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FACTSHEET

Building a diverse portfolio

Time, patience and making informed decisions

Making sense of today's market headwinds and building a diverse portfolio should be key priorities for all investors. Whether you have a lump sum to invest or want to invest regularly each month, it's important to know your money is working hard for you.

Growing your wealth is not something that happens automatically. It takes time, patience and making informed decisions. Whatever your long-term wealth priorities are, planning and successful investing of your wealth can help you get there.

DIVERSIFY AND SPREAD RISK

Holding a number of structured products in a portfolio not only serves to spread risk, but it can also improve the shape of the potential outcomes. Portfolios should typically include the main asset classes needed to properly diversify and spread risk, as well as grow money in line with the investor's attitude and risk tolerance.

The four classes of assets are generally considered to be: stocks and shares or equities, fixed income or bonds, money market or cash equivalents, and property or other tangible assets. Depending on your attitude to risk, your portfolio may include some or all of these asset types, as they have different levels of risk and move in different ways relative to one another. There are no good or bad asset allocations; you need to find the one that's right for you based on your own situation and investment goals.

DIFFERENT GEOGRAPHICAL AREAS

Investors also need to consider holding funds invested in different geographical areas, to further spread risk and protect them from stock market corrections. But this exposes investors to foreign currency risk. This means that when sterling is weak, every pound invested will buy fewer foreign currency denominated investments. However, if investors already have overseas investments, lower exchange rates can be beneficial, as this will boost values.

BASIC DIVERSIFIED PORTFOLIO

One of the basic building blocks of a solid portfolio is investment diversification. Put simply, this means investors shouldn't put all of their eggs in one basket. This is the basic principle behind asset allocation, which involves spreading money across different asset classes and diversifying how to allocate money within each sector.

A basic diversified portfolio might include several investment categories such as stocks, bonds and cash. The allocation to each of these broad categories should be based upon the investor's investment goals, their tolerance for investment risk, and the time horizon for needing to access their investments.

IMPACT ON FUTURE RETURNS

Investment fees are one of the most important differentiators that lead to the eventual outcome of an investor's portfolio valuation. They can eat away at even the best-performing investments and have a real impact on investment returns.

Over the long term, differences in fees, however small, can have a big impact on future returns. Even when investment returns are the same, charges corrode and eat away at an investment portfolio. Investors can't control the way markets behave, but with professional financial advice they can definitely control one thing: costs.

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