Cantab
ASSET MANAGEMENT

Comparing Asset Classes

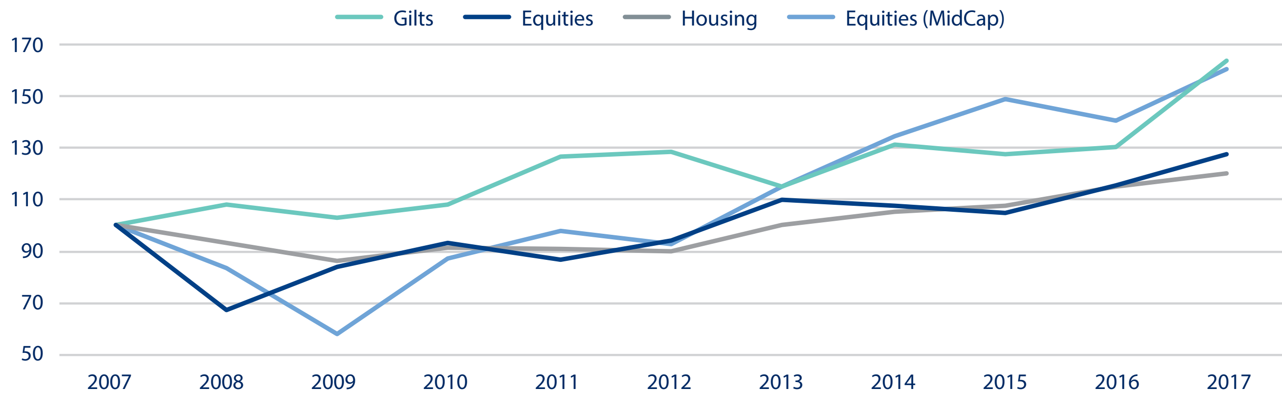
Background

Cantab Asset Management believes that creativity and competition stimulate growth and excellence. Our belief is that wealth is created through innovation and enterprise. Taking the opportunity to participate in and support such wealth creation can be achieved through investing capital in equity (shares).

In order to test the validity of investing in shares, we performed a long-term analysis of the returns of various asset classes in the UK. We evaluated equities, property and fixed interest investments represented by gilts (government bonds) over 10, 30 and 60 years.

Ten-Year Trends

All four asset classes increased in value over the past decade. The strong performance of gilts clearly reflects the impact of the Global Financial Crisis on equity and housing markets during this time. Equities, gilts and medium-sized company shares significantly outperformed the housing market. Equities returned 2.24% p.a., medium-sized company shares 4.4% p.a., housing 1.68% p.a., and gilts 4.6% p.a. over the last 10 years.



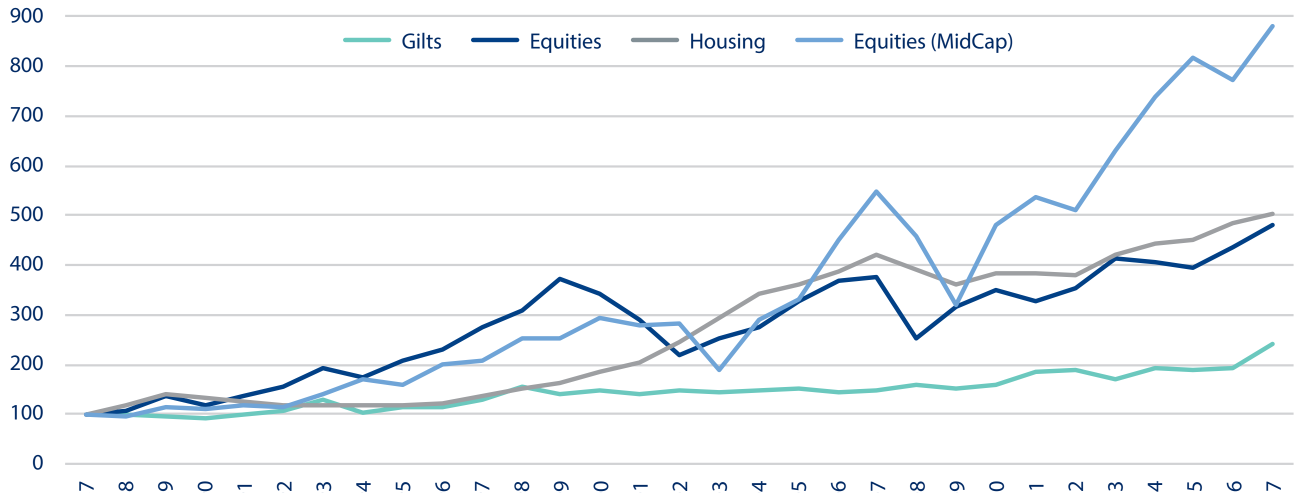
Thirty Years After Thatcher

It is important to remember that the housing market was given substantial impetus by Margaret Thatcher's housing reforms. Over the last 30 years, the compound annual growth rates in the UK were: equities, 5.2%; housing, 5.4%; gilts 2.9%. However, medium-sized company shares substantially outperformed at 7.3% p.a.

