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What Does a Healthy Portfolio of Funds Look Like?

If you read the financial press, you will see a lot of speculation about what you can, or should, invest in. Social media is no different, with stock tips and investment forums building significant online followings.

But focusing on individual companies and microtrends can lead to missing the bigger picture. A single stock is rarely the key to achieving your investment goals.

You may even lose money by concentrating your holdings in one place, as you will be disproportionately exposed to the risks of that particular company or sector.

It is far more productive to think of your investments as a coherent whole. The holdings in your portfolio should not only be considered on their own merits, but also on how they can complement the investments you already hold.

A ‘portfolio’ can comprise a multi-asset tracker fund or a multi-million pound bespoke account with a discretionary manager. Even if you are starting small, you can still follow these tips to build a healthy portfolio from the outset.

It Holds a Wide Range of Assets

The main asset classes are:

- Equities (shares)
- Property
- Fixed interest securities (bonds)
- Cash

These assets bring varying levels of risk and reward. Equities are the most volatile, but can produce the most profit over the longer term.

Cash is stable but unlikely to generate high returns and may not even hold its value amid inflation. Property and Fixed Interest fall somewhere in between.

These asset classes do not generally behave in the same way at the same time, as they are affected differently by the phases in a typical economic cycle.

Even within these asset classes, there is a degree of variation. Equities can comprise anything from well-known UK companies to start-ups in emerging economies.

Clearly, these companies will have a very different risk and reward profile, and will not necessarily be correlated with each other.

So how do you know which asset classes, geographical regions, and company sectors to invest in?

The answer is to find a suitable balance. Spread out your investments too much, and you risk diluting your returns. Concentrate them too much, and you face concentration risk.

The key to successful investing is not knowing which investments will do well, but holding a wide enough range of assets that you capture market growth (while smoothing out some of the risk), regardless of what is happening in the economy.

It Balances Risk and Reward

But investing is not a ‘one size fits all’ exercise. A portfolio which holds more in equities than lower-risk assets will always experience more volatility. It is also more likely to produce higher returns if held for a long enough period.

In deciding the asset allocation for your portfolio, you will need to consider:

- How you feel about risk.

- How well you understand investments, and your level of confidence.
- The level of growth you are seeking.
- When you are likely to need the money.
- How much can you afford to lose.

A healthy portfolio aims to maximise returns, while taking an appropriate amount of risk.

It Prioritises Your Goals, Not the Benchmark

A benchmark aims to measure the average performance of a particular sector or a selection of funds. By comparing a prospective fund against the benchmark, you can assess how it is performing alongside its peers. This can be useful when selecting funds in particular sectors.

But benchmarks are of limited use when measuring the performance of your portfolio. Sector benchmarks are made up of hundreds of different funds, many of which will not be appropriate for you.

Long-term performance can be affected by ‘blips’ or single events, which are not necessarily reflective of the fund’s current holdings or growth potential. Past performance does not necessarily indicate future performance.

If you are achieving steady returns and are on track towards achieving your goals, does it really matter how the benchmark is performing?

It Keeps Costs Under Control

While it’s impossible to predict how your investments will perform, charges are a certainty — and they can have a significant long-term impact. For example, if two funds hold similar assets but one charges 0.5% annually and another charges 1.5%, the fund with higher charges will consistently deliver lower returns over time.

Even small differences in annual costs can add up over the years and reduce the value of your investment. That’s why it’s important to consider cost alongside performance and to seek good value for money when choosing funds.

It is Held for the Long Term

Over the longer term, a diverse portfolio of funds will generally increase in value.

It will go up and down, and it is not unusual to lose money at first. But it’s vital that you keep your discipline and avoid the temptation to sell whenever market fluctuations make you nervous.

Taking money out of the market at a low point turns a theoretical fluctuation into an actual loss. Even if you reinvest when the market starts to recover, you will likely be worse off over the long term, particularly if the pattern is repeated.

Drops in the market are usually swiftly followed by a recovery. It’s impossible to predict when the lowest point is reached, when the bounce back will occur, or how long it will take.

Generally, an investment term of at least five years will smooth out these bumps, but ten years or more is preferable to allow your portfolio to reach its full potential.

The longer the investment period, the more risk you can afford to take.

These principles can be applied whether you are investing your first £100 or you have already built up a substantial pot. The investment choices available today mean that your portfolio can be scaled and adapted as your wealth grows.

Please don't hesitate to contact a member of the team to find out more about your investment options.

Please note:

The value of investments can go down as well as up, and you may not get back the full amount you invest. Past performance is not a reliable indicator of future results. Investment returns are not guaranteed and can be affected by market volatility, inflation, and changes in tax law. Diversification does not eliminate the risk of loss. This content is provided for information purposes only and does not constitute financial or investment advice. You should seek independent financial advice before making any investment decisions. Tax treatment depends on individual circumstances and may be subject to change in the future.

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If you value depth of expertise, a personal relationship with your adviser and the reassurance that your wealth is managed with precision and care, Corellia is designed for you.

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