It’s all in the mix

Rafiq Taylor, Head of Implemented Consulting at Glacier Invest

We know that investors are living longer and that their retirement income may not go the distance. So, traditional strategies to manage market downside and participate in the upside have needed a rethink. It’s become the post-retirement investment sweet spot if you will.

In this article we offer insight into what it takes to achieve this outcome for your post-retirement clients trying to survive in tough markets.

The secret sauce

Let’s assume that investment professionals with clients who are already in retirement, are driving a 67/33 principle – aiming to achieve 67% of market upside while managing the downside at 33%. Sustained market volatility though, makes this goal difficult, but we offer the following two-pronged approach to increase the chances of achieving it:

1. Include traditional asset classes in the portfolio

These are the classes that most financial advisers know and are used to. They include strategies where the criteria are absolute, as well as flexible in nature. They are able to provide downside management and, in some instances, provide the 67% up-capture that the investor is pursuing.They have an absolute focus and absolute target and they definitely contribute to the 67/33 principle.

In the traditional space, those investors also make use of market-driven asset class strategies such as inflationary bonds, which provide a natural hedge to inflation. Other strategies could include pure equities, bonds or properties.

2. Utilise non-traditional assets

The big question though is: are the traditional instruments enough? We think not. Portfolio construction cannot be performed successfully solely on strategies that get us closest to perfect investment asymmetry (perfect asymmetry in investment terms would the investment ‘nirvana’ – when 100% upside and 0% of market downside are achieved). We believe considering non-traditional strategies will become increasingly important into the future. Non-traditional assets need to be key considerations in portfolio construction. Assets such as hedge funds, smoothed funds and return enhancers are the alternative assets that will help to bring investors closer to the outcomes they desire.

3. Combining these instruments through unique Portfolio Construction

While the investment instruments that one invests in is very important, how one combines them in a portfolio in our opinion is potentially more important. The use of a traditional approaches such as minimum variance works predominantly when trying to make the portfolio more efficient for a specific level of risk. By adjusting the methodology to take downside more explicitly into account, by creating specific risk parameters, this will greatly enhance the volatility mitigation investors are looking for, based on their income requirements or targeted objective. This methodology is known as Conditional Value at Risk (CVaR) and attempts to identify the best risk-adjusted position a portfolio can have, taking into account different capital preservation parameters.

No silver bullet

The world is changing, and so is portfolio construction – especially for people who are already retirees. There is no single approach that truly will achieve the outcome post-retirement investors desire, and to this end mixing the traditional with the modern is key to ensuring the longevity of investments.

View the presentation

Back to Glacier Invest Summit 2020 wrap-up

Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group
Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07
Licensed Financial Services Provider | Glacier Financial Solutions (Pty) Ltd. is also a Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest | Sanlam Multi-Manager International (Pty) Ltd. | A member of the Sanlam Group

Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com *|*Reg No 2002/030939/07
Licensed Discretionary Financial Services Provider, acting as Juristic Representative under the Glacier Financial Solutions FSP 770
Glacier International is a division of Sanlam Life Insurance Limited
Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440
Reg No 1998/021121/06 | Licensed Financial Services Provider