

Building a diverse portfolio

Time, patience and making informed decisions

Making sense of today's market headwinds and building a diverse portfolio should be key priorities for all investors. Whether you have a lump sum to invest or want to invest regularly each month, it's important to know your money is working hard for you.

Growing your wealth is not something that happens automatically. It takes time, patience and making informed decisions. Whatever your long-term wealth priorities are, planning and successful investing of your wealth can help you get there.

DIVERSIFY AND SPREAD RISK

Holding a number of structured products in a portfolio not only serves to spread risk, but it can also improve the shape of the potential outcomes. Portfolios should typically include the main asset classes needed to properly diversify and spread risk, as well as grow money in line with the investor's attitude and risk tolerance.

The four classes of assets are generally considered to be: stocks and shares or equities, fixed income or bonds, money market or cash equivalents, and property or other tangible assets. Depending on your attitude to risk, your portfolio may include some or all of these asset types, as they have different levels of risk and move in different ways relative to one another. There are

no good or bad asset allocations; you need to find the one that's right for you based on your own situation and investment goals.

DIFFERENT GEOGRAPHICAL AREAS

Investors also need to consider holding funds invested in different geographical areas, to further spread risk and protect them from stock market corrections. But this exposes investors to foreign currency risk. This means that when sterling is weak, every pound invested will buy fewer foreign currency denominated investments. However, if investors already have overseas investments, lower exchange rates can be beneficial, as this will boost values.

BASIC DIVERSIFIED PORTFOLIO

One of the basic building blocks of a solid portfolio is investment diversification. Put simply, this means investors shouldn't put all of their eggs in one basket. This is the basic principle behind asset allocation, which involves spreading money across different asset classes and diversifying how

to allocate money within each sector.

A basic diversified portfolio might include several investment categories such as stocks, bonds and cash. The allocation to each of these broad categories should be based upon the investor's investment goals, their tolerance for investment risk, and the time horizon for needing to access their investments.

IMPACT ON FUTURE RETURNS

Investment fees are one of the most important differentiators that lead to the eventual outcome of an investor's portfolio valuation. They can eat away at even the best-performing investments and have a real impact on investment returns.

Over the long term, differences in fees, however small, can have a big impact on future returns. Even when investment returns are the same, charges corrode and eat away at an investment portfolio. Investors can't control the way markets behave, but with professional financial advice they can definitely control one thing: costs.



TIMING THE MARKET

Even Warren Buffett, one of the most famous investors in the world, doesn't try to time the stock market. There will always be reasons not to invest, and one of the main arguments against market timing is that mistakes can be costly. Even not investing because investors fear a market correction is an attempt to time the market that rarely pays off and may lead to investors missing out on gains while they wait patiently for just that right time to make an investment.

CULTIVATE THE ART OF PATIENCE

For investors to give their investments the best chance of earning a return, they need to cultivate the art of patience. It's not a prerequisite that they need perfect timing to achieve their desired investment returns; they simply need time.

Time in the market beats timing the market – almost always. But some investors do just the opposite. It's worth remembering that trying to move money into the market before it rallies and

out before it declines requires a crystal ball that just hasn't been invented. ■

GROW THE LONG-TERM VALUE OF YOUR WEALTH

Your wealth should work in all the ways you want it to. Whether you want to grow the long-term value of your wealth to provide an income later in life or to pass it on to future generations, we can support you in different ways, depending on your requirements.

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