The Telegraph

How to invest like the Rothschild dynasty

The family has a 200-year record of growing and preserving wealth – and ordinary investors can share in its fortunes

When it comes to preserving wealth over the long term, no family has done a better job than the Rothschilds, who started making their vast fortune more than 200 years ago and became one of the richest families in history.

The family's banking dynasty has had a presence in London since 1811, when Nathan Mayer Rothschild, along with his four brothers, was instructed by their father, Mayer Amschel Rothschild, to expand the family's banking business across Europe.

The initial fortune was made in government bonds and bullion but a tidy profit also came Nathan's way after he spotted an opportunity to make money from the Napoleonic Wars. Nathan opted to support the Duke of Wellington financially and started to loan money to English troops fighting Napoleon. The family netted healthy profits when the debts were repaid.

But they also speculated on the stock market. And here, as the armies closed in for the final confrontation at Waterloo, Nathan's family connections gave him a crucial advantage.

In an age before the instant transmission of information across the world, the Rothschilds had a network of agents across Europe in place to send news of key events such as the battle back to London. On the afternoon of June 18 1815, Nathan learnt of Wellington's victory.

Realising that other investors remained ignorant of the battle's outcome, he sold heavily on the stock market. Other traders followed suit. But later the same day, still before other investors had learnt of Wellington's victory, Nathan quietly bought almost the entire stock market at incredibly low prices. When the news eventually emerged, the market rocketed, netting Nathan a fortune.

He is said to have coined the maxim "Buy on the sound of cannons, sell on the sound of trumpets".

The accuracy of this story has been questioned over the years, particularly in terms of how much profit the Rothschilds actually made.

Niall Ferguson, the respected historian, concluded in his book The House of Rothschild that although it was true that the family's couriers had alerted Nathan first to Napoleon's defeat, he had spent so much money financing the war that any quick gains made were too small to offset the disruption to their business.

Either way, the Rothschilds' financial power was such that in 1825 they were able to supply enough money to the Bank of England to prevent a financial crisis.

Throughout the rest of the 19th century the family established its pre-eminence, helping Britain to buy a controlling stake in the Suez Canal as well as buying large holdings in future giants such as mining company Rio Tinto and diamond firm De Beers.

The family business is still going strong today.

It owns a collection of banks, property and investment management firms. One of the latter, RIT Capital Partners, allows small investors to invest alongside the family. It was set up to manage some of the wealth of the Rothschild family and floated on the stock market as an investment trust in 1988, holding £281m in assets.

Lord Jacob Rothschild, the chairman of the trust, today holds a personal stake of 21pc in the company, which has a market value of £2.5bn.

The rest is largely held by small investors, who have enjoyed handsome gains over the years. Since 1988 the trust has delivered, on average, returns of 12.4pc a year. It is described as a "wealth preservation vehicle" by experts, seeking to protect investors' capital when stock markets fall. However, this approach means the trust is likely to underperform when markets rise quickly.

The firm states its investment objectives: "We aim to participate in markets when they are rising, but adopt a more cautious stance when we see risks of capital loss.

"Retaining liquidity at the right times and preserving shareholders' capital takes precedence over short-term capital growth."

This is achieved through taking a "multi-asset" approach. The trust owns a spread of investments from property and gold to shares listed in emerging markets. Currency exposure is also actively managed.

The trust holds some shares directly; examples, named in the trust's half-year report to the end of June, include eBay, Walt Disney and Samsung Electronics. External fund managers are also used. These include two funds that specialise in commodities, BlackRock Gold & General and Baker Steel Precious Metals.

Investment Holdings	Country/Region	Industry/Description	Investment £ million	% of NAV
Quoted Equity				
Stocks:				
Trian Partners SPV (Pepsi & Mondelez)	United States	Consumer staples	49.6	2.1%
eBay	United States	Internet retail	43.2	1.8%
Samsung Electronics	Republic of Korea	Communication equipment	42.5	1.8%
Comcast Corp	United States	Cable & satellite	39.6	1.6%
Mitsubishi UFJ Financial	Japan	Diversified banks	37.6	1.6%
Walt Disney Company	United States	Movies & entertainment	36.9	1.5%
PS V International Fund (Air Products)	United States	Industrial gases	35.1	1.4%
Colgate Palmolive	United States	Household products	34.0	1.4%
Alibaba	China	Internet retail	28.6	1.2%
Devon Energy	United States	Oil & gas exploration & production	25.0	1.0%
RIT Paper & Packaging Basket[1]	United States	Paper and packaging	23.9	1.0%
Kingfisher	United Kingdom	Home improvement retail	22.9	0.9%

Mark Dampier of Hargreaves Lansdown, the fund shop, described the trust as suitable for pension savers who use "drawdown", where most of the pension pot remains invested to produce an income.

"With the trust under the chairmanship of Lord Rothschild you are investing alongside the very best," Mr Dampier said. The fund has a total cost of 1.25pc a year.

What else can today's private investors learn from the Rothschild story?

The strategy encapsulated by "Buy on the sound of cannons, sell on the sound of trumpets" – or buy on bad news and sell on good news – is nowadays called "contrarian investing". Current advocates include Warren Buffett, who believes that those who invest with the crowd tend to overpay.

Mr Buffett's aphorisms include "You pay a very high price in the stock market for a cheery consensus" and "Be fearful when others are greedy and greedy when others are fearful".

Funds that aim to emulate his approach include Fundsmith Equity, Lindsell Train Global Equity and ConBrio Sanford DeLand UK Buffettology.