

Staying balanced after the ride of the decade



Herman van Velze - Portfolio Manager

The last two years have provided investors with the most breathtaking ride. Imagine being at the top of a see-saw at the turn of 2007, only to be flung toward the bottom when equity markets lost a little over 23% in 2008, and to once again shoot towards the sky with returns of over 32% in 2009. You'd be forgiven for being left a little breathless, if not whiplashed....

While the last two years might well be forgotten in time, they have made us rethink our investment strategies, especially in light of the fact that earlier in the decade (the 2003 – 2007 bull market) investors were happy to just be on the ride, no questions asked.

Local asset class returns (2000 - 2009)

Teal indicates highest return in that year. Grey indicates the lowest return in that year

Year	Cash	Bonds	Property	Equities
2000	10.6%	19.4%	27.6%	0.4%
2001	10.1%	17.8%	14.0%	32.6%
2002	11.9%	16.0%	20.1%	-8.3%
2003	11.0%	18.1%	41.0%	16.1%
2004	7.8%	15.2%	41.3%	25.4%
2005	7.1%	10.8%	50.0%	47.3%
2006	7.7%	5.5%	28.4%	41.2%
2007	9.6%	4.2%	26.5%	19.2%
2008	11.4%	17.0%	-4.5%	-23.2%
2009	8.6%	-0.9%	14.2%	32.0%

Source: I-Net Bridge and STANLIB (January 2000 to December 2009)

As we stand ready to face a new decade of investing these are some of the questions you might be asking yourself:

- How can I grow my wealth without the risk of being too heavily weighted in one asset class?

- Can my portfolio have flexibility, adapting to different market conditions?
- How can I simplify my portfolio so I can better understand and measure its progress?

The answer to these questions is a balanced fund (also called an asset allocation fund). Balanced investing is not a new concept, yet investors tend to be forgetful of it when things are a little too good. It takes a year like 2008 to remind us of the benefits of a balanced approach to investing.

A balanced fund can invest in all the asset classes (cash, bonds, property, equities and offshore assets) in a single fund. Having all the main asset classes at its disposal reduces the risk of being invested in only one asset class, while at the same time providing a portfolio suitably matched to an investor's goals, time horizon and risk profile.

As you know, markets change, making the investment decision fairly complicated. Equities can become more or less attractive, interest rates can change, offshore markets can come calling. The vast choice of investment options available to investors can also be confusing. Often the fear of making the wrong choice can cause one to procrastinate and avoid the decision altogether. Balanced funds make complicated decisions for you. A dedicated team of investment professionals manage the fund, investing where they find value in any of the asset classes and at any point in time. It is this flexibility that can prove extremely beneficial in a variety of market conditions.

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To illustrate the point, the STANLIB Balanced Fund aims to provide investors with capital growth over time and is suitable for investors with an investment time horizon of five years or more and a moderately aggressive risk profile. This portfolio will have a bias toward equities, but depending on prevailing market conditions can adjust the amount of equity in the fund at any time.

So while the portfolio can hold up to a maximum of 75% in equities at any one point, it could also adjust the portfolio to a minimum of 50% in equities should equities be unattractive. It could also increase its exposure to offshore assets, for example, should the portfolio manager believe they offer intrinsic value

The STANLIB Balanced Cautious Fund is another balanced fund solution in the STANLIB range offering more conservative investors a moderate level of income and capital growth over a three to five year time horizon. The fund can invest a maximum of 40% in equities and property.

A balanced fund is a simple, single fund solution, giving investors the peace of mind that all their investment eggs aren't in a single basket of assets. Once they have chosen the right fund according to their goals, investment time horizon and risk profile, their investment decisions are taken care of for them, and investors can pursue a more balanced and measured approach towards achieving their financial objectives.

An advantage of investing in a balanced fund is that it gives the investor access to top level expertise in not only picking individual stocks for the fund, but also expert assistance in selecting the level of exposure to any one asset class in the fund. The portfolio manager is usually supported by a team of specialists in each of the various asset classes who analyse and track the individual securities in their area. The portfolio manager is then able to focus their attention on the critically important asset allocation decision. It has been conclusively proven in numerous research studies that choosing the right asset class to invest in, can contribute up to 91% of an investor's return.

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