Challenging the status quo

STATUS QUO BIAS IS NOT, AS IT MIGHT SOUND, A PREFERENCE FOR AN AGEING, LONG-HAIRED ROCK BAND, BUT AN EMOTIONAL ATTACHMENT TO THE CURRENT STATE OF AFFAIRS. FOR INVESTORS, IT CAN HAVE A NUMBER OF ADVANTAGES, NOTABLY THAT YOU DON'T MESS ABOUT WITH YOUR INVESTMENTS BASED ON EVERY MINOR HICCUP IN STOCK MARKETS. HOWEVER, IF YOU ARE NOT CAREFUL, IT CAN ALSO MEAN YOU HANG ONTO EXPENSIVE OR POORLY PERFORMING INVESTMENTS LONG AFTER THEIR SELL-BY DATE.

A move towards cheaper funds

The investment industry has come a long way over the past decade or two. Passive funds – those that seek to track an index or a benchmark rather than actively pick stocks – have grown in popularity. This has had a positive impact on the whole industry by helping to reduce fees and create additional accountability for managers of active funds. Those who have sought to charge active fees for returns that look suspiciously similar to a benchmark are being exposed.

This means that funds that looked like good value a decade ago may not represent such good value today. The best active fund managers have taken steps to reduce their fees and keep costs competitive. Costs can exert a significant drag on investment returns over time.

For example, an investment of £10,000, that grows at 6% over 20 years would be worth £33,102; taking a 1% fee, which you might expect to pay for an actively managed multi-asset fund for example, would reduce its value to just £27,126[1]. It is worth checking your portfolio to see if there are cheaper options that would do the same thing, and that you're not paying active fees for index-like performance.

Broader choices and more diverse funds

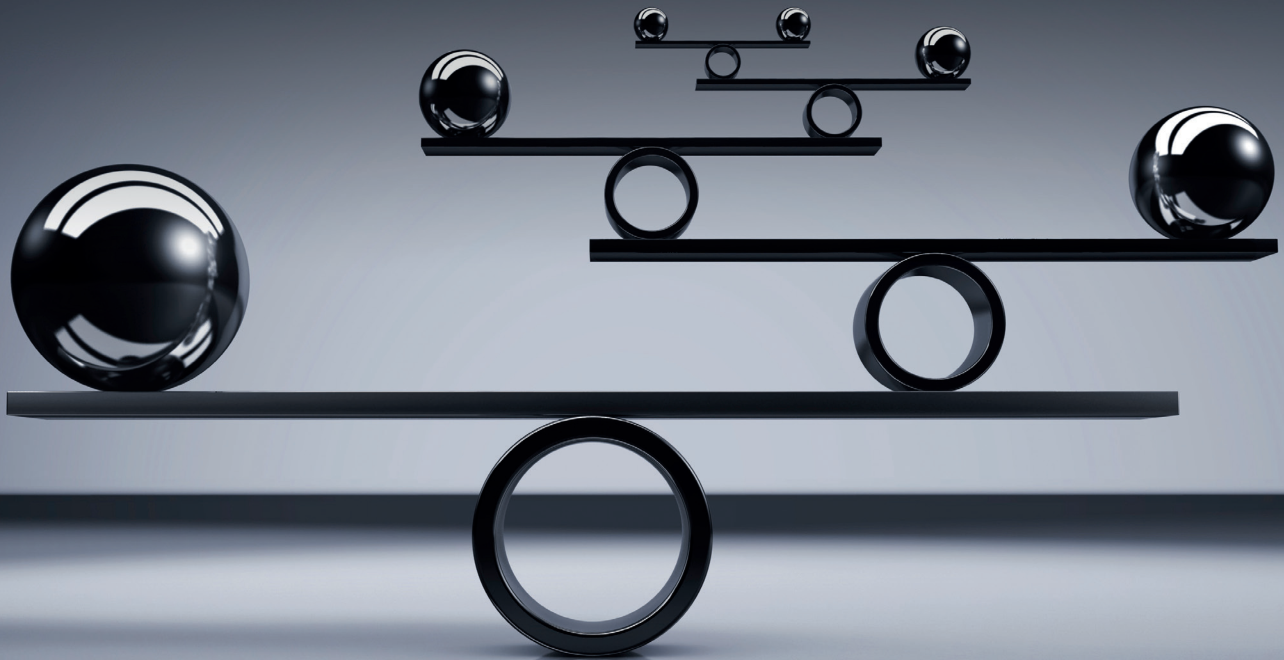
At the same time as fees have fallen, the investment industry has grown in sophistication, meaning there is a far broader choice available to investors. For example, recent years have seen the expansion of multi-asset funds. These take the traditional model of a share and bond portfolio, and extend it to include things like commercial property, alternative assets such as hedge funds and other investments, all under one fund roof.

Investing through a multi-asset fund is one way to help broaden the diversification of your portfolio. Historically, a share and bond portfolio was reasonably well-diversified. The shares part of the portfolio tended to do well at times of economic growth, with the bonds part providing a defence during weaker times.

However, in more recent times, intervention by central banks since the financial crisis has seen share markets rise while bond markets have also been strong. While this has worked well on the way up, as and when interest rates rise, the reverse may be true, with both asset classes moving lower in unison. Hence the need to think about having a broader spread of assets in your portfolio.

Everything changes, including your circumstances

In your twenties, with few responsibilities and plenty of bravado, a portfolio packed full of emerging markets and technology may suit you very well. As you hit your thirties and forties, however, and the reality of mortgages, marriage and children bites, you'll probably still be looking for growth but may want to



> “Costs can exert a significant drag on investment returns over time.”

do something a little tamer with your money to help achieve it.

At various points in your life, you may need an income from your investments. For example, if you are retraining or building a business, you may want to have a little extra money available each month to pay bills. You are likely to need this most in retirement, when you no longer have a regular salary to cover your expenses.

With this in mind, it’s important to overcome that status quo bias and review your holdings as your circumstances change in order to check they are still appropriate for your age, your stage and your evolving long-term goals.

Good funds can become bad funds

Fund groups merge, fund managers change and even the best fund manager can have a bad patch. While chopping and changing fund managers after the slightest run of poor performance is generally a bad idea, it is worth reviewing them every now and again to see if they are performing as you would expect. Especially relative to broader market conditions and their peers.

While good fund managers don’t tend to become bad fund managers overnight, there are plenty of examples where fund managers have permanently lost their edge.

While no-one would recommend looking at your portfolio every day, at least the occasional spring clean is in order to help ensure that your holdings are fit for purpose and fit for your lifestyle. People and stock markets change all the time; it’s up to you to ditch the status quo bias and ensure your portfolio doesn’t get left behind. ■

How Alliance Trust Savings can help

You can use our Morningstar tool to research the 4,000 plus investment options available through our platform. The information it provides can help you build the right portfolio for you and then keep an eye on how that portfolio is performing. That includes helping you spot whether any of your holdings turn out to be duds that you might be better replacing.

This article is for general information only and takes no account of your personal circumstances and does not constitute a personal recommendation. If you are unsure of suitability, you should seek expert advice. Alliance Trust Savings does not give financial or investment advice.

The value of your investments can go down as well as up and you may get back less than you originally invested.

Please remember that past performance is not a guide to future performance.

Before initiating a transfer you should seek professional advice on the merits of the