In conversation
with Paul Crocker
- architect of the highly successful Pound-a-Day (PAD) portfolio

"*Paul*, Thank you for taking the time to talk about the very successful Pound a Day Portfolio, which I understand is a simple and highly effective means of investing for private clients, trustees and professional advisers. ***Can you explain how the idea originated?***"

There is no short answer to this as it was a culmination of two different events, the first being in July 2008 when I came across the term "foggage" whilst I was on a course that could not have been more removed from investing. To cut a long story short it was something from the past which is slowly and successfully being reincarnated today under a different name yet its origins, principles and indeed early success go back to the 1800s. Essentially convenience and commercialisation played a key part in its demise on several occasions but it proved to me we sometimes have to look back to find an effective way forward and we don't always have to be inventive. Proven solutions to a problem can be right in front of us or, in this case, in a second hand book store. Before you ask "foggage" is all to do with animal grazing.

The second element took place a few years later when I was looking at a portfolio that had hardly been touched in thirty years. The winners stood out by a mile and a good number were rewarding the shareholder with an annual income payment that exceeded the original cost. Losers had been cut to mitigate any capital gains tax liability whilst the stars had been left to run. This meant realising any profits would have resulted in a substantial capital gains tax bill so nothing was done in this respect. Without appreciating it, the portfolio had benefitted from an investment approach of running the winners and cutting the losers. I then spent quite a bit of time trying to work out what the winners had in common and how they would have appeared as potential investments when they were first bought which was when I came into the industry. What they had in common was simple, unrelenting earnings growth whilst the initial stock selection decades ago had not be constrained by benchmarks or minimum sized companies. This was hard proof of a simple methodology that had been used for years being overlooked due to convenience, commercialisation and the quest for ever higher fees and commissions across the finance sector. Having spent many hours number crunching and evaluating I truly believe this is the most prudent way to build a nest egg and surprisingly once you apply modern day evaluation methods to the stocks you get some very interesting results.

What is the significance of the name PAD? It has always been my belief small investors get a bad deal. Fees are typically high, advice is often poor and returns disappointing and as we all know a bad experience will put someone off something for life. I wanted to create an investment vehicle that would be upfront, simple, cost effective and honest and hopefully profitable for us. I believe the name partly describes this as it stands for "pound a day", which is what we earn for running a portfolio in this range as all the other modest charges go to either to a broker, custodian or the UK Government as Stamp Duty. As the fee is capped I believe it provides a massive incentive for investing. Think about it. Once your one pound fee is paid you could invest another £5,000 and it won't cost you a penny in terms of management fees. It is exceptional value but I have to be honest and say it was not profitable for us in the early days as it depended upon a critical mass which we have now achieved.

What are the key benefits of PAD? There is a choice of four portfolios with a fifth being evaluated. Dealing is monthly and highly structured in each of the portfolio constituents and there are no minimum dealing charges whilst the external brokerage charges are at institutional rates. Income can be accumulated or paid away quarterly, the minimum investment is just £25,000 and we offer a savings plan from £100 per month. There is online access to the account and in the event you want your money back, in three of the four portfolios this could all be done in a week albeit at prevailing market prices. You are kept up to date with highly detailed semi-annual reports and we encourage all new investors to read the detailed biographies on each of the companies. I truly believe once you start to understand the business, what it does and how long it has been in existence you start to see market volatility as your friend, providing opportunity to buy more shares cheaply and not fearing that it will destroy your hard earned wealth.

Can you tell me a little bit about the investment strategy? The strategy in three of the four portfolios was originally all based on earnings growth which in turn is reflected in income growth. This has however evolved and it's more complex now as we do everything possible to ensure we are investing in a broad spread of quality stocks for the very long term for the right reasons. The "Collective" portfolio is different as it invests predominantly in investment and unit trusts and which cover bonds, equites and indeed gold so the returns here are not so great but the volatility is lower. There is some overlap between the funds we select in this portfolio and the approach we take in the others but the idea behind this collective portfolio is to offer new investors a first step into markets. Once you are comfortable with the way it reacts at different times then you may well be ready to move onto one of the core PAD portfolios.

One factor all the portfolios have in common and perhaps what makes this approach so different is that we don't take profits unless a client instructs us to do so, the company gets taken over or alternatively the fundamentals change and we believe it's time to move on. Such actions are driven by what a company says or does and never by what the market thinks. If we get through a year without selling anything than we are very happy as it means things are going well. It also means longer term clients have some particularly large capital gains.

What has the performance been like? In a word, good. We did full back testing over the credit crisis and the four portfolios are performing as we expected with the first ones now all coming up to their fifth anniversaries. If there is a surprise then perhaps it lies within the Selective Growth portfolio where the returns have exceeded our expectations.

How do I invest? It's very easy you can either download the application form from our web site **www.poundadayportflio.com** or alternatively you can come and see us.

Would PAD be suitable for pension planning and can I set up a regular savings plan? It is suitable for a pension and we have already got several accounts which were being used for pension saving but have now gone into drawdown. All we do here is stop reinvesting the income and simply top up the regular income distribution with some capital.

You can have a savings plan from a little as £100 per month. We would normally request that there is £25,000 in the account initially otherwise the fee becomes disproportionality high. However if this is not possible let us know and we will see what we can do. Its vital small investors get a chance to participate in the markets as its both rewarding and interesting.

Where can I find more information and can I come in and have a confidential chat with you or one of your colleagues? I enjoy nothing more than talking about PAD and my colleagues are no different. If you do call in we can also run through a more detailed presentation which I am sure you would find interesting.

Thank you Paul for your insight to PAD which I found fascinating - can you send me an application form!

If you would like to learn more about the
Pound a Day portfolio and its successful investment strategy, please contact
Paul directly on **01624 604701** or email **pcrocker@fim.co.im**

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