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Broad outlook could reap rewards

Invest in a wider range of assets such as cash, equities and bonds

SOUTH Africans have an unfortunate tendency towards putting their money into funds that did well six months ago; responding to the fund performance numbers but often with little regard for the fact their returns will be determined by future and not past performance.

Rob Dower, chief operating officer at Allan Gray, says: "People are also often too conservative, too late and too aggressive, too late. South Africans struggle to invest in a way that does best for them."

However, a more recent trend should offset these less favourable attributes as more people are putting their money into asset allocation funds that invest in a wider range of assets including equities, bonds, cash and offshore assets.

"Many investors are recognising that sometimes professionals make better investment decisions."

Dower says it is difficult to obtain accurate numbers but he estimates that as much as 80% of the assets managed on behalf of individuals have been invested with advice from independent financial advisers or a sales agent of some kind.

"We are lucky in SA as we have a strong community of independent financial advisers who tend to do a better job for investors than sale agents who are tied to a product provider," says Dower, although he does acknowledge that independent advice is often expensive.

Busisa Jiya, MD of Absa Asset Management, says there is a real difference between savers and investors. "Savers want to develop a discipline of setting money aside for a period of time, usually on a short or medium term time horizon, and they typically prefer a low-risk vehicle such as a money market fund so they are not hit by negative market movements when they need to access their funds.

"An investor, on the other hand, is there for the long term. The key for these investors is to stay invested. They may switch funds or even change the type or mix of assets in which they are invested but they keep their money fully invested so as to enjoy the best long-term growth.

"Market movements are temporary for long-term investors such as institutions," says Jiya.

Jaco van Tonder, head of SA Retail at Investec Asset Management, says the greatest difficulty investors face is generating real returns with a medium to low risk investment portfolio.

"Money market yields are below the official inflation rate and equities are considered to be in risky territory given that financial and industrial shares are trading at expensive valuations, whereas mining and resource shares have produced poor returns over the past year," says Van Tonder.

When the stock market is perceived to be in possible bubble territory and the cash alternative is not particularly attractive, the search for yield has forced investors out of the traditional "safe haven" investments, such as money market funds, into riskier options.

"We believe the solution to the search for yield lies in low-risk multi-asset funds that have the ability to beat inflation after tax, where an experienced portfolio manager makes the difficult asset allocation decisions," says Van Tonder.

He says there has been a marked improvement in investor education and thus a reduction in incidences of "chasing last year's winner".

"Investors understand that successful long-term investment is about the time you spend in the market and not about chasing the latest speculative investment option."

The current market environment poses a challenge to investors given the high valuation levels across many asset classes, says Bradley Preston, head: Quantitative Analysis, Mergence Investment Managers.

"The liquidity support provided by central banks has reduced real yields on bonds and many equity markets are looking far from cheap.

"There are cheaply valued investments available globally but to a large extent these are exposed to high levels of uncertainty either in cyclical industries or in Europe.

"Investors seeking low-risk assets are faced with few attractively priced assets. In this environment investors should look broader than traditional asset classes of cash, bonds and equities to find opportunities."

He says derivative strategies offer professional investors additional opportunities to either enhance the yield on low-yielding assets or to take exposure to more attractively priced, but higher-risk assets through a hedged or protected strategy.