How to understand your investment's annual performance

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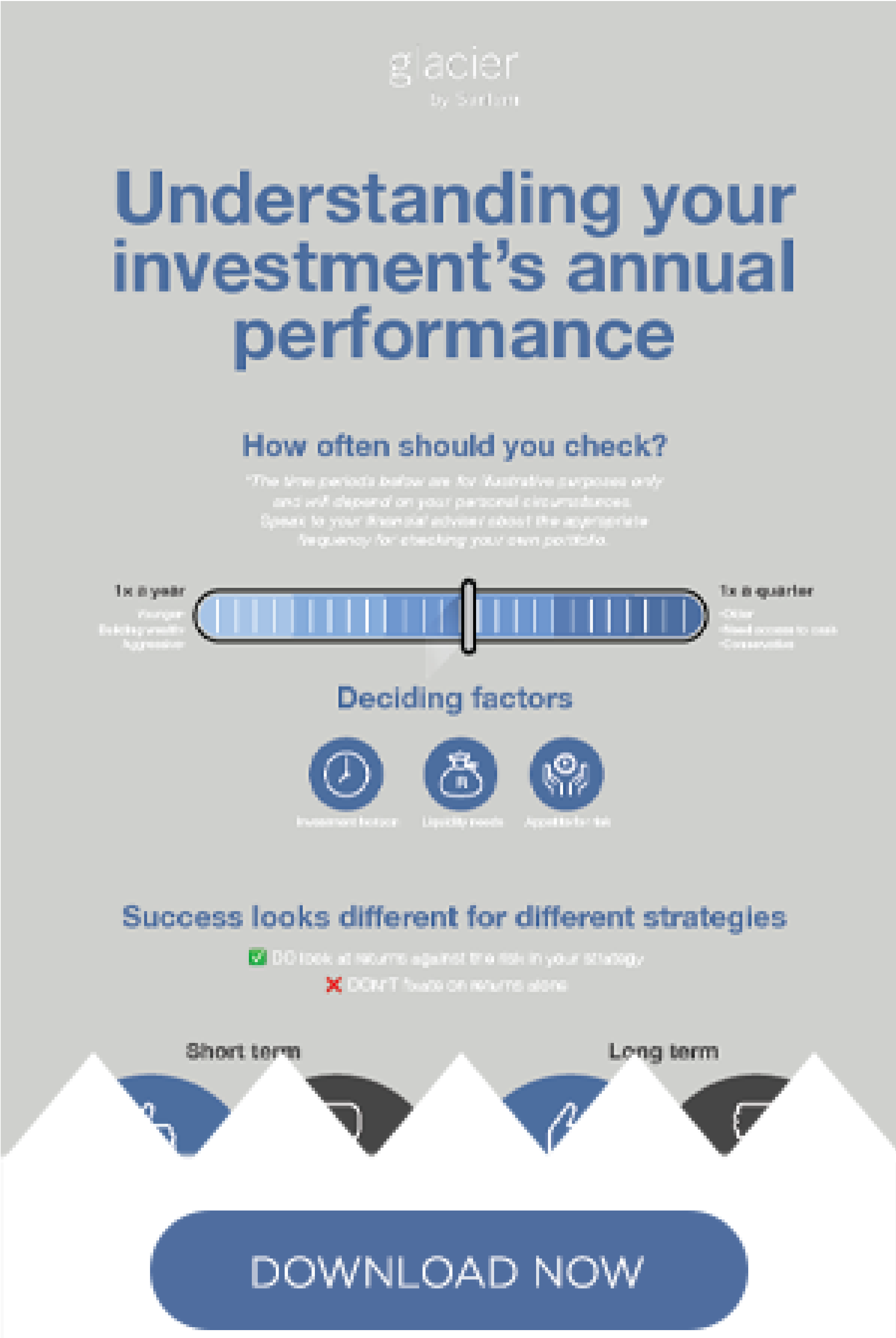
glacier
Understanding your investment's annual performance
How often should you check?
1x a year
1x a quarter
Deciding factors
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As an investor, you want to see results. So how should you interpret your investment's annual performance to gain a complete, balanced understanding of it – and make smart investment decisions informed by it?

The Glacier Research team explains.

How often is too often to check?

When it comes to checking your investment's performance, various factors such as your appetite for risk, investment horizon and liquidity needs influence how frequently you should do this.

Imagine a sliding scale:

Where there's a shorter-term objective, and a need to draw income from your investment (say, post-retirement), more frequent checks make sense. "You could keep an eye on it once a quarter," says Glacier Research.

