

# Diversifying – and being prepared for the worst

*Everyone knows the importance of diversifying investments in a portfolio, but not everyone knows how to get it right, according to John Stopford of Investec Asset Management.*

Given the volatile state of markets, investors need to understand the importance of diversification and adjusting portfolios to suit changing market situations. At the same time, investors should always prepare for the worst.

These were some of the key themes addressed by John Stopford, head of multi-asset income at Investec Asset Management at the Investec Global Insights Asia forum in Hong Kong in late 2016.

While investors crave consistency and resilience in income generation, there are some challenges in achieving that outcome, especially as developed market central banks have continuously chipped away at the returns markets can offer, especially on safe assets such as cash and government bonds.

Lower yields leave investors with little option but to take on more risk in their investments to generate more yield, but higher risks challenge consistency and resiliency of performance.

“The big challenge is that we might be at the end of the 35-year bond bull market. But it doesn’t mean we are the start of a bear market. We are in a transition phase,” said Stopford.

## KEY TRENDS

During such uncertain times, diversification becomes more important than ever. “The most powerful tool in the investor’s toolkit is diversification but it’s not easy to ensure that the assets you own are truly diversified,” he said.

Another aspect of the investment philosophy of the multi-asset team is building a portfolio from the bottom-up, not just from a top-down approach. Continuously monitoring and tweaking portfolios from time to time is also crucial, as market conditions change. “As the world changes and goes through various stages of economic cycles, you need to adapt. You can’t build a portfolio and hope that 10 years later, it would have done its job,” said Stopford.

It’s no longer good enough for a fund or investment to simply outperform its benchmark, he added. “It’s important to understand what kind of returns you expect keeping in mind risk levels. If you can clarify that, you have a better change at achieving your objectives.”

And finally, while portfolios should reflect where the best opportunities lie, they should also be prepared to handle the worst. “The US election and Brexit



show that investors need to think about things that can go wrong. This can not only insulate portfolios when things do go wrong but also help them potentially profit from the outcome,” he said.

A harder-than expected China slowdown, oil prices rising much higher than expected and a deep bond sell-off rank among the top risks Stopford considers worth noting for 2017. ■

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