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TOO MUCH RISK IN YOUR PORTFOLIO - IS A RISK!

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The first few months of the year have given many investors reason to pause and reassess their portfolios amidst global market volatility. After surviving the ruin caused by Covid-19, many investors had hoped the worst was over, only to be confronted by rising rates, the threat of stagflation and war in eastern Europe.

One of the most important lessons you can learn as an investor is that market volatility has to be embraced. In the absence of volatility, prices would be stagnant and so too your portfolio growth.

The markets have been anything but stagnant over the past two years. Having survived thus far, it's time to look forward and plan appropriate changes to your portfolio so as to adapt to the continued volatility.

CONSIDER THESE THREE STEPS:

1. IT'S ALL ABOUT PERSPECTIVE

Reassessing your portfolio composition and how that matches your risk tolerance, is a habit that's worth developing. It is advisable to review your portfolio risk during turbulent times so as to reassure yourself that your plans remain on track.

If you're closer to retirement age, then it makes sense to balance your portfolio with amended exposure to high volatility assets such as listed equities.

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Bonds and other fixed income investments might not offer the most exciting returns, but preserving your savings is a far higher priority at this stage of your life. At retirement, there should be a definite shift in an investor's outlook – a switch from pursuing high growth in your portfolio, to instead preserving that which you have already built up. In saying this, I am by no means advocating a total switch out of growth assets. The main aim should be the preservation of capital rather than taking on excessive risk to pursue exceptional growth. Retirement is not the time to gamble with your hard-earned money.

The size of your retirement nest egg also has a big influence on your risk profile. If you have a sizeable retirement nest egg, you can comfortably take on more risk. If, however, your retirement savings is only sufficient to cover your income needs, then you simply can't afford much risk.

On the other hand, if you still have a reasonable amount of time before retirement, then the long-term nature of the markets leans in your favour. Short-term market volatility tends to fade into insignificance over longer periods, so your main priority is to remain invested and to continue investing.

In either event, it's worthwhile to align your risk appetite with your portfolio composition on an ongoing basis, not only during high stress times.

2. STAY FOCUSED ON THE LONG-TERM GOAL

It might not feel like the right response when markets are fluctuating like a yo-yo, but your best strategy is to ride out market events.

The up and down movement of markets does affect the value of your portfolio, but only for that specific period. That means that you will only suffer a loss if you sell when the price is lower than what you initially paid. And if you're investing for your retirement, then the only time you need to be concerned is when you reach retirement.

Therefore, your best response is to ignore short-term events and resist the urge to act. Another lesson that experienced investors can teach novice investors is to always have some cash on hand so that you can 'buy the market dips'. If you feel the need to act during markets downturns, then picking up quality stocks at discounted prices makes the most sense.

3. DIVERSIFY YOUR RISK

This is the golden rule, as far as investment advice goes, because it still rings true that "the best way to reduce your risk is to spread your eggs across multiple baskets".

Depending on where you are in your investment journey, it might be more appropriate to hold fewer volatile assets such as bonds and fixed income. The returns on South African income funds are still far better than the returns which investors currently receive from money market instruments. It really does not make sense to have large amounts of cash invested in a money market. There are better alternatives.

The forecast for some of the income funds used by Brenthurst Wealth is in the region of 9% per annum. Do note, however, that this is not guaranteed.

Also, don't discount the value of the one asset class that always performs well during troubled times – gold. Gold can be used as a short-term hedge against further market declines, but be careful of an overweight allocation in gold in your portfolio. Gold, like other asset classes, can drop just as easily as it climbs in uncertain times. Therefore, use gold to balance your risk, not increase it.

Lower asset prices in a market dip are also the ideal motivation to further diversify your portfolio by buying quality shares at attractive prices.

BALANCING YOUR PORTFOLIO WITH YOUR RISK APPETITE IS ALWAYS ADVISABLE. HOWEVER, IN TIMES OF HIGH VOLATILITY, MAKE SURE TO BASE YOUR DECISIONS ON YOUR LONG-TERM PLANS RATHER THAN ON YOUR CURRENT EMOTIONS.

Speaking to a qualified financial advisor can help set you on the right path, with a plan tailored to suit your immediate circumstances and future priorities.



ADVISOR PROFILE | SONIA DU PLESSIS

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Sonia heads up the Stellenbosch office and has been in the financial services industry since 2001. She won the inaugural title of Top Financial Advisor in SA at the 2019 Intellidex Top Private Banks and Wealth Manager awards.

She previously worked for Magnus Heystek International as well as ABSA Private Bank where she gained valuable experience in investment and life insurance matters. Sonia obtained a BCom degree in 2001 from the University of the Free State and was awarded the CERTIFIED FINANCIAL PLANNER® designation in 2004.

Sonia is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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