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By Jeff Prestridge

Four defensive investment trust tips to protect you as shares fall: JEFF PRESTRIDGE puts on his tin hat

'Market falls: is it time to pack up and go home?'

That was the stark question posed by a leading investment expert in response to Thursday's 10.9 per cent fall in the FTSE 100 Index – the largest daily correction in the index since the Black Monday stock market crash of October 1987. (I remember it well because it happened at the start of my second week as a cub reporter for a financial magazine.)

The question was asked by Darius McDermott, managing director of Chelsea Financial Services, a company that makes a living from running investment Isa portfolios on behalf of clients. And although rhetorical in nature, it probably reflects how many investors feel after seeing the value of their Isas and pensions decimated.

The UK stock market alone has fallen in value by 30 per cent since the start of the year. A sobering number and if McDermott is correct in his predictions, market 'volatility will be here for a while'. 'For long-term investors,' he says, 'hard as it may be, I think now is the time to stop looking at your investments. It won't be pretty, but they will recover.'

Sound words – I have not looked at my bruised and battered Isa and self-invested personal pension since trying to sort out (unsuccessfully) a direct debit last month that should have been sucking money out of my bank account and into my Isa.

For the record, neither my bank or Isa provider have yet corrected the glitch. So, for the foreseeable future, I will resist looking at the damage inflicted on my investments in the hope, as McDermott says, that 'eventually, your investments will recover.' (Can I hold you to that, Mr McDermott?)

Yet, it's McDermott's comments on diversification that strike home most – namely that 'investors need to keep calm and remember that a diversified portfolio won't have fallen as much as the headlines they are reading'. Absolutely. Spot on.

While stock market investors can do little to escape the wrath of the market, they can ameliorate its impact by holding a broad range of funds and assets within their portfolios.

So, gold and bonds and property and also funds set up to be ultra-defensive, concentrating more on the delivery of absolute return rather than relative performance – beating an index.

Funds that will not fall as fast when equity prices nosedive, but equally will not capture fully any subsequent market recovery. Portfolio counterpoints that provide ballast when times get tough – like now.

Here, Wealth looks at some investment funds that can provide welcome stability to your investments. They should only be held as part of a diversified portfolio. So put on your tin hat and arm yourself with all you need to know about our four key defensive funds.

CAPITAL GEARING

Don't be put off by the name. This £495 million investment trust is as defensive as they come with the mandate being to preserve shareholders' wealth. It does this by running a multi-asset portfolio, comprising cash, government bonds, gold and equities (17 per cent of assets). Alastair Laing, part of a three-strong investment team that presides over the trust, describes it as a 'tortoise', stating that the 'tortoise beats the hare by consistently performing over a long race, not by a short burst of speed'.

Laing believes that equity valuations, especially in the United States, remain expensive and that earnings growth forecasts for many companies are overoptimistic. So he expects further market falls. Only then, he says, will the trust begin to look to purchase more equities at 'attractive prices'.

He adds: 'Capital Gearing retains high levels of cash and defensive assets such as government bonds. These are our dry powder. We hope to rotate this dry powder into equities when company valuations become more attractive.'

Over the past month, the trust's share price has fallen 9 per cent, compared to a 29 per cent drop in the FTSE All-Share Index (all data from Financial Express). Although its share price is down 0.9 per cent over 12 months, three and five-year returns are 6.8 per cent and 29.7 per cent respectively. Equivalent figures for the FTSE All-Share Index are losses of 16.9 per cent and 2.3 per cent.

Despite the name, the trust has no borrowings – a ploy used by some rival investment trusts to increase exposure to equity markets. This is another indication of its conservative approach.

Although the trust pays a dividend once a year, sometimes topped up with a 'special' payment, it is not what the trust is primarily about. In the trust's last financial year, it paid total dividends of 35p per share.

To put this into perspective, its share price closed on Friday at £40.80. The trust's annual charges are competitive at 0.68 per cent and are in downward mode. Capital Gearing is one of seven funds (with combined assets in excess of £2 billion) that are managed by Laing and his team at London-based CG Asset Management.

