

Building a Portfolio

Whether you are setting up an investment fund or planning for your retirement, one of the most important things you will need to do is build an adequate investment portfolio. There are many factors that need to be considered when building an investment portfolio – for example, where do you wish to invest your money, how much risk are you willing to accept for a given return, how much money do you wish to end up with, and for how many years do you wish to invest your money?

Diversify, diversify, diversify!

Nobody knows what the markets will be doing tomorrow – if we did, we'd all be millionaires. The reality of investing in markets is that your investments will rise and fall; today's winner might be tomorrow's loser. The best way to counteract the volatility of investment markets is to ensure that your portfolio is diversified. Diversification simply means not putting all of your eggs in one basket.

There are a multitude of options available for investment purposes, but the majority of funds will invest in the following;

- Cash
- Australian Fixed Interest
- International Fixed Interest
- Property
- Australian Shares
- International Shares

Cash and fixed interest investments are seen as low risk, low return assets, while property and shares have a higher level of risk with a variable level of returns.

Risk Profile

The way in which your investment portfolio is constructed is largely dependent on your risk profile. Your risk profile is determined by your attitudes towards investment risk.

A defensive or conservative investor is willing to forsake large returns for lower investment volatility. They seek to preserve their capital, but at the same time receive a small but steady return on their investment.

A moderate or moderately conservative investor is willing to accept some risk on their investment, but still wishes to maintain a high level of stability in their returns. Erosion of their capital is still a concern, but they are willing to accept that in exchange for a slightly better return.

A balanced investor aims to achieve long term investment growth by spreading their money across the full range of investment types. They are willing to accept a moderate level of risk in return for higher returns, but still keep a large portion of their money in low risk funds.

A growth or moderately aggressive investor is comfortable with medium to high level of short term volatility in return for high levels of capital growth and a moderate income stream. Most of their money will be invested in growth assets, with only a small amount in low risk funds.

A high growth or an aggressive investor will accept very high levels of short term volatility in exchange for better long term investment results. For an increase in the risk of capital loss, an aggressive investor is likely to receive higher levels of capital growth and a moderate income stream. The majority of their money will be invested in growth assets.

Investment Scope

The method in which you chose to construct your portfolio is also largely dependent on your investment scope, or the amount of time you intend to invest your money. For example, a risk averse investor is likely to have their money invested for a time frame of about 3-5 years, while a risk seeking investor intends to have their money invested for a period in excess of five years. This is due to the cyclical nature of the markets – a risk seeking investor might lose money in the short term, but is likely to make it back when the cycle changes. With adequate diversification, you can offset some of your losses and consistently make respectable returns.

Find out more about Portfolio Construction

Everybody has a different risk profile, and as such have different needs and will require a portfolio that caters to those needs.

To find out more information, please contact our Financial Planning staff.

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