Align your portfolio for success in uncertain times

After more than 18 months under the shadow of Covid-19 lockdowns, Australia is taking its first vaccinated steps along the path to economic recovery.

After being impacted heavily by lockdown legislation, Victoria and NSW are opening up to a new state of normal. Together, our two largest state economies are finally poised to operate without the heightened threat of snap lockdowns. National reopening plans are being honed, and with restrictions on interstate and international travel already easing, we look forward to travel becoming parts of our lives again.

Throughout this entire period, most aspects of our lives have experienced volatility. Volatility in markets. Volatility in politics. Volatility in health outcomes.

Every day our newspapers and news feeds are littered with examples of troubling economic data or stories of personal hardships. La Trobe Financial has consistently said that the path to economic recovery will be bumpy, and to date that has remained the one constant.

Any economy working through such a seismic event will encounter a wide range of spot fires. For a global event, these will be particularly complex. However, against this backdrop the Australian economy remains in extremely good shape.

Unemployment figures continue to remain low, standing up to extended lockdowns. Economic growth has undoubtedly suffered recently, but is widely tipped to rebound from now and into 2022. A range of economic data has continued to surprise on the upside all throughout 2020 and 2021.

In an environment also marked by low interest rates, wild volatility can be exasperating for retirees and self-directed investors. These same investors paid home loans with interest rates near 20 per cent. Now they look to markets with investor rates near zero and with heightened risk to their hard earned capital. Volatility in markets can have disastrous results when its timing impacts retirement income and lifestyle.

At La Trobe Financial, we strive to open discussion on key considerations for investors, including the importance of building portfolios to perform across all economic cycles, diversification, and high-quality assets.

With the market running hot, and volatility an ever-present threat, securing high-quality, low-volatility income has never been more difficult. We now ask whether it is time to adjust portfolios towards income generating assets which deliver across the cycle, with downside protection and low-volatility outcomes. The hunt for yield has been a topic for discussion during the past decade as investment rates have continued to fall.

With rates at all-time lows, many equities funds have moved to create portfolios with income generating credentials. Investors should consider whether an increasing exposure to equities is a good idea at – or near – retirement.

While the collapse of the ASX by 40 per cent in March last year ultimately rebounded, consider your financial position if it had not. After all, the market took more than a decade to recover its GFC losses. Generating income returns from equity investment lacks alignment between asset and outcome. It will work really well, right up to the moment that it doesn't.

Uncorrelated, low-volatility income products do exist. Investors should consider a careful review of opportunities within traditional bastions including cash, property, property credit and fixed income. These assets align to the purpose of income generation. Aligning your portfolio to sectors that have proven track records of a particular return profile is aligning your portfolio for success.

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Michael Watson is executive head of distribution APAC at La Trobe Financial.