years?

Bear or down markets tend not to last as long. Bear markets last between nine and eighteen months and therefore are much shorter than bull markets. Because bull markets last longer, the stock market forms an uptrend. It's like a staircase effect where you have three stairs up and then one stair down.

Just before we move on, take a look at the period on the chart from 1970 to 1980.



Notice that the market made very little price progress over that decade. Do you see that?

Do you also see what happened before it went sideways? Can you see the strong uptrend? And what happened after 1980?

Do you see that after the ten year sideways period the market had a nice run?

You may also notice that prior to 1970 the market was in a strong uptrend, then it went sideways for ten years and then it resumed its uptrend.

Did you see that?

Good, because we will be talking more about that later.

Let's now move onto talking about funds. What do you know about investment funds?

In case you are unsure, an investment fund is a pooled investment vehicle that allows investors like you and me to invest in the stock market. They are controlled and managed by a professional investor who is called a fund manager. These fund managers buy stocks (companies) that they believe are going to rise in value. If they choose well, the fund's value will do well and all the people invested in the fund will be rewarded with an increase in their investment portfolio.

Fund managers are like football managers

Investment funds are the investment vehicles that have the power to grow your account at 12-15 per cent each year if you choose well and you have a favourable market environment. Investment fund managers are like football managers. If you can find a fund manager with an outstanding track record you've almost cracked it. The challenge is that in the UK there are thousands of funds to choose from and so unless you know what you are doing and how to check various performance gauges, it is very easy to pick a dud fund.

Imagine a football manager with an outstanding track record and think about the likelihood of them continuing to perform well based on their past performance. Are they likely to continue to perform?

You'd probably agree that the probability is high that they will continue to perform well. Of course, there is no guarantee, but the probability of them continuing to deliver good results is pretty high. That same principle applies to fund managers. In other words, when fund managers have great track records, they are also likely to keep doing well in the future. However, as I've said, just one of the challenges investors face is finding them.

Why I love ISAs

ISAs are fantastic. Yes, they really are the UK's best-kept secret and it's not commonly known how they work or how powerful they are. Many people think that when they take out an ISA with a bank, their ISA has to remain with that same bank for life. A few people mistakenly think that they are locked in and can't move their ISA. Both these myths are utter nonsense.

With your ISAs, you have the power to control where your money is being parked or invested. And you can change your mind at any time. If you have been placed in a Stocks and Shares ISA, perhaps by your bank manager, broker or financial adviser, it's really easy to check how good their recommendations have been. All you need is a little training.

This is just one of the things I like to teach my clients. I have to say, when they have that knowledge, they tell me that it makes their bank managers, brokers or advisers feel very nervous. Knowledge of the characteristics of a good fund versus those of a bad fund gives you serious power over your adviser.

Real ISA millionaires

Most people in the UK are totally unaware that ISAs can help you accumulate a multi-million pound, tax-free portfolio.

Yes, it's true, some ISA investors have accounts in the tens of millions.*

*Source: FT.com 8th Oct 2010 -'ISAs' values rise to £1m for some investors'

Did you know that an ISA is not an investment, but is the name of a wrapper that goes around an investment sheltering it from the Inland Revenue?

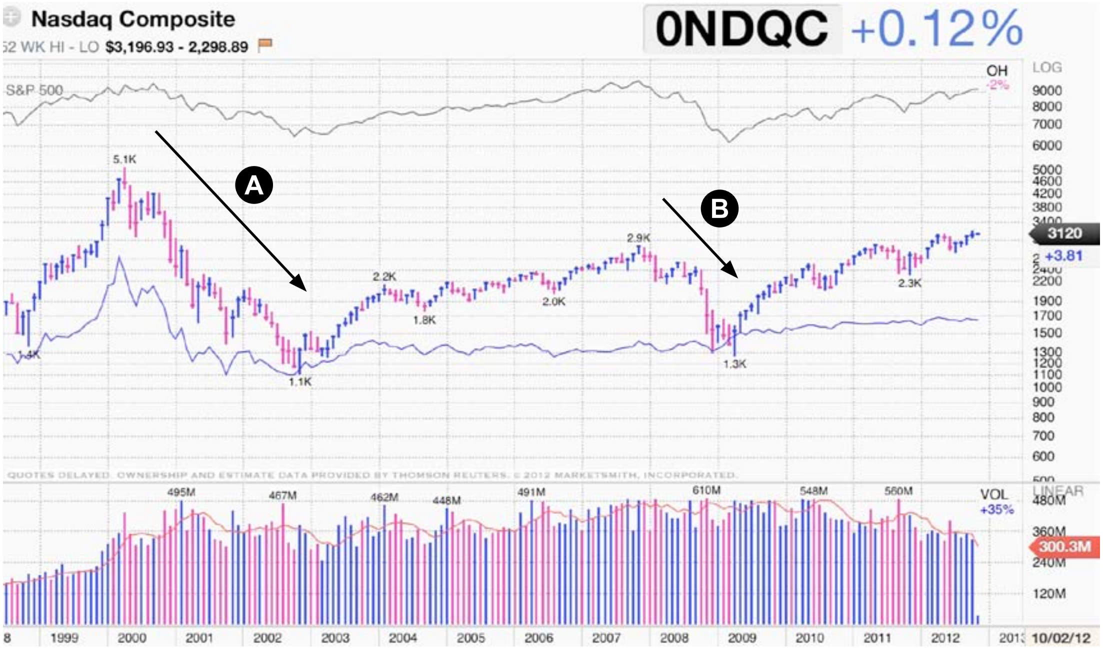
Think about a sweet in a wrapper. The investment is the sweet and the ISA is the wrapper.
Did you know that there is no limit to how much your tax-free portfolio can grow into?

