

MY ASSET ALLOCATION

CHARTERIS'S NICK TAYLOR BACKS EQUITIES AND MOVES TO ZERO BOND ALLOCATION

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Charteris Treasury Portfolio Managers' head of wealth management Nick Taylor has moved out of bonds, but remains positive on UK equities.

What have been your latest asset allocation calls for a typical medium risk portfolio?

Over the past six months, Charteris's private client team has been reducing exposure to bonds and has now moved out of the asset class altogether for medium risk clients. Taylor argues the investment case for equities currently looks far stronger and is allocating around 80% of a medium risk portfolio towards UK equities, 7% to emerging market equities and 3% to US equities.

'This has very much become a year for stock selection, whereas last year people threw caution to the wind and were buying hoping that the market was not necessarily moving in tandem with the economy,' he said. 'Now there has been a setback and all the problems within Europe have re-emerged.'

'We have been a bit more cautious, but cautious knowing we are being paid to invest in the stock market. You have got to be prudent and save some cash for a rainy day, but equities are the only thing in town. They have got the potential to rise because they are undervalued relative to bonds.'

Where are you seeing opportunities from a valuation perspective?

Taylor argues that bonds continue to look overvalued and believes equities with attractive dividend yields look undervalued. Top picks include FTSE 250 stock Intermediate Capital, which is yielding around 7%, while he has also turned bullish on utilities National Grid, United Utilities and Severn Trent.

Where could a potential surprise on the upside come from?

Taylor says UK equities could surprise on the upside, pointing to the speed at which companies have taken cost out of their businesses, which could feed through positively if underlying economic growth is better than expected. Likewise, many of his holdings derive the majority of their earnings from overseas markets, which is a plus, he adds.

While concerns mount over the future of the eurozone, with Greece afflicted by political paralysis and the advent of a new political regime under new French leader François Hollande and his attitude to austerity, Taylor believes a solution is not out of sight. This could present another

potential upside surprise. 'A more determined solution could be found in Europe. At last they will realise they need something more long lasting than Elastoplast. They have put off the evil day for something dramatic to happen and have been doing little things that appear to create safety nets, like improving liquidity late last year,' he said.

'But with the rise of François Hollande, the problems in Holland and Greece in recent weeks and days, and Spain as well, maybe the Germans do relax austerity a bit. This may be done.'

'What this means I can't tell you or whether this is right or wrong, but you can take some comfort from realising you can't have austerity alone, without some potential for growth.'

What do you see as the most significant threats to recovery in 2012?

'If we have an Iran issue and the oil price spikes that could be a threat in 2012,' Taylor said.

He also views the fledgling relationship between German chancellor Angela Merkel and Hollande as central to the sustainability of the eurozone.

'The reality is France and Germany have got to get this right. Unless they do this, the threat of contagion is not going away,' he added.

Is gold a hold or should you take profits?

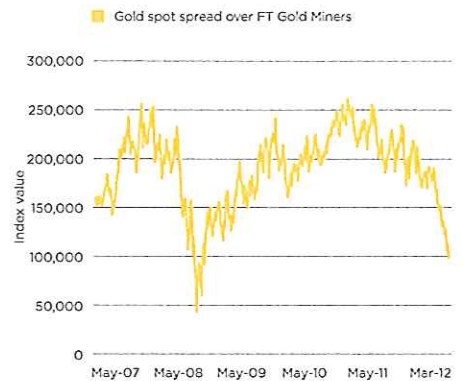
'Gold shares are incredibly cheap. For many years they have not been as cheap relative to the gold price. Some will tell you the gold price is wrong, but we don't think that. We think there are good opportunities in gold shares. The price of getting gold out of the ground is still reasonable relative to the gold price, so margins are reasonable.'

What technical indicator are you currently watching most closely?

'Every set of issues the stock market has is different. We are not looking at any particular index.'

'I think you have to put all of your efforts into trying not to worry about the very short term and think about the three to five-year view and really focus on stock selection.'

The gold vs gold miner spread narrows



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Nick Taylor is a director and head of private client wealth management at Charteris. He has more than 30 years' experience in investment management, having previously enjoyed stints at Morgan Grenfell and Samuel Montagu. He was also managing director at Cigna International Investment Advisors and Matheson Investment Management.