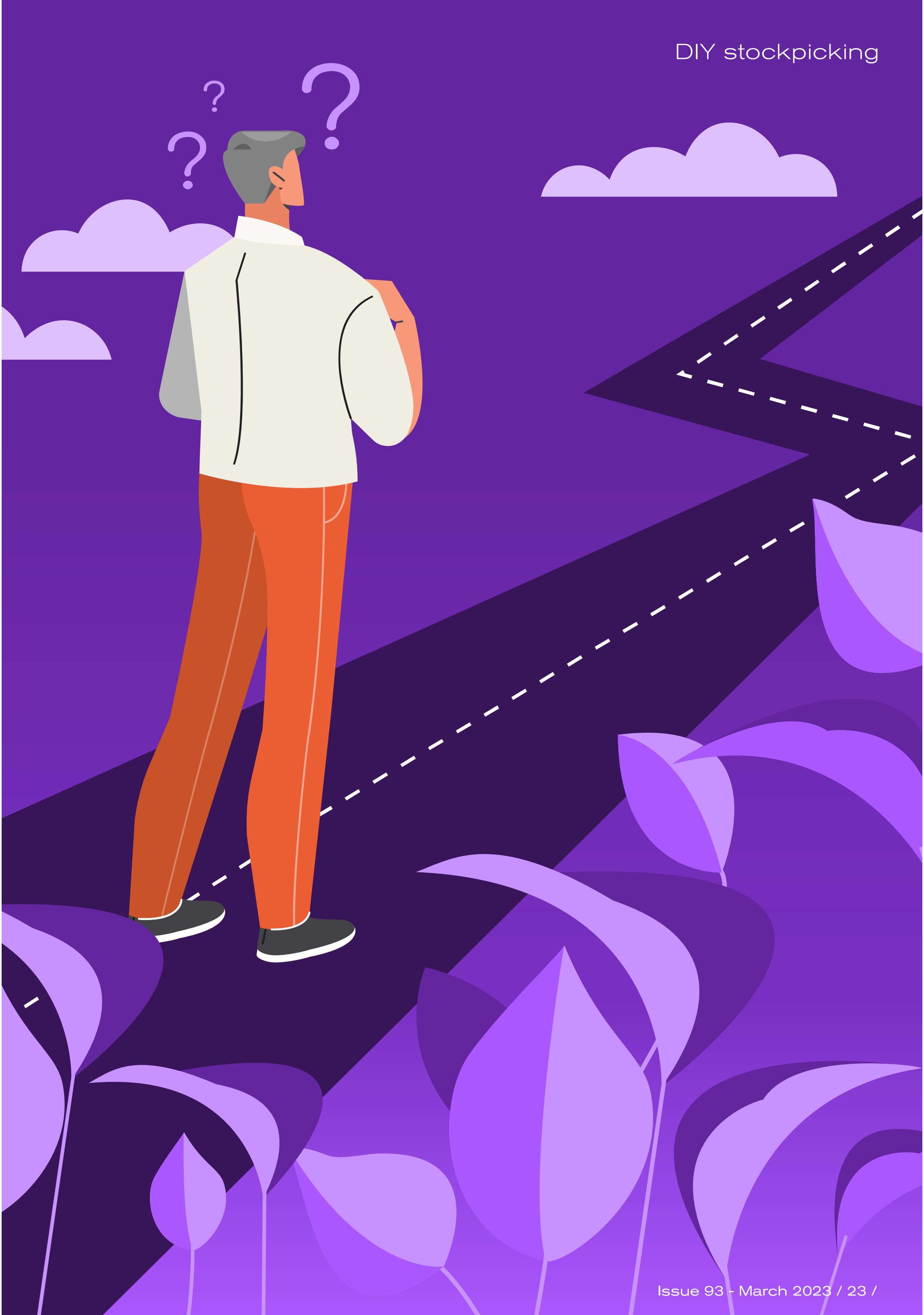
Going it alone

While picking your own shares is undoubtedly more exciting than outsourcing the task to a fund manager, Sam Shaw warns it probably isn't worth the risk



Going it alone

There is an old adage that suggests if you want something to be done properly, you need to do it yourself. But in terms of buying individual shares rather than outsourcing portfolio management to the professionals, does it stand?

The answer is no, not really – but with several caveats.

Someone can build a significant pot of savings through their own hard work and ingenuity, but unless they work in financial services, they would likely be happy to admit they can't orchestrate their own retirement plan, mitigate taxes or effectively arrange estate planning. So why do some people feel they can run a share portfolio if they aren't a fund manager? Perhaps more importantly, why would they want to?

"It's often down to personal interest," says Malcolm Steel, client strategy director at Edinburgh-based Mearns & Company.

"It might be someone who actively follows the market just because they are keen. It could be a client who is a fund manager and knows the market inside-out. If they had a particular idea they wanted to explore, we wouldn't get in the way of that."

