Conservative investors struggle in this market………..

Over the past six months I have constantly made reference to the fact that we are in a low interest, low return, and volatile investment cycle; but what does this mean for investors, particularly those who see themselves as conservative?

Historically investors who deem themselves as conservative or those wishing to shield themselves from market volatility sort the 'safe haven' of bank deposits or treasury bonds, and prior to the GFC anyone could access a virtually risk free yield of 5% plus. In the wake of the GFC, in an effort to stimulate economic growth, central banks around the world have adopted a Zero or in some cases Negative Interest Rate Policy. How has this impacted investors…………………

If you were a retiree in the 90's requiring $50,000 per annum, and you had accumulated retirement funds of a million dollars, bank or treasury deposits plus a small exposure to growth investments could achieve your income with a little growth to combat inflation, virtually risk free. If you were approaching retirement and Capital Preservation was a high priority you could wind back exposure to 'riskier' growth assets i.e. shares and property in favour of the safe haven of banks, and still grow your wealth even allowing for inflation. If you were concerned about the volatility in shares or property you could shift all or part of your portfolio to bank deposits to ride out the perceived storm.

What has changed? Central banks around the world have adopted a Zero or in some cases Negative Interest Rate Policy in order to stimulate economic growth, this on the surface has worked to halt economic decline and prompt economic growth. It has also allowed consumers and business' to repair their balance sheets by paying down debt, and facilitated increased stock prices; the conundrum for the conservative investor is that it has set the foundation for persistently low and potentially below inflation, investment interest rates for the foreseeable future.

Traditionally a conservative portfolio consisted of 60% growth assets (shares & property) and 40% defensive assets (term deposits & bonds), this 60/40 portfolio was forecast to provide an overall return of 8% net of fees and charges with growth assets contributing 10% and defensive 5%; given our scenario above this return is capable of providing a retiree income to live and sufficient growth to combat inflation and maintain capital. If we now assume that the traditional portfolio returns will not be achieved in today's environment and that returns might be closer to growth assets contributing 5% and defensive 2%; it is obvious for a retiree that the portfolio will not provide the required income and it will have to be supported with a drawdown of capital, which can have negative or disastrous consequences over the long term particularly as people are retiring earlier and living longer. For potential retirees it is important to review the level of income required, the estimated time in retirement, and a realistic portfolio return to determine the amount of capital which will be needed to retire.

For those who consider themselves as conservative investors it would be prudent to reflect on the components of your portfolio, for traditionally 'safe haven' investments may not be so safe if the returns struggle to beat inflation. A considered approach to portfolio construction taking into account your financial needs and objectives, available capital, surplus cash flow, and investment time frame is most likely to meet both your investment and risk-tolerance objectives.

As with any investment decision one should seek advice from your professional adviser before investing!