INDUSTRY VIEWS

How multi–asset funds can help manage wealth–destroying behaviour

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It is important to consistently do the right things in order to achieve your investment objectives – especially in volatile and uncertain markets. Although investors often blame the market for not meeting their investment goals, the reality is that it's often due to their own behaviour. The good news is that these behaviours can be managed by putting the right investment plans and strategies in place and sticking to them. Making the right investment decisions linked to your goals is crucial to achieving long-term investment success.

Four negative investment behaviours that destroy value

Behaviour 1: Saving too little

Medical advances mean that lifespans are increasing, and investors often don't realise how long their retirement years could last. A person who starts working at 23 and works until 65 would spend 42 years working. If they live to 100 years of age, that would mean spending 35 years in retirement. Had they decided to retire earlier, at 55, they would spend more time in retirement than the time they had spent working! This could also mean that your medical expenses in retirement are likely to be higher than what you may expect.

Behaviour 2: Not saving for long enough

Longer life expectancies mean that you need to start saving as early as possible and continue saving for as long as possible. This may in turn mean that you end up retiring later than you originally planned. Unfortunately, investment plans – like many things in life – seldom turn out exactly as planned, and if investors are not careful, they may fail to meet their investment objectives. Compound interest is often touted as the eighth wonder of the world, but it takes time to work in your favour, so it is best to start saving as soon as you possibly can.

Behaviour 3: Not taking enough risk

Although many investors are hesitant to take on risk in their portfolio, well-managed risk can be your best friend, provided you understand and respect it. This is where financial advisers can play a crucial role. By stepping into a coaching and mentoring role, they can help you overcome your own biases and bad habits that undermine your ability to invest successfully, rather than merely offering investment advice. Not taking on enough risk means your money is not exposed to enough growth assets, and that your money is unlikely to generate a sufficient return in the long run.

Behaviour 4: Taking too much risk

Investors often try to remedy behaviour 2 above by trying to find 'high return' investments. This is especially the case when they realise too late that they have saved too little. Sadly, if it sounds too good to be true, the chances are that it is! In addition, chasing short-term performance by regularly switching between funds can destroy your wealth. Rather, choose a strategy and stick to it.

To manage your behaviour, start with a plan

We are faced with the consequences of these negative investment behaviours every day. If these potential pitfalls are not addressed and managed properly, they could destroy your wealth and put your investment goals in jeopardy.

There is no substitute for starting to save early enough. Having a financial plan can help you identify how much you will need to save to reach your goals. It can also help you to identify the appropriate level of risk you need to take to reach your goals.

The value of multi-asset funds in curbing wealth destroying behaviour

We have found that a well-managed multi-asset fund can help many investors, especially when it comes to taking on enough of the right kind of risk. These funds combine a variety of asset classes, providing a mix of growth assets like shares, and more stable assets like cash, in line with their respective mandates and objectives. The funds are professionally managed and are continuously rebalanced to ensure they retain exposure to the right types of assets in varying market conditions. By taking the pressure off the individual to select the right funds, investors are also relieved from the pressure of having to react to market developments – and potentially making the wrong decisions in the face of fear.

The Association for Savings and Investment South Africa (ASISA) reports that most net new retail investments were invested in the South African Multi-Asset High Equity sector – also known as balanced funds. These funds comply with the Prudent Investment Guidelines, as set out by Regulation 28 of the Pension Funds Act, and are popular choices for pre-retirement investments (retirement annuities, preservation funds, pension funds and provident funds).

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Choice on the PSG platform

PSG offers access to a range of multi-asset funds via the PSG Wealth platform. This includes access to:

- PSG Wealth multi-managed solution funds of funds (which are accessible to investors using a PSG adviser only), for those wanting exposure to a number of asset managers in one fund.
- Award-winning funds from PSG Asset Management, like the PSG Balanced Fund featured in our fund spotlight below.
- A large selection of funds on offer from external fund managers that have been subjected to our strict due diligence processes.

Take care to manage your investment behaviour

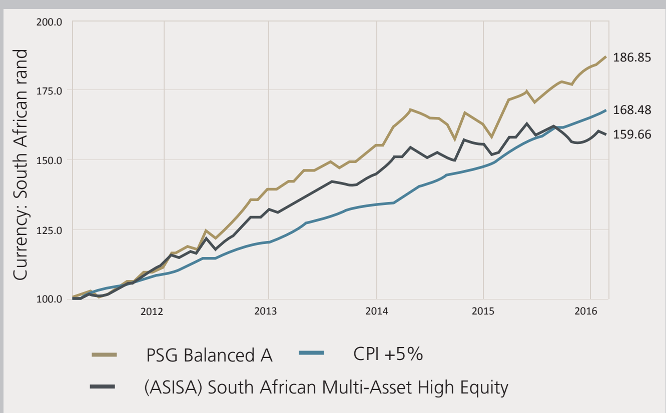
When it comes to managing your long-term wealth, the first step is to get your own wealth-destroying behaviour under control. A financial plan not only helps to clarify your goals, but can also help you work out how much you need to save to achieve them. The next step is finding an investment that helps you to achieve the right balance between risk and return. By putting a solid foundation in place, you are more likely to achieve your investment goals in the long run.

Spotlight on the multi-award winning PSG Balanced Fund

The PSG Balanced Fund won a Raging Bull certificate as the fund which delivered the best risk-adjusted returns over five years in the South African Multi-Asset High-Equity sector. This award is especially prestigious because it acknowledges the fund manager for consistently achieving above average risk-adjusted returns over the longer term. The PSG Balanced Fund was also named the best aggressive allocation fund at the Morningstar awards. Both awards were received for the period ended 31 December 2016. Full details of the awards are available from PSG Collective Investments (RF) Limited.

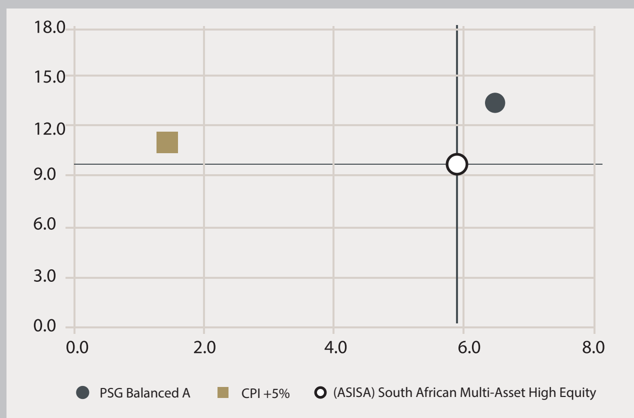
The primary objective of the fund is long-term capital growth and a reasonable level of income for investors. The fund can have a maximum of 75% invested in equities, 25% in listed property and 25% in offshore assets. The fund's benchmark is inflation + 5%. The graph shows that the PSG Balanced Fund consistently outperformed its benchmark as well as the average of its peers.

The long-term performance of the PSG Balanced Fund (2012/01/01 to 2017/02/28)



Source: Morningstar Inc.

The long-term risk-adjusted returns of the PSG Balanced Fund



Source: Morningstar Inc.

The scatter graph above shows that the fund achieved higher performance than its peers for a marginal increase in risk given current volatile market conditions. For more information on the fund, click here.