Jumping in at the deep end

Another reason is wanting to learn. "For many outside the industry, investing in 'the market' seems like a bit of dark art, so by buying and selling shares directly – not necessarily with big amounts – they gain a better understanding of how it all works," Steel adds.

As he has visibility of these holdings through his company's chosen platform, he can see how clients get on when they decide to trade individual shares on a non-advised basis. This only applies to about

Most popular funds/trusts and shares on AJ Bell in 2019

Fund/trust	3yr return (%) to 20 Feb 2023		3yr return (%) to 20 Feb 2023
City of London	15.6	Aviva	55.4
Finsbury Growth & Income	3.7	BP	31.7
Fundsmith Equity	22.9	BT Group	-2.4
iShares Core FTSE 100 ETF	19.1	HSBC	17.6
Lindsell Train Global Equity	10.7	Imperial Brands	43.6
Scottish Mortgage	14.8	Legal & General	-0.4
Vanguard FTSE 250 UCITS ETF	-2	Lloyds	-2.9
Vanguard LifeStrategy 100% Equity	23.7	Shell	41.9
Vanguard LifeStrategy 80% Equity	15.0	Unilever	0.4
Vanguard S&P 500 UCITS ETF	34.8	Vodafone	-18.6
Portfolio	15.8	Portfolio	16.6

Source: AJ Bell

5% of current clients. For investors who are determined to dabble in individual shares, Steel suggests allocating an amount they can afford to lose entirely without affecting their long-term financial security.

"On that basis, we are quite relaxed about it," he explains. "I would, however, be very nervous if a client wanted to self-manage their entire portfolio in individual stocks. That would not be appropriate for most people."

Sharing a similar story is Christian Perera-Slater, associate adviser at The Private Office. He says some of his clients take an active interest in market activity and happily conduct

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their own research to invest in individual shares, but do so in a ring-fenced and smaller proportion of their overall portfolio.

"We'll include those assets within their financial plan, view all their assets holistically using cashflow forecasting, but we don't actually advise on those individual shares," he explains.

He adds that for most of their wealth, these clients still take on advice, relying on funds and other collective vehicles to better manage risk.

Generation to generation

Where shares have been inherited, and are likely still held for sentimental reasons, Perera-Slater says they typically sit at the smaller end of the market-cap spectrum, such as AIM stocks, and are passed on for inheritance tax mitigation. If clients have deliberately built share portfolios from scratch, they often tend towards household names.

Inheritance is a common entry point, often with legacy portfolios from the days of broad public issues being bequeathed, says Neil Whelan, investment director at RC Brown.

What you pay for

Contrary to the opening adage, if you want something doing properly, you should arguably pay someone who does it for a living – so long as they charge a reasonable price. But with fund management one of the most handsomely remunerated professions around, it is worth asking what exactly you are paying for.

Fund managers are surrounded by rigour, process and analyst teams to inform and challenge their decisions. They can't allow themselves to be swayed by a good story or charismatic finance director.

Many have experience of market cycles, know what to look for in rallies and crashes, and can look business leaders in the eye as they compare projections against market dynamics and pressures from rivals or other external sources.

"Most clients, unless they work in the industry, wouldn't know how to read a corporate balance sheet," says Steel.

"They won't be partaking in the forensic analysis that you would expect from a fund manager."

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While professional investors should be able to comfortably beat the amateurs when it comes to stockpicking, there are times when the latter group has more than held its own

