

The only certainty is uncertainty



Jonathan Fry offers some timely advice on how best to make those financial New Year resolutions

We will shortly be making our New Year resolutions and I'd wager that most people will vow to make 2011 a year when they try to save a little more.

If the past few years have taught us anything it is that there are no guaranteed 'safe havens' that will ensure that our hard-earned cash is not only safe but will continue to grow at a pace that equals or outstrips inflation.

The crisis in the banking sector has seen the interest paid on savings accounts reduced dramatically and interest on cash deposits are now struggling to keep pace with inflation. Those people with ISAs and other market-related investments saw their values reduce dramatically when the FTSE 100 fell to almost half of its value before the recession bottomed out. And even property, once considered to be among the safest asset in which to pour our cash, saw values fall to such an extent that the past year of two of recovery has not restored house prices to former levels.

So where can we look to find the best home for our savings in the year ahead? There will be plenty of people willing to suggest that they know the answer, but the only certainty is that nobody can say for sure where the most stability or the greatest growth is likely to occur.

Richard A Ferri, founder of Portfolio Solutions LLC and the author of several highly respected books, recently wrote on the financial news website Forbes.com: "The perfect allocation doesn't exist, at least not one that can be known in advance. Some people get hung up on such details as trying to



figure out if they should have 30% in international stocks or 33%. That isn't a question anyone can answer and doesn't make any difference. What really matters in the long run is the percent you have in stocks and the percent in bonds. All else is icing on the cake."

Also, if you do hear or read about an investment that's too good to miss, it doesn't mean that it's necessarily too good for you to miss. Richard explained: "Finding an appropriate asset allocation requires you to know your own financial and life situation and yourself. You must analyse your net worth, employment and income, saving rate, spending rate, housing situation, income you'll need from savings, when you'll need it and who is getting the remainder when you're gone."

So if you are spending some time this Christmas and New Year reviewing your investment strategy, begin by thinking

about defining your own financial objectives. In the short term, if you need certainty, make sure you have the majority of your capital in cash deposits.

For the longer term, try to ensure you have an appropriate spread of investment, between shares, fixed interest investments (bonds) and property. As a rule of thumb, the younger you are the more you can afford to commit to shares that, in the long term should prove worthwhile. In a world where increasingly the only certainty is uncertainty, the old adage of "not having all our eggs in one basket" is a timeless piece of wisdom. *✍*

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