Yes, it's true. If you start with say £1000 and eventually over time it grows into, let's say, £1 million then all of that £1 million would be tax-free.

Three out of four stocks move in the same direction as the market

One of the basics that I first learned about how the stock market works is that three out of every four stocks move in the same direction as the market. So if the market is in an uptrend, 75 per cent of stocks move up. And if the market is in a downtrend, 75 per cent of stocks move down. That tells you that when the market had huge corrections between 2000-2002 and 2007-2009, individuals who remained invested in the market's downtrend will have lost a lot of money.

As author and Wall Street stock wizard Vic Sperandeo states, 'The key to building wealth is to preserve capital and wait patiently for the right opportunity to make the extraordinary gains'.



Take a look at this 20 year chart of the Nasdaq. On this chart I am showing you something important. When the market was in a major downtrend from 2000 -2002 (Point A) and the period 2007-2009 (Point B), the smart money was out on the sidelines. This because investment funds own stocks, so funds also move in the same direction as the market.

You see, the market is like a river. If it's heading downwards, then you don't want to be in the river trying to swim upstream against a strong current. Your aim should be to stay on the sidelines patiently waiting for the flow of the river to change. You therefore need to swim with the current and not against it.

How to win

To win at ISA and pension investing, your job is to know how to pick a top performing investment fund and then wrap an ISA or pension wrapper around it. You also need to make sure that you accurately 'time' the buying of your fund, meaning you buy it when the market is healthy – when the market is in an uptrend. On the other hand, when the market goes into a downtrend, your aim should be to switch out of your fund into a Cash Park.

William J. O'Neil is not well known in the UK, but in the US he is regarded as a stock market master. Back in 2000 and 2001, O'Neil taught me a proven timing system that aims to help you get in and get out of the market at the right time.

It is a method based on how the market actually functions in reality. Bill has commented on how far back they have gone when researching this. He stated in a recent radio interview that they had tracked how the market operates in each of the market cycles over the last 125 years.

Not missed the start of a single bull market

Using this method of timing the market, in the last 50 years, Bill has not missed the start of a single bull market. That's pretty impressive isn't it? It's so impressive that I would like to say it again for emphasis:

Bill O'Neil, using this method of timing the market has not missed the start of a single bull market over the last 50 years.

It's no coincidence that this same timing method is the one that has helped me to beat the market over the long-term.

In the spring of 2008, Bill said that the timing method wasn't his. He said that the method was based on how the market works. What Bill also mentioned is the way the market works is the same way it has worked throughout its entire history. And I agree. This is a very good point to highlight.

An investment method based on facts, not opinions

The timing method that Bill O'Neil and I use is based on facts. These are facts that have come from the entire 125 year history of the stock market and they are not opinions. That is probably why it tends to work so well. This same timing method also helped my clients and I to make a 12.5 per cent average return over the last four years* versus the FTSE 100's 7.4 per cent. It also helped me and my clients get out at the end of the 2003-2007 bull market. As they say, timing is everything.

*(31st December 2008 - 31st December 2012) ISACO investment performance verified by Independent Executives Ltd.

Personally, I think it is a great way to accurately time the market. But I have to warn you that it's not foolproof. When I read the trend of the market using this method, I get it right about 80-90 per cent of the time. My clients follow in my footsteps and have the opportunity to invest in exactly the same funds that I'm investing in. This means, if they follow my lead, they achieve the same returns as me.