Its mantra is: 'Understanding risk is the most interesting and challenging aspect of investing.' Peter Spiller, founder of CGAM, has run Capital Gearing since 1982, and he still has a firm hand on the trust's tiller along with Laing and Chris Clothier.

Spiller is the longest serving investment trust manager in the country, so has seen it all including Black Monday 1987. Only in one calendar year – 2014 – has the trust's share price ended the year lower than it started it.

Stock market identification code: 0173861.

RIT CAPITAL PARTNERS

LIKE Capital Gearing, this £2.8 billion trust is driven by a wish to preserve shareholders' capital, while aiming to deliver long-term capital growth. Yet with more equity exposure than Capital Gearing – 35 per cent of assets according to the latest published details – its short-term performance has been hit harder by the global meltdown in stock markets.

Over the last month, its share price has fallen 14.5 per cent. Over three and five years, the respective figures are 1.4 per cent (fall) and 25.8 per cent (gain). Performance numbers that are all better than the FTSE All-Share Index. The trust was launched 32 years ago, is invested globally, and managed by J Rothschild Capital Management.

It aims for 'healthy' participation in rising equity markets while providing investors with 'reasonable protection' in current falling markets. Apart from equities, it has exposure to unlisted investments (risky) and absolute return investments. The trust pays a dividend twice a year – a total of 34p in its last financial year and in the current one it has already declared an interim dividend of 17.5p (slightly up on last year).

With a current share price of £18.14, the dividend is meagre in yield terms (1.92 per cent), but more compelling than that paid by Capital Gearing. Given it uses external managers to look after some of its assets, ongoing annual charges are on the high side at 1.58 per cent.

Investment trust analysts at Investec rate the trust a 'buy' and say it has an 'important role to play in improving portfolio diversification.'

Stock market identification code: 0736639

RUFFER

THIS trust's mission is to preserve shareholders' capital 'come what may' – and has an aim of not losing money in any 12-month period.

It's a goal that the trust has struggled to achieve, delivering positive returns in only two of the last five discrete one-year investment periods. Yet it has coped better than other defensively minded investment trusts in the recent market turmoil.

Over the past month, its share price has held up remarkably well, creeping up by 2.7 per cent – a result of its use of complex financial instruments to protect the trust's £390 million of assets in falling stock markets. Over the past year, its share price has advanced 9.6 per cent.

Ruffer says: 'When markets are rising strongly, investing with us can be like riding a tractor on the motorway, plodding in the slow lane. It's only when the motorway sinks into boggy marshland that a tractor proves to be a wise way to travel.' Investec's analysts describe it as a 'safe haven', adding: 'In a rapidly deteriorating environment, we believe investments that can deliver absolute returns or even preserve capital value will be scarce and have significant value.'

The trust pays a tiny dividend twice a year – a total of 1.8p in the last full financial year. To put this into perspective, the shares closed on Friday at £2.27. Ongoing annual charges are on the high side at 1.13 per cent.

Stock market identification code: B018CS4

PERSONAL ASSETS

THIS trust is run by experienced fund manager Sebastian Lyon, founder of investment house Troy Asset Management. Troy's entire investment mantra is based around 'caution' – shielding investors from permanent losses to their capital – and it is reflected in how Personal Assets is managed.

The £1 billion fund is invested across a range of defensive assets, including index-linked government bonds (31 per cent), cash (21 per cent) and gold bullion (9 per cent). But the rest – just short of 40 per cent – is in leading US and UK equities: the likes of Microsoft, Alphabet and Unilever that have not been spared from the recent brutal write-down in equity prices.

As a result, the trust's share price (unlike Ruffer's) has fallen nearly 8 per cent in the past month. Comfortingly, returns over the past one, three and five years have all been positive – 1.1 per cent, 2.4 per cent and 25 per cent respectively.

Buying a stake in Personal Assets is made difficult by the fact that shares trade at £400. The ongoing annual charge is 0.91 per cent. Quarterly dividends of £1.40p a share are a feature of the trust.

Stock market identification code: 0682754.