Fact sheet

Our approach to asset allocation when investing into model portfolios

The objective of our unique approach to asset allocation is to help you minimise investment risk and increase the long term return on your portfolio.

What is asset allocation?

Asset allocation is the process of deciding how much of your money will be invested in each asset class (e.g. shares, property, cash and fixed interest) to help you achieve the investment return you need while helping to ensure you do not take more risk than you would like.

The higher the return you need and the more risk you can bear, the more your portfolio could be invested in growth assets like shares, property and managed funds. The lower the return you require and the less risk you wish to take, the more your portfolio could be invested in defensive assets like cash and fixed interest.

The core of our approach

Our approach is based on the philosophy that:

> ***Buying quality assets at reasonable prices is the best way to achieve competitive long-term returns.***

To determine the status of assets – that is, cheap, fairly priced, fully priced or overpriced – we use a straight forward approach which assesses how fast an asset class is likely to grow its profits, and the price investors are likely to pay for those profits. The end result is a forecast of ten year returns for each major asset class.

These forecasts are incorporated in our 'Tipping Point' table so the forecasts can be applied to help you make asset allocation decisions.

Table 1: Tipping points example+

Australian Equities		
All Ords Index	Forecast 10 years return (pa)	Status
10000	2.5%	Overpriced
9750	2.8%	Overpriced
9500	3.2%	Fully priced
9250	3.6%	Fully priced
9000	4.0%	Fully priced
8750	4.4%	Fully priced
8500	4.8%	Fully priced
8250	5.2%	Fully priced
8000	5.7%	Fair value
7750	6.1%	Fair value
7500	6.6%	Fair value
7250	7.2%	Fair value
7000	7.7%	Fair value
6750	8.3%	Cheap
6500	8.9%	Cheap
6250	9.5%	Cheap
6000	10.3%	Cheap

+ No guarantee is implied as to the accuracy of the specific forecasts provided. Data as at August 2022.

As you can see in the 'Tipping Points' table, the higher the price you pay for an asset, the lower returns you should expect going ahead, and vice versa.

So we aim to help you buy when prices offer good returns and sell when returns are less attractive (See Chart 1).

Chart 1: We aim to buy when prices are lower, and sell when prices are higher

It is important to note we do not try to predict when an expensive asset class will begin to fall in price or when a cheap asset will rise in price. Cheap assets can become even cheaper. Expensive assets can become even more expensive.

The turnaround may be just months away or it could be a few years away. No one knows exactly when that turnaround will be. For this reason, we advise buying cheap assets slowly and selling expensive assets slowly. This gives you the chance to benefit from buying at even cheaper prices or selling at even higher prices.

Advice for existing investors

At each regular review we have with you, our goal is to optimise your long term returns by slowly selling assets which are overpriced and slowly buying assets which are cheap to fair value.

Advice for new investors

If you are looking to make new investments, we use our asset class valuations to determine your entry strategy into each asset class, as shown in Table 2. We do not recommend buying overpriced assets just because you have money to invest. Our goal is to buy at lower prices – even if that means you have to wait before all of your money is invested.

The benefits of our approach

There are many benefits arising form our approach, including:

- Stronger, smoother and more predictable long term returns from your portfolio.
- Reduction in your exposure to overpriced assets and therefore less exposure to significant market falls and bear markets.
- Increased exposure to rising markets.

Table 2: Investment Entry Guidelines

Asset Class Price	Expected returns†	Strategy
Cheap	5% p.a. more than term deposits	Invest now or stage your entry over time
Fairly Priced	2.5 to 5% p.a. more than term deposits	Invest now or stage your entry over time
Fully Priced	0 to 2.5% p.a. more than term deposits	Stage your entry over time, or wait until prices are cheaper
Overpriced	Less than term deposits	Wait until prices are cheaper

† All return indicators provided are for illustrative purposes only. Actual results may be affected by changes in economic and other circumstances