

Make 2008 a year of intelligent investment, urges Sparinvest.

IFP sponsor and Danish fund management group, Sparinvest, has called upon financial planners to make a New Year's resolution to consider whether their clients' portfolios are set up to benefit from the academic evidence about which investment strategies really work over the longer term.

Luxembourg, December, 2007 - The Danish Group, Sparinvest, has called upon financial planners to use the opportunity of the festive holiday to take a long, hard look at their investment portfolio construction techniques and to consider whether they are benefiting from the wisdom of top financial academics who have spent many years researching which investment strategies really work.

In particular, Sparinvest would like to draw the attention of financial planners to the following 'TOP TEN' key points:

1. **Asset allocation is the main consideration.** Studies by Brinson, Hood and Beebower have shown that the way in which an investment portfolio is divided between the major asset classes - bonds, equities, property and cash - is the single most influential factor governing returns. In fact, this fundamental strategic consideration is likely to account for 90% of your portfolio's successes or failures in generating returns in 2008.
2. **Diversification is essential.** It was the Nobel Prize-winning American economist, Harry Markowitz who, in 1952, first introduced the idea of diversification as a means to reduce portfolio risk. Anyone who was over-exposed to new technology stocks in 2001 will now understand the warning: 'don't put all your eggs in one basket'. Spreading risk across a broad range of investments is an essential part of the risk-reduction process.
3. **Strategic asset allocation reduces risk further.** Harry Markowitz went on to discover the advantages of combining assets strategically within a portfolio. He found that blending together assets that move as independently of each other as possible would improve portfolio efficiency, leading to a better risk-adjusted return. Strategic asset allocation is a highly-skilled discipline which is quite difficult for the

average investor to achieve without professional help or access to strategic asset allocation funds.

4. **Constant market exposure beats 'timing'**. As we enter another period of turbulent markets caused by the repercussions of the credit crunch, there is a huge temptation for investors to try to make money (or avoid losses) by 'dipping in and out' of various investments. Academic study, on the other hand, tells us that a strategy of constant exposure will deliver more consistent returns over time than an investment approach which attempts to predict market movements. A study of the US stock market by Ibbotson Associates covering the 80 year period from 1926 to 2006, showed that the majority of excess returns were achieved in just 35 months (only 4% of the total period). Thus we see that 'timing' the markets not only carries a greater risk of missing the benefit of the best months of growth, it also incurs greater trading costs.
5. **Undervalued equities outperform 'growth' stocks over time**. A total of 179 separate academic studies have all confirmed that the value approach (buying into companies whose shares are trading at a discount compared with their intrinsic value) provides investors with excess returns over time when compared buying growth stocks (which are more expensively priced relative to predicted company earnings). Benjamin Graham, the founding father of value investment, always tried to invest in companies' shares which were trading at a discount of 40% to intrinsic value. He called this a 'margin-of-safety' against capital loss.
6. **Style matters**. Academic research by Americans Eugene Fama and Kenneth French has demonstrated that in 80 years of stock market performance across international markets, the best returns have been generated by following an investment strategy that is biased towards smaller companies with undervalued shares. In other words, a small-cap value strategy is likely to prove the most successful way of investing in equities over the longer term.
7. **Style also matters with bonds**. Academic research from Edwin J Elton and Martin J Gruber has also strongly indicated that an investment policy favouring smaller and undervalued companies can also deliver higher yields in the bond market. Provided that there is a rigorous fundamental analysis of the company issuing the bond - particularly its net-debt-to-equity ratio which indicates likelihood of default on debt - a fixed income strategy that is skewed towards smaller and undervalued companies

may deliver better returns (and more safely) than one which seeks higher yields by selecting bonds with lower credit ratings.

8. **It is not possible to predict interest rate movements.** The economists, Frank K Reilly and Keith C Brown produced what is probably the best known of the many academic studies to have examined the subject of interest-rate forecasting - all of which conclude that successful and consistent forecasting is an impossibility. It is therefore wise to select a range of fixed-income investments that can provide diversification across the duration spectrum.
9. **Beware the herding instinct.** Professor Benjamin Graham once commented: "The Investor's chief problem - and even his worst enemy - is likely to be himself" Academics in the field of behavioural finance have identified a number of reasons why people behave irrationally when it comes to equity investment, failing to recognize the superior performance of value shares over growth shares. Professor Dr Thorsten Hens has identified them as: 'myopia' (a short-term attitude that fails to give undervalued companies time to perform); 'attention bias' (where interest is greater in the stocks where all the short-term action is happening); and 'market pressure' (obeying the herding instinct rather than going out on a limb).
10. **A portfolio should be regularly rebalanced.** One of the key rules of strategic asset allocation is that all portfolios should have a strictly defined target risk/reward profile and that regular rebalancing should occur to bring the portfolio holdings back to the strategic starting point. Counterintuitive though it may seem, the rebalancing process involves selling off the portfolio's better-performing assets and ploughing the proceeds back into the worst performers. There is no universal academic rule about how often a portfolio should be rebalanced, given that the procedure involves costs, but most analyses suggest that it should be a yearly process at minimum.

Calling upon investors to make a New Year's resolution to review their portfolios and consider the merits of a more strategic, less tactical approach, Frits Carlsen, Head of Business Development at Sparinvest S.A said:

"At Sparinvest we are totally committed to pursuing academically-proven investment strategies because we believe that investors are paying us to be prudent with their money. To minimize the risk of loss of capital, we prefer to concentrate on the strategies that the evidence suggests will help us to achieve superior performance over the longer term."

Decades of evidence show that market timing is more a matter of luck than judgement. Therefore we urge investors not to be tempted to speculate when markets are turbulent but to take the appropriate steps to equip their investment portfolios for all seasons."

A full and informative account of the practice of Strategic Asset Allocation is published in a brief book which is available from Sparinvest's website www.sparinvest.co.uk. This provides more information about many of the academic studies mentioned above

- Ends -

For further information, please contact: Frits Carlsen

Email: ffc@sparinvest.lu Telephone: 00 352 2627-4728

Editors' notes

About Sparinvest:

Founded in 1968, Sparinvest is one of Denmark's leading independent asset management companies, managing and advising on assets valued at over €18 billion, including the largest equity fund in Denmark.

Owned today by broad range of European institutional shareholders, Sparinvest has the freedom to pursue its own investment philosophy and style with a view to providing 'prudent investments' for its clients.

Sparinvest has established an excellent reputation within the investment industry for the success of its strategic asset allocation approach when constructing portfolios for investment mandates and because of its outstanding track record in value investment.