industry moves

Post COVID-19 portfolio construction and the role of alternatives

*Thursday 3rd September 2020***Penny Pryor**

Low interest rates, combined with COVID-19 induced equity market volatility and question marks around dividends, are prompting a rethink of the traditional approach to portfolio construction.

Many yield-seeking investors in the current market are struggling to find appropriate sources of income without taking on too much risk.

"You've got to have your money somewhere and you want a return," founder of Evolutionary Portfolio Services, Paul Saliba, says.

Evolutionary Portfolio Services provides investment-consulting services to financial planning practices and dealer groups.

Davin Hood, co founder of alternative fund manager Cor Capital Fund also believes that traditional portfolio design needs a rethink.

"Barbell-type portfolio structures, including complementary alternatives and active risk management, will achieve better outcomes," he says.

The challenge, of course, is that they require more work to oversee.

The role of alternative assets

In order to find yield there has been a propensity to chase it and take on the higher levels of risk that come with that, which is not necessarily a good thing.

"Obviously, with banks and so forth cutting dividend rates that has put further pressure on those who have relied on yields, so there is a bit of a realisation that the focus needs to be on total investing," Saliba says.

He has observed an increased interest in alternative and real assets from retail investors.

"One of the beauties of real assets is the price you see is more representative of value and not representative of market sentiment. That is part of why it provides the correlation benefit," Saliba says.

"It also has benefit in terms of getting at assets you can't generally get involved in in the public market."

Illiquidity concerns

Real assets, by their very nature, are illiquid which is something many retail investors have difficulties with.

Hood’s Cor Capital Fund invests in equities, fixed interest, precious metals and cash, with allocations evenly split across the four asset classes.

“Most investors understand the role alternatives are supposed to play in their portfolio but it would be fair to say many strategies have failed to meet expectations in recent times,” he says.

“Given, as a group, there is relative opaqueness, complexity, and extra cost, it is no surprise that many retail investors steer clear.”

Saliba agrees that the investment vehicles available to retail investors are limited and that investors need to get comfortable with a level of illiquidity.

“I think a certain amount of a portfolio would do perfectly fine to be illiquid…but it doesn’t sit very comfortably given past experience in the GFC.”

Hood also stresses the importance of specialist advice and extra research to understand the benefits of investment in this space.

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