But where you have a longer time horizon, Glacier's research team says you won't gain much value checking more often than once a year. "Generally, for more aggressive investment strategies, especially if you're a young investor, consider performance over a longer period," they explain.

Don't fixate on returns alone

The annual performance graph and tables on your fund's fact sheet or minimum disclosure document can provide a good idea, at a glance, of the returns your chosen fund is generating. Mandated by regulation, these documents are updated at least quarterly by fund managers. With that said, it's important to avoid placing too much emphasis on one metric in isolation, the Glacier Research team cautions. "You should consider the returns that your strategy is generating along with the risk that is inherent in that strategy," they explain. "So, if you have a fund that's generated high returns, but the volatility is high, too, there could be a price to pay in the shorter term if you're not holding it long enough."

Likewise, where you have a fund that has shown low returns over a two-year period, but has also had lower volatility, the fund is benefiting you as the investor from the perspective of the strategy by minimising volatility in the short term.

Context is paramount when understanding your investment's annual performance. "Returns are important, but in the broader context, how much risk are you taking on?" poses Glacier Research. "What's the typical drawdown of the strategy that you're in? These are important, too."

A key consideration: your fund objective

Your fund objective goes hand in hand with understanding your investment's annual performance. Glacier Research uses two different scenarios on opposite ends of the risk and strategy spectrum to illustrate this:

Investor A is a retiree, with a shorter time horizon, and perhaps needs to draw an income from their investment.

Fund risk profile: conservative

Fund objective: outperform a cash-related index, eg the Short Term Fixed Interest Index (STeFI) plus a certain percentage, or outperform inflation (CPI) by a certain percentage (depending on your income drawdown rate)

"The primary objective of this type of strategy is naturally *not* to deliver very high returns," notes Glacier Research, "but instead to protect the value of capital." When measuring the performance of the strategy, the benchmark is low from a returns perspective, but you would place much more emphasis on the risk. "If the strategy has delivered, for example, no negative performances over a six-month period, or over an annual period, you might say that that fund has actually achieved its goal because of those objectives," they say.

Investor B is younger, with time on their side, and in the accumulation phase of investing.

Fund risk profile: aggressive

Fund objective: outperform an equities benchmark, like the MSCI World Benchmark

With this type of strategy, you *are* focusing on generating good returns over the longer term, so performance would be measured on more of a relative basis.

Don't make this mistake

By now you are familiar with the regulatory risk warning financial institutions carry about past performance not being indicative of future results, which is why resisting the urge to chase performance is critical to a rewarding investment strategy.

"A common mistake, and one that I think destroys the most value, is performance chasing," says Glacier Research. "It's easy to get caught in the cycle of looking at the performance of your strategy, and wanting to switch funds because it’s underperformed over a one- or two-year period. For an aggressive fund, even one that’s underperformed over three or four years, this isn’t necessarily something that needs to be met with the response of selling out of the fund,” they continue.

There’s no strategy that’s going to be able to perform consistently through all market environments. The reality to bear in mind is that strategies are operating in a certain economic environment, and trends change over time. “Certain strategies will perform well in certain environments, while others will underperform,” Glacier Research explains. Patience and trust in fund managers play a significant role in a successful investing cycle. Yes, it feels like a big ask to stick with a fund manager whose fund underperforms over a three-year period, but if your investment horizon is over, say, 30 to 40 years, it’s important to give the fund manager the time to deliver on the fund objective, Glacier Research points out.

Why it pays to partner with experts

Your investment statement and fund fact sheet include indicators of how your chosen funds have performed over a long period, but to gain a richer, more detailed understanding, it pays to lean on your adviser and the resources they have access to. For example, investing through the Glacier investment platform, your adviser has access to a specialist research team who can share certain insights about funds on the investment platform that you otherwise wouldn’t have access to, and using these, build a robust tailored investment solution suited to your needs. “These insights include the best views on which funds we think are most appropriate across different categories,” the Glacier Research team explains. “We provide insights for advisers using the investment platform, and who need support. That adds a lot of value for the investor.”

And when it comes to choosing the underlying investments for your solution? By enlisting Glacier’s investment platform capabilities, your adviser has unparalleled choice. “There are hundreds of funds available on the investment platform, and if you think about it in terms of investment theory, if you’ve got a wider breadth of opportunities, and all things remain equal, then it should lead to better returns over time for you as the investor,” says the Glacier Research team. Glacier’s investment platform gives you access to leading local and international investment opportunities, meaning your adviser can customise your fund selection for ultimate personalisation, putting you at the centre of it.

Ask your financial adviser why you’re not with Glacier

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