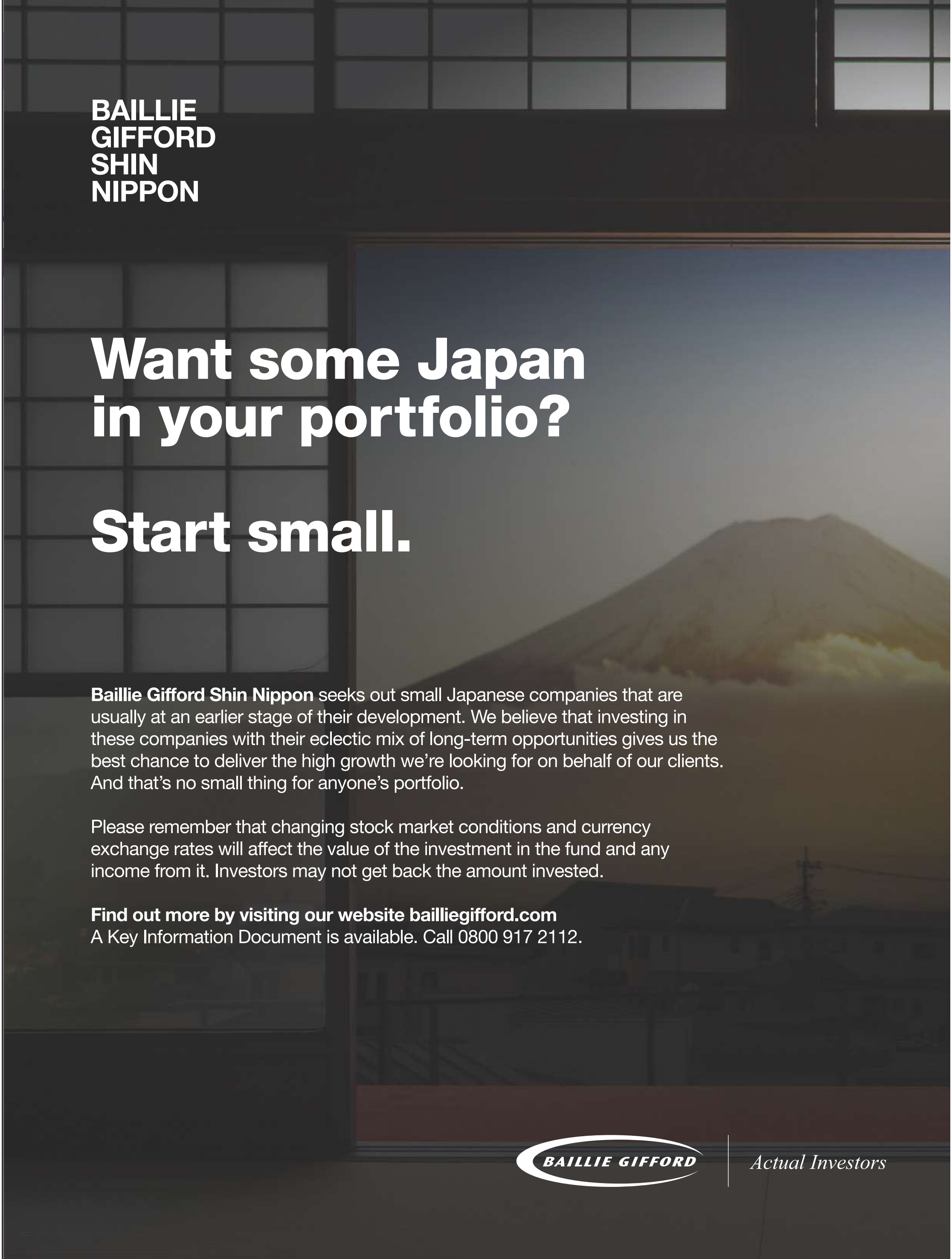
"We often come across this, with the likes of BT, BP, the utilities and banks. The father or grandfather was given a discounted route into shares a long time ago, they've held them and, with the passage of time, have done reasonably well."

But he argues they may have been better off with a managed approach, rather than wrestling with calculations around scrip dividends, for example, as is currently the case with one client.

The exception to the rule

Yet while professional investors should be able to comfortably beat the amateurs when it comes to stockpicking, there are times when the latter group has more than held its own.

AJ Bell modelled portfolios based on its 10 most popular share and fund purchases from 2020. It showed that the portfolio of most-bought shares marginally outperformed the portfolio of most-bought funds.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The group of shares – led by Aviva, Imperial Brands and Shell – returned 16.6% in the three years to 20 February, while the funds' average return stood at 15.8%.

However, Laith Khalaf, head of investment analysis at AJ Bell, says that there have been mitigating circumstances, with retail investors enjoying a rare boost in the share prices of their favoured UK stocks after many years in the doldrums.

"The most popular shares held by DIY investors are often a roll call of unglamorous UK-listed companies, and while they may not be setting the world on fire, they do tend to offer a healthy stream of dividends, which may explain their appeal," he explains.

Khalaf also notes that while there wasn't a huge amount of variance in the results between the most popular funds and most popular shares, the latter showed a far wider dispersion of returns.

"The results, ranging from a positive 55.4% to a negative 18.6%, highlight how important diversification is for DIY share traders. Of course, that diversification can be by a 'core and explore' approach, using funds as the diversified core of a portfolio and then adding in shares around the fringes," he says.

99.7%

- Maximum drawdown in "small-cap darling" Gulf Keystone Petroleum

The only free lunch

This view is supported by The Private Office, which describes the natural diversification from broad-based funds, further amplified by holding multiple funds within the client's portfolio.

Perera-Slater notes its funds-based portfolios include alternatives, which would also dampen down any volatility that comes with a pure share-based approach.

While individual share preferences

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can be blue-chip dividend giants, as AJ Bell's list demonstrates, the selections are often polarised – the other end of the chart is dominated by purchases made for emotional reasons, such as investing in companies their children work at to support their positive story, says Steel, or a colleague's latest "hot tip".

"One client had a holding in Gulf Keystone, which I'd never heard of at the time. It became a small-cap darling, only to spectacularly collapse," he adds.

"One of them made a ridiculous return – 2,000% or so – so all his colleagues started buying. Another guy was late to the party: he put in £10,000, which fell to around £200. So, they can be one person's best-ever stock, and someone else's worst nightmare."