KEEPING IT REAL

MATT SHERWOOD
Head of Investment Strategy, Multi Asset
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Be too cautious and inflation could eat away at your nest egg. Too aggressive and market swings could catch you out. Could "real return" investing provide the healthy balance you need?

For many Australians, the primary goal of investing is to accumulate enough assets to fund a comfortable retirement – whether that's in 5 years or five decades' time. Most people also know that to accomplish this you need to invest in shares, because shares are historically the highest returning asset class. However, it is also an asset class that can suffer short, sharp declines.

Many investors therefore seek the "safety" of cash which has recorded positive returns every year since 1900. Yet it is also the worst performing asset over the long-term, which means putting your retirement capital to work there may do little but lower your standard of living in retirement and increase the time you spend on the age pension

This conundrum leaves some investors confused. They want higher returns with lower risk - but can you have both?

The best of both worlds?
The answer – at least in my opinion – is that investing is not about avoiding risk, it's about managing it. It's sometimes about having enough exposure to higher-risk, high-returning assets to fund a very comfortable retirement, without going on the potentially up and down ride of a share-only portfolio.

Increasingly, investors are turning to an approach sometimes dubbed real return investing. Real return investing is about having a portfolio full of assets which have:

- a low correlation to the sharemarket (that is, they don't rise or fall in lockstep with equity market moves)
- are widely diversified (both to protect your money when one asset class is falling and to capture higher returns when certain assets are doing well)
- deliver consistent returns over time.

There's good returns and there's REAL returns
'Real return' investing is an approach to be considered by those who want to balance strong investment returns with an element of capital preservation. This should give any portfolio a strong foundation to work off.

The dynamics of dynamics
The stronger the foundations of your house, the more it can absorb shocks and protect your most important asset. A real return fund is no different - it offers protection against market swings and the corrosive effects of inflation.

However, ensuring you're holding the right investments at the right time is not something you can do part-time or review a couple of times a year. Some experts call this dynamic asset allocation – it's not just about choosing the appropriate mix of assets, but about changing that mix actively in line with quality, risk, value and market momentum factors. And that requires expertise, discipline, skill and continual review.