

Money Matters



Ord Minnett Buderim

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With the latest recovery in the markets, many investors are considering the question of whether it is appropriate to allocate a greater percentage of their portfolio to risk or growth assets.

However the real question is whether you want to change your risk profile as an investor. Moving from a balanced profile to a more growth based asset allocation is a risk that needs to be considered carefully. Just as a decision to become more conservative in the last two months would have been an expensive one, a decision to become more aggressive now could have similar consequences. If you are a nervous investor, reinvesting now only to see the market fall again, could see a further erosion of capital.

What is most important is that you maintain a

long term asset allocation suitable to your risk profile. Assuming you have assessed your attitude towards risk and then decided on the percentage of each asset class that you deem appropriate for you, it is important to adhere to that asset allocation. As the markets move up or down your portfolio will stray from the selected benchmark, and a key feature of a successful plan will be to rebalance your portfolio back to the long term benchmark.

For example, let's assume you initially decided to allocate 50% of your portfolio to Australian shares and 30% to fixed interest. After a 55% fall in the sharemarket, you might find your Australian shares are sitting at 25% of

your portfolio and your fixed interest exposure has increased to 60% of your portfolio. This is quite a common outcome, and it makes sense once the market has fallen substantially to take money out of fixed interest and invest in Australian shares.

Doing this on a regular basis means that you are withdrawing money from an asset class that has done well (fixed interest) and investing in shares when they are relatively cheap. Conversely, if Australian shares had outperformed and moved from 50% to 70% of your portfolio, it would make sense to sell off a portion and invest in other sectors that have not done so well.


A disciplined investment process involves analysing asset allocation on a regular basis and re-weighting accordingly. By

following this process it ensures that you are selling assets at high prices and buying other assets at low prices. Sometimes it is a difficult decision to make, as when shares are rising, greed takes over and you may defer the decision to sell. Similarly when the market is falling, fear may prevent you from investing. However research has shown that regular rebalancing enhances returns. Investing in last year's best performing asset class is usually a bad decision leading to lower long term returns.

Are you invested according to your risk profile? Do you have such a rebalancing process in place? Call Ords Buderim to discuss on **5430-4444**.

**Call Ord Minnett
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