Cantab Asset Management Ltd

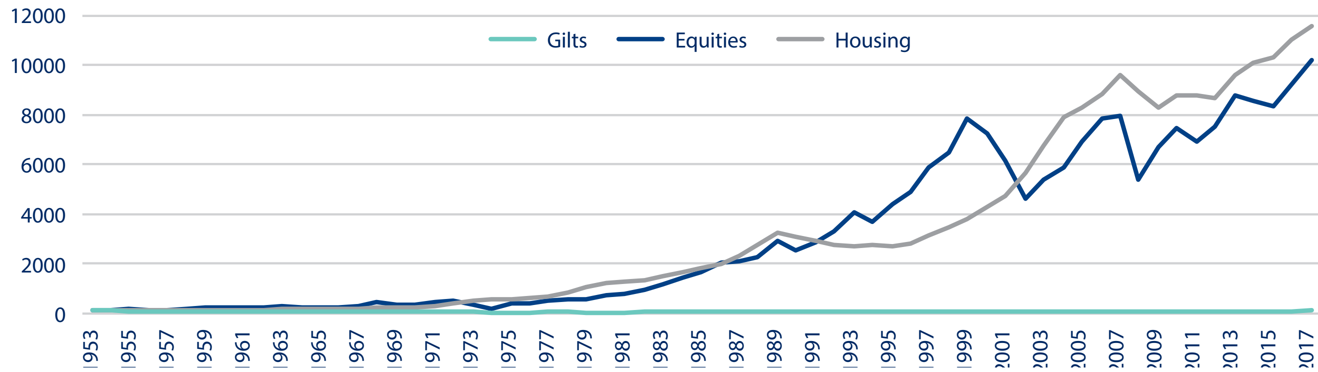
5th Floor, 8 Angel Court, London EC2R 7HP
020 3651 0570
cantabam.com

50 Station Road, Cambridge CB1 2JN
01223 52 2000
advice@cantabam.com



Sixty-Year Analysis

Analysing data since the start of the House Price Index in 1953, the results show equities to significantly outperform gilts over the past 65 years and perform similarly to housing. The chart below compares UK Equity and Gilt Indices with the UK House Price Index. Equity values rose approximately 7.4% p.a. and housing values 7.6% p.a., yet gilts increased with a mere 0.2% p.a. relative to its starting value in 1953.



Asset Allocation: Increasing Equities

Long term cash and bond investments are exposed to inflation risk as the purchasing power of the pound decreases. Property prices tend to be weaker in rising interest rate environments, (such as the period between 1940 to 1970) due to the dependency on mortgage rates. By contrast, higher yielding assets such as equities provide increasing returns in inflationary environments. Admittedly, few people have an investment horizon of over 60 years, even if they invest for future generations.

Conclusion

Some clients may prefer low return, low volatility investments, such as gilts. This analysis demonstrates that over the mid-term investment horizon, equities have generated higher returns, and may be preferable to residential property, once factors such as concentration risk, liquidity risk, maintenance costs and new policy initiatives directed at the Buy-to-let housing market (Increased Stamp Duty on second homes and buy-to-let properties from April 2016 and minimum property energy efficiency standards by April 2018) are considered. As independent advisers, we do consider all options for clients and seek to recommend that which is appropriate for individual clients and their personal circumstances and objectives. This paper should be read in conjunction with 'Our Advice Process' client briefing note.

1 Mid cap data obtained from Thomson Reuters Eikon.
2 Barclays Equity and Gilt Indices (1953-2015) – Thomson Reuters Eikon (2016-2017)
3 Nationwide UK House Price Index (1953-2015) – Land Registry House Price Index Data (2015-2017 used for extrapolation). Note all indices were re-based to 100 for the time series in question.

Cantab Asset Management Ltd

5th Floor, 8 Angel Court, London EC2R 7HP
020 3651 0570
cantabam.com

50 Station Road, Cambridge CB1 2JN
01223 52 2000
advice@cantabam.com