CONTROL YOUR INVESTMENTS

Many investors (and their financial advisors) choose to outsource control of their investments to fund managers of flexible or balanced funds. The belief (or hope) is that the fund manager has a better insight into the future than the rest of us. Frankly, I think these investors (and their advisors) are making a big mistake.

Fund managers make structural errors

Many respected fund managers make two structural mistakes with their balanced funds over the long term. Firstly, they are usually under-invested in shares over long periods of time and secondly, they are almost always under-invested in listed property. These fund managers explain that they are protecting investors from potential losses if the stock market drops. A fund manager who remains conservative with equities in a balanced fund is more likely to keep his job because he won't have shocking performance over a one-year period. This does not necessarily mean he is doing a good job for his investors who may be losing out over the long-term.

Listed property is more complicated, it is very rare to find balanced funds with a large exposure to property companies. This is partly because the property sector is quite small in comparison to the rest of the stock market. I also believe that most balanced fund managers are not fundamentally comfortable with listed property. They will take small positions at certain stages in a market cycle but for the rest of the time will avoid property. As you can see from the table below, an underinvestment in property (as shown by property unit trusts) was a very poor decision over the last ten years to the end of October.

Asset Class	Index/Fund Name	5 year annualised returns
Shares	All Share Total Return	20% per year
Property	Average of all property unit trusts	20% per year
Balanced Funds	Average Balanced Funds	16% per year

Source: Morningstar

One could also infer from the table that the average balanced fund manager was under-invested in shares and property over the last ten years, when interest rates were falling, which is usually very positive for bonds and property.

Take control

For a private investor, there are no limit on the portion of capital that you can allocate to any asset class. It is unlikely that a very large balanced unit trust will ever invest 15% or 30% of its capital in listed property because of unit trust regulations and the limited size of the property sector. This is not be a problem for individual investors. Having said all that, I am not advocating that you place all your money in listed property – far from it. I feel you should create a structural asset allocation for yourself that is not determined by outsiders who know nothing about you. To start with, if you adopted a really simple approach to asset allocation, you could do the following:

Asset class	Percentage Allocation
Shares	50%

Bonds	25%
Listed Property	25%
TOTAL	**100%**

The real benefit of this approach is that you determine your allocation to growth assets based on your own situation. It is only by investing in growth assets (shares and listed property) on a sustained basis, that investors will make the maximum possible return without taking excessive risk. If the stock market continues to rise, fund managers are likely to reduce their exposure to shares and listed property even further. This is because they are worried that the market might dip in the short term but this might not be relevant to you. If you bought quality growth assets at a great price, the fact that they fall for a year or two might be irrelevant if you are investing for 20 years.