Clients like the fact that my brother Paul and I put our money where our mouth is. It puts them at ease knowing my track record and following exactly what Paul and I are doing with our ISA and pension investing. I think it gives them peace of mind knowing that Paul and I both have significantly sized tax-free accounts and that I have been investing in ISAs since 1997. They understand that the decisions Paul and I make about when to get into the market, what to get into and when to get out, are not taken lightly.

And unlike hedge funds, we don't take a penny of any of the profits our clients make. This means if you became a client, you get to keep everything you make. Plus we are totally impartial. Unlike financial advisers, stock brokers and banks, we do not receive any commission from the investment funds that we personally invest in. That's also something our clients see as a benefit.

75 per cent of the stock market's movement comes from institutional investors

Do you know the following fact?
75 per cent of the stock market's movement comes from institutional investors.

Yes it's true, the big professional investors have the largest influence on the market's future direction. Institutional investors can be fund managers, banks, building societies or insurance companies. If these 800 pound gorilla investors are buying, you can jump on their coattails. Similarly, if they are selling, you can quickly switch out onto the sidelines.

Here is how it works.

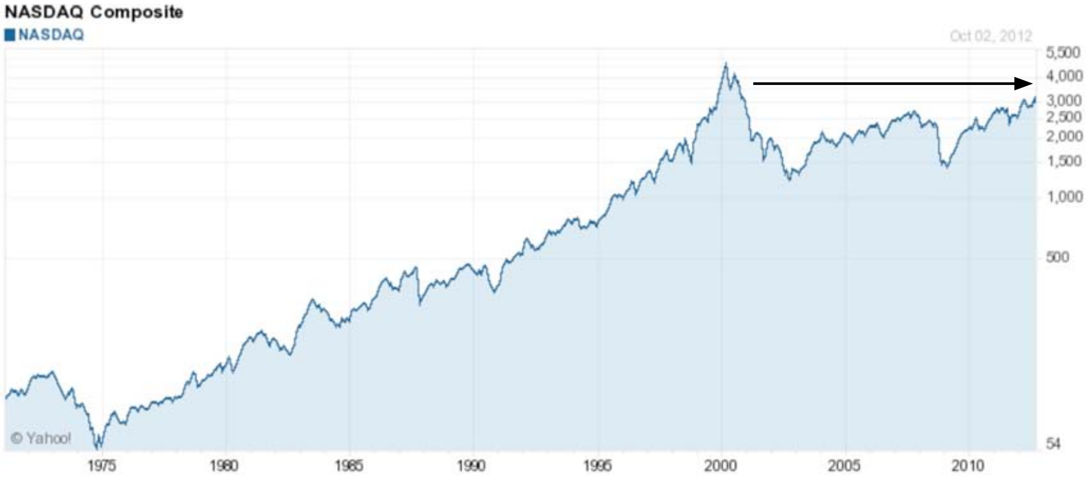
Picture the market as a big tree. Let's imagine the professional investors being woodcutters. If the professionals are selling heavily, then you can see them selling their stocks by looking at charts. When they sell, it's like they're taking a cut out of a tree and, of course, this makes the tree or market weaker.

If they take too many swipes at the tree in a short space of time, what is going to happen?

That's right, the tree will fall over. So when the tree or market gets weak because of excessive selling or cutting, it sends you a red flag to say get out of the market. On the other hand, when the professional investors are buying heavily and in a short period of time, this makes the market healthy and extremely strong – and this is the time when you do want to be invested.

Did you know that the Nasdaq Composite, the US technology index, has averaged 18.3 per cent over the last 25 years?

Did you also know that over the last 14 years years, as you can see from this chart, it has virtually moved sideways?



Let me repeat that once again for emphasis. Over the last 14 years, the Nasdaq has been underperforming its long-term trend and therefore could be due a move.

Could there be a possible stock market boom on the horizon?

Is it any wonder my clients and I are so excited right now?

It is also good to remind you at this point how strong the Nasdaq can be over a ten-year period. Did you know that from 1990 to 2000 the Nasdaq went up on average 24.5 per cent each year? Yes, that's a fact and the great news is that because it has done it before, it can do it again. Did you know that the Nasdaq Composite is one of the world's leading market indexes?

It is and, because it's a world leader, that's one of the reasons why we try to beat it each and every year. In other words, it's very tough to beat. What we like about it is that it provides us with a challenge.

