Thought leadership: Building portfolios for market crises

BY DARREN SNYDER | THURSDAY, 3 MAY 2018 11:09AM

Financial Standard's latest roundtable event turned attention to how fund managers, financial advisers, researchers and analysts build investment portfolios for market crises.

SQM Research head of research Robert da Silva says behavioural insights over the past decade show people do not always act rationally in times of market crises and make decisions which "are not necessarily in their best interests."

His point being that while staying the course might be in someone's best interests, the challenge is to educate them and convert them to go against natural instinct - which is to react to everything.

For advisers to "stay the course", WLM Financial Services director Matthew Walker says it comes down to individual investment philosophies and where advised clients are starting from.

"If you are benchmarking investments against the market then you're going to have that conversation with clients about what you're doing relative to the market," Walker says.

Morningstar Australasia senior analyst Kunal Kotwal says investor reaction times to market crises are critical to returns and the wrong choice made - based around not fully understanding the investment product - creates "investor gaps."

Capital Fund Management (CFM) president Philippe Jordan says true-to-label balanced portfolios have been rare since the Global Financial Crisis. He says the disappearance means investors have become over-reliant on equity returns, which have undoubtedly been great.

"Owning equities at a cheap price point in the form of beta in decent markets is a decent strategy over the long haul, if you can condition them not to be timed to the market - and that's a big if," he says.

The CFM IS Trends Trust, Jordan explains, uses long-term trend following as a strategy. The concept itself is not new and it forms the basis of many managed future and CTA strategies available in Australia and globally.

"The proposition of long-term trend following is not to hedge your equity portfolio, it is to diversify. That's a nuance that's very important," Jordan says.

"It's not anti-correlated as an equity portfolio but de-correlated."

Jordan explains the expectation should be, over a cycle of 36 months to five years, the correlation of long-term trend following to a long-only equities portfolio should be between zero and 30%.

"That's achieving diversification and that's valuable," he says.

This is an extract of Financial Standard's recent Thought Leadership Series roundtable event - sponsored by CFM. Click here to view the full article.