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Nervous investors wonder where to put money now

By John Collett
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Term deposits that pay a pittance, property prices on the slide and volatile sharemarkets have investors wondering where to put their money now.

Though the investment cycle is still with us, it's being elongated this time, says Michael McCarthy, chief market strategist at CMC Markets.

"It looks like being a very complicated cycle and the reason for that is the unusual activities of central banks over the past decade," he says.

Since the global financial crisis, central banks around the developed world have kept interest rates at or close to record lows. Some have also printed money in order to stimulate economic growth.

That growth is now coming through, which means interest rates around the world are rising.

"We are now entering a time of increased economic optimism and the forward indicators show that we are in for a better year economically, but that doesn't mean markets will head the same way," McCarthy says.

"We are moving into a period of elevated risk. Nobody knows the future and one of the most powerful risk management tools that individual investors have is diversification."

Investors should be examining exposures across the board, McCarthy says.

GFC comeback

Melbourne-based retirees Kevin and Marie Macdonald don't need any reminding about risk.

The GFC blew a hole in their retirement savings 10-years ago.

They subsequently took action to overhaul their approach, which means they are not overly concerned about what is happening in markets now.

After their retirement savings went backwards during the GFC, Kevin and Marie Macdonald overhauled their investment strategy

They were only three years into retirement when, in 2008, share prices collapsed on markets around most of the world.

The couple's self-managed superannuation fund had high exposure to shares and, at one point, their retirement savings were down by 35 per cent.

Overhaul strategy

"The GFC was a shock as we had been planning our retirement for 10 years before we retired and just before the GFC we were doing extremely well and then the crash came and it happened so quickly," says Kevin, who worked as an occupational medicine specialist.

"We didn't release what was occurring at the time, but the thing that really got us worried was that all of our investments seemed to collapse at once.

"Things that we thought would not be that affected, like listed hybrids and listed property trusts, actually went down dramatically - it was a huge blow."

The pair, who are now in their 70s, didn't panic and decided to hold on while they considered what they should change in the future.

"What occurred to us was that if the asset classes were going to move down together and we could not rely on the income they generated, we had to do something entirely different," Kevin says.

Marie, who worked as an academic, says the GFC was a learning experience for them. "We really got out of it well as we were not in a position where we were forced to sell – so we maintained our equities and eventually were able to recover.

"However, some friends were not in that position or were struck by fear and they sold and they have not recovered in the same way," Marie says.

It took them several years after the GFC to completely overhaul their approach in which the pair reduced their exposure to shares and to added fixed-interest investments.

With the help of fixed interest broker, FIIG Securities, Kevin and Marie have about half their portfolio invested directly in Australian and overseas corporate bonds that pay a fixed interest.

Investors in other countries have much higher exposures to bonds than do Australian investors.

They can have a place to play in diversification, protecting capital and producing income.

The Macdonalds also have another quarter of their invested portfolio held in Australian-listed investments and with about a quarter in overseas-listed investments. They hold about 5 per cent in cash.

Over the past several years, the portfolio has produced an annual yield of more than 7 per cent, with capital growth on top of that.

Sound advice pays

Laura Menschik, a financial planner and director of WLM Financial, says for those with a long time to go until retirement, maintaining a high exposure to "growth" assets like shares and property is still likely to be the best approach as they have time to make-up for any losses along the way.

Most of us don’t take much interest in our superannuation, staying in our funds’ default option for our working lives.

Menschik says as long as the super fund is well managed that’s unlikely to lead to bad outcomes.

If you're nearing retirement, it's a good time to reassess how your nest egg is invested.

Photo: Karl Hilzinger

However, it would be wise for those for whom retirement is not far off to at least re-assess whether the superannuation investment strategy is still appropriate for their individual circumstances, she says.

It could mean switching to another diversified investment option that invests with a bit less risk, Menschik says.

Most of us are going to be spending a long time in retirement and need to be careful about preserving capital.

She likes her retiree-clients to have a certain minimum cash buffer – money that's ‘at call’ and some invested with time frames of up to a year.

That's so when markets go through their inevitable downturns, they have enough money to tide them over and they don't have to sell their investments at the worst possible time.

Her retiree-clients also allocate some of their savings to riskier investments that are expected to produce good capital gains over long periods of time.

Returns hard to find

Shane Oliver, the chief economist at AMP Capital Investors, says with inflationary pressures starting to rise in Europe and the US as economic growth improves there, the global investment cycle is starting to get more mature.

“This is likely to mean a further rise in bond yields and more sharemarket volatility,” he says.

CMC Market's Michael McCarthy says that could be bad for bond prices. There’s an inverse relationship between interest rates and bond prices: when rate rise, bond prices fall.

He says investors may want to considering switching to bonds with shorter durations, and to term deposits.

They could also hold higher levels of cash to take advantage of downturns in share prices.

Shane Oliver says there’s still little sign of the sort of excesses that precede economic downturns, profit slumps and major bear markets suggesting that we are still not at the top in the investment cycle.

“More volatility should be anticipated ... but we still appear to be a fair way from the peak in the investment cycle, so the trend in share markets is likely to remain up,” Oliver says.

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