An investment method capable of beating the Nasdaq

The Nasdaq is therefore a great benchmark. It's much more difficult to beat than the S&P 500, which is an index that most professional fund managers try to beat, although most unfortunately fail. However, here's the good bit. What we now know is that the method my clients and I use is capable of beating the Nasdaq Composite.*

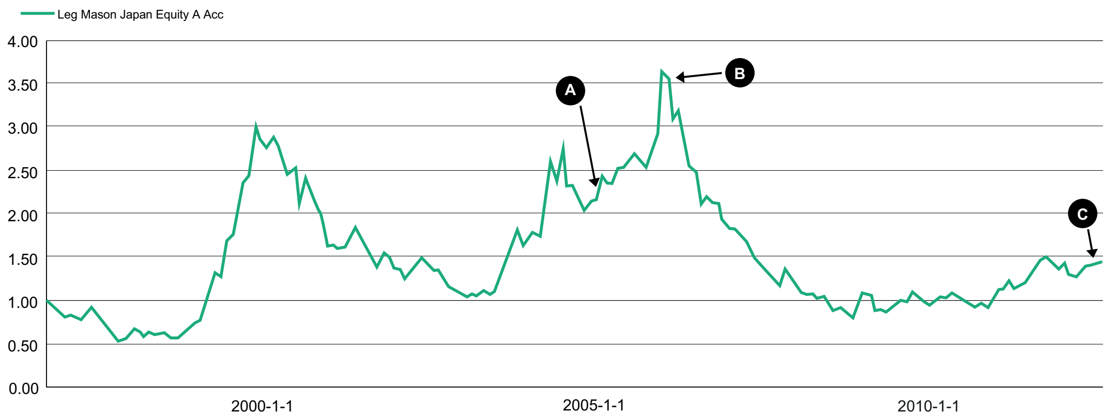
*Source: Yahoo Finance: Cumulative return (31st December 1997 – 31st December 2010) Stephen Sutherland 93.3%, Nasdaq Composite 68.9%, FTSE 100 14.6%. ISACO investment performance verified by Independent Executives Ltd

I'd like to now demonstrate the importance of 'timing' your entry and exit when it comes to fund selection. In his bestselling book, 'How to Make Money in Stocks', William O'Neil said: 'Don't let anyone tell you that you can't time the market'.

Legg Mason Japan Equity A Acc: 43.1% gain in 12 months

We are going to start by looking at a fund called the Legg Mason Japan Equity A. This fund was bought back in 2005, however the reasons I'm showing it to you are to highlight the dangers of 'buy and hold', while underlining why we believe you have to be active when it comes to fund selection for your ISA and SIPP portfolio.

Legg Mason Japan Equity A Acc



Can you see that I bought this fund at a price of 2.32 on 11th January 2005 (Point A), just before it broke out of a bullish cup-with-handle formation pattern?

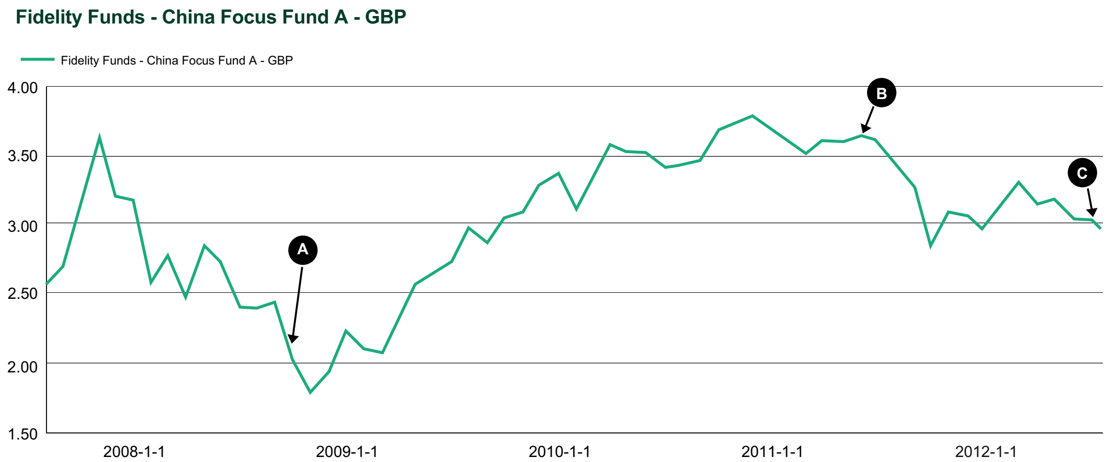
Yes, soon after purchase, this fund really took off, eventually hitting a peak at 3.93. I was fortunate to recognise this behaviour as 'climax topping' and soon after hitting its high, I decided to exit and come out of this investment at a price of 3.32 (Point B) on January 5th 2006. This helped me, and the clients that shadow me, to net a tidy 43.1 per cent gain in twelve months.

Can you see from the chart that just after getting out the fund fell like a stone, dropping 71.4 per cent over the next three years?

Even though it has been trying to recover from this low, when this screenshot was taken on 22nd July 2012, it was trading at a price of 143 (Point C), 56.9 per cent below where we exited.

That means it would have to make a 133 per cent move just to get back to where we got out! How long is that going to take?

Fidelity Funds – China Focus Fund A – GBP: 64.9 per cent in 31 months



I bought this fund more recently. On 16th Dec 2008 (Point A), we entered this fund at 2.14 and was eventually sold on July 27th 2011 at a price of 3.53 (Point B) after I noticed that it was acting out of character – helping us bag a tidy 64.9 per cent gain over a 31 month period. When this screenshot was taken on 22nd July, it was currently trading at 2.98 (Point C), 15.6 per cent below our sell point, which means we may have exited this one at a favourable time too.

Please note that these kinds of funds must only be purchased in the right market environments. They can also drop very quickly so getting your timing right is crucial.

ISA and SIPP portfolio protection in falling markets

As an ISA and pension investor, my aim is to profit in rising markets and achieve portfolio protection in falling markets. As you've discovered, when a bull market ends then a bear market begins.

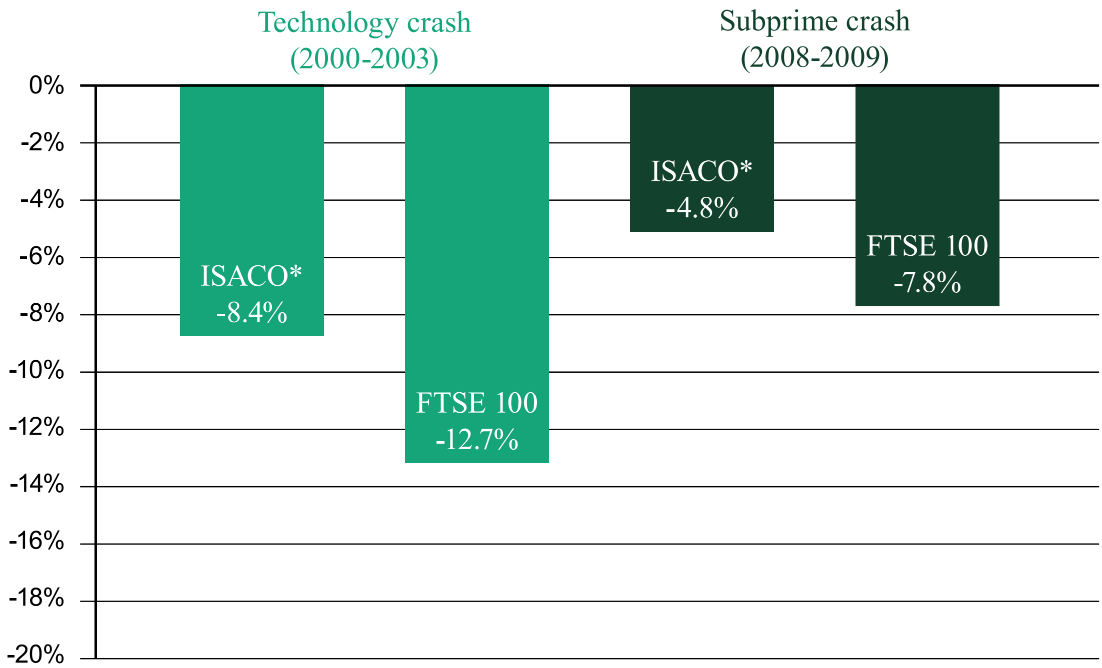
When I believe that we have just entered, or are about to enter, a bear market, I quickly move into a Cash Park. This gives me, and the clients that shadow me, full portfolio protection. Switching from being invested in growth funds into a Cash Park is just like moving your portfolio out of the stock market and placing it into a bank.

As you heard earlier, bear markets are shorter in length than bull markets and tend to last 9-18 months. During this time we have to be patient and sit in cash until the bear market ends and a new bull market begins. When the bull market starts, we then move back into growth funds. Take a look at this table and it will show you how it works.

Market description	Type of market	Estimated length of time	Aim
Bull market.	Rising.	2-4 years.	Profit – Invest in high quality investment funds.
Bear market.	Falling.	9-18 months.	Protect – Use cash parks to preserve profits.

By moving temporarily into a Cash Park when the market is falling, can you see that it helps to preserve and protect your profits made in the bull market periods?

It does and you are probably aware that we've just recently been through one of the worst markets in history. Some of the main world stock market indexes lost over half their value. As you can see from this next image, in the two most recent bear markets, we've fortunately managed to outperform them both.



* ISA account returns. ISACO investment performance verified by Independent Executives Ltd

As you can see from the bar chart above, in the 2000-2002 technology crash, we dropped 8.4 per cent annually compared to the FTSE 100's 12.7 per cent annual losses. In the subprime crash of 2008-2009, my account fell 4.8 per cent annually compared to the FTSE 100's 7.8 per cent annual losses. These results tell you that we were fortunate 'to beat' the FTSE 100 in the two previous bear markets.

If you are an investor like me seeking long-term capital growth on your ISA and pension portfolio and you fail to beat the stock market over the long term, it's probably going to have a damaging affect on your retirement plans. When an investor fails to hit the annual growth targets required, instead of arriving at their goal on time, they unfortunately arrive late and in some cases not at all. Can you see that this table highlights the dangers to your retirement plans if you underperform?

In this example, I've used a person with a £250,000 portfolio whose aim is to grow it into a million pounds over the next ten years.

Starting amount	Retirement goal	Annual growth rate	Time frame taken to hit retirement goal	Arrived at goal on time?
£250,000	£1 million	15%	10 years	Yes
£250,000	£1 million	7.5%	20 years	No, 10 years late.
£250,000	£1 million	3.75%	40 years	No, 30 years late.

To be able to do that successfully the person would have to grow their account at 15 per cent each year, which I agree is no easy feat. However, it is possible when you have an edge.

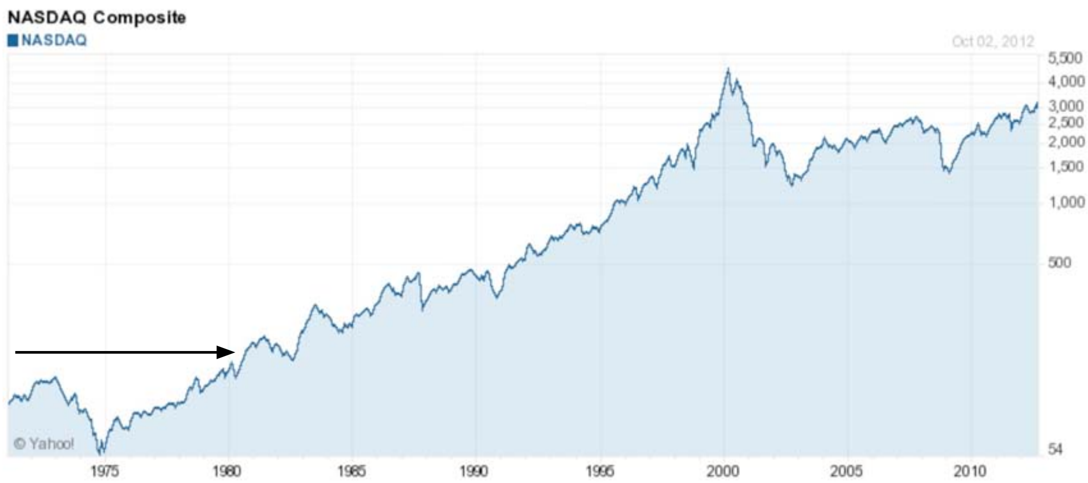
The compounding rule

The compounding rule is when you get 15 per cent annual return, your money doubles every five years. That means a 15 per cent annual return on £250,000 helps convert the £250,000 into £500,000 in five years, and then the £500,000 turns into a £1million in the next five years.

However, if you fail to get adequate growth on your capital, it's going to take you much longer to reach your retirement goals. For example, if your adviser's fund choices result in you underperforming the market and you achieve just 7.5 per cent annual return, then it would take you twice as long to get to your goal. Instead of getting to your objective in ten years, it would take you twenty. And if your adviser only managed to help you achieve a 3.75 per cent annual return, it would take you forty years to get to your goal. That's thirty years late!

A golden investment opportunity

Here's a chart similar to the one that I showed you earlier. This chart clearly shows the investment opportunity that we've been talking about. Can you see on this chart that the Nasdaq has had a nice 25-year run from 1975 to 2000?



Over that period, it actually grew by an impressive 8750 per cent. As we established earlier, the Nasdaq has underperformed over the last 14 years and when markets move sideways for long periods, sooner or later, they have to resume their upward advances.

Look at the period on the chart highlighting the Nasdaq's price performance from 1970 to 1980.

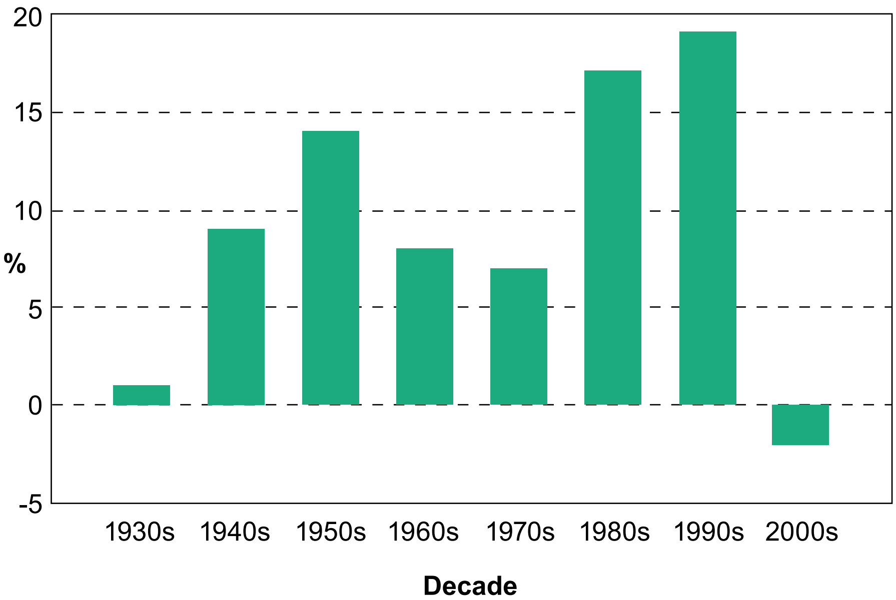
After that sideways movement, what did it do?

That's right, it had a nice upwards move.

More evidence of a possible up and coming boom

It's worth remembering that there can be opportunities when it looks like a bad time to invest. Did you know that the challenges faced by markets today are no different than the Great Depression of the 1930s or the crisis years of the 1970s?

Yes it's true and the good news is that even though the 1930s and 1970s were both seen as a bad time to invest, they were followed by successive decades of massive growth and robust investment returns (as you can see from the chart below).



Source: Thomson One, Jan 7 2010

As you can see, abandoning the market may have been an understandable response in the early 40s or 80s, as it may still have been seen as a bad time to invest, but what a mistake it would have been!

A lost decade – strength after weakness

Have you heard of The Barclays Gilt Study? I hope so, because another piece of research that proves useful is the Barclays Gilt Study of 2009.

When you look at history, you find that extended periods of poor performance have almost always led to periods of above average performance.

Barclays Gilt Study 2009

Average annual returns over 10 years	%	Average annual return in the 10 years immediately afterwards	%
1906 - 1915	-0.2	1916 - 1925	+3.9
1907 - 1916	-3.7	1917 - 1926	+6.5
1908 - 1917	-3.8	1918 - 1927	+9.1
1909 - 1918	-3.5	1919 - 1928	+10.3
1910 - 1919	-3.8	1920 - 1929	+7.8
1911 - 1920	-7.9	1921 -1930	+12.8
1912 - 1921	-5.1	1922 - 1931	+7.6
1913 - 1922	-1.9	1923 - 1932	+7.5
1914 - 1923	-1.3	1924 - 1933	+9.6
1965 - 1974	-6.0	1975 - 1984	+17.4
1967 - 1976	-0.3	1977 - 1986	+14.6
1968 - 1977	-0.2	1978 - 1987	+12.0
1969 - 1978	-3.5	1979 - 1988	+12.4
1970 - 1979	-2.3	1980 - 1989	+15.6
1972 - 1981	-2.4	1982 - 1991	+13.2
1973 - 1982	-1.2	1983 - 1992	+12.7
1999 - 2008	-1.5		
Average	**-2.9%**	**Average**	**+10.8%**

Source: Barclays Capital Gilt Study 2009 (based on FTSE All Share Index and includes dividends reinvested).

The Barclays study shows that, since 1899, there have been 17 lost decades (10 year periods of negative aggregate performance) with an average annual return of -2.9 per cent. All of these could have been seen as a bad time to invest. This includes the most recent decade (to the end of 2008) where UK equities suffered average annual returns of -1.5 per cent.

However, notice how each of the decades immediately following a lost decade has provided positive average annual total returns, with an average of +10.8 per cent each year for these following good decades.

This data suggests that over the next ten years we are likely to see above average returns. Even though this eventuality is not guaranteed, I'm sure that you'd agree that this presents a compelling investment opportunity for ISA and pension investors

When will the market move?

You see, with the Nasdaq being capable of 24.5 per cent annual returns over a decade, my clients and I are feeling optimistic about it putting in a similar performance... or even better over the next 10 years.

When will the move start, you may be asking. Well it could have just begun, especially with my clients and I recently returning 12.5 per cent annual return over the last four years*.

* (Dec 31st 2008 –Dec 31st 2012) ISACO investment performance verified by Independent Executives Ltd.

In my eyes, my recent strong investment returns could be a sign! For now, all you need to know is that the market will make its move when it's good and ready, and when it does make its move you want to be there to catch it.

Are you starting to see how this next ten year period could be an opportunity to make some decent tax-free money?

Good. Let me ask you some questions.

- Can you see now how it could be possible to return greater than average tax-free returns? In other words, getting into the best performing funds when the market is strong and out onto the sidelines when it's weak?
- Can you also see how it could be possible (depending upon your starting point) to make a significant amount of tax-free money over the next 7-10 years, especially if the market does have a strong and powerful move to the upside?
- Also, can you agree that the market may indeed have this strong 7-10 year period because the last 12 years have been pretty much flat?

I hope you said yes to all three – if you did, it means that you and I, my friend, are singing from the same hymn sheet. You now have two options. You could either decide to do it yourself or get help.

12-15 per cent annual returns

At ISACO, we generally aim for 12-15 per cent annual returns and I feel confident we will achieve these aims. This is because we are fortunate to be able to say that we have a strong track record of outperforming the stock market in the past, which enables us to set the future capital growth aims for our clients higher.

I'm going to leave you today with the 5 key steps to my personal investment strategy for maximising growth. Would you like to hear what it is?

My investment strategy for maximising growth - 5 key steps

Each of these steps on its own may help you achieve better returns, however I recommend that you aim to adopt as many of them as possible.

1. Invest at the right time
If you're an active investor, then an important part of your ISA and pension investment strategy will be to get in sync with the stock market. Aim to invest when the stock market is in a confirmed uptrend and to exit the market into a Cash Park when a downtrend has been triggered.

2. Fight for every percentage point
It's possible to boost your growth by using a fund supermarket as part of your investment strategy, such as Fidelity's FundsNetwork™. This will help keep commission and switching costs low. If you don't buy through a fund supermarket platform you can pay as much as 5 per cent in commission fees, which means that your fund would have to go up 5 per cent just to get back even.

3. Invest the maximum ISA allowance every year
Aim to make investing the full annual ISA allowance each and every year a central part of your investment strategy. Add as much as you can to your pension too. Your goal should be to keep adding to your account for the full duration of your plan, irrespective of what the market is doing and invest as soon as a new tax year begins. In an ideal world, you would put in the maximum ISA annual amount for you and your partner each year, which for 2012/13 is £11,280 and £11,520 for 2013/14.

4. Make your ISA investment strategy long-term
When investing in growth funds with your ISA and pension, it's important to think long-term such as ten, twenty or even fifty years into the future. Many people unfortunately make the fatal mistake of cashing in their ISA chips early, a decision that could completely undermine their overall investment strategy and cause them deep regret.

It's important to be patient. Try to patiently sit and wait until the time your portfolio has hit your long-term financial goals. When it has, that's the time to start a withdrawal program to help pay for your lifestyle.

5. A sustainable withdrawal program
When reaching a long-term target, which could be anything from £500,000 to £15 million or even more, a smart investor would set up an automatic withdrawal plan to pay for their lifestyle. The key rule is to take out less as a percentage than the rate your account is then growing at. For example, an investor who had been making 8 per cent each year over the long term could withdraw maybe 3 per cent or 4 per cent, ensuring that their main lump sum would continue to grow.

My investment outlook going forward

As you can probably imagine, my belief is that we are going to have a really good period over the next 5-10 years, where we will see the markets outperform, and that means there will be some good gains to be made if you know what you are doing. I believe that even though the media is still pumping out the ‘gloom and doom’ message, my account will see annual gains of between 15% and 20% over the next decade.

The important thing to remember is to always try to get in sync with the market. Aim to invest in the uptrends and move into cash during downtrends. During the uptrends, buy the highest quality growth funds you can find, managed by ‘star-performing’ fund managers. Aim to stay invested in those funds until they fall out of favour and then switch into a suitable alternative. I’ve made it sound really easy but in practice it isn’t. Have a go yourself and see how you get on. If you need help, come and speak to either me or my brother Paul and we’ll try to give you some pointers. I hope you’ve enjoyed my presentation and thank you for your time.

Your friend,
Stephen

Stephen Sutherland

ISACO’s Chief Investment Strategist and author of *Liquid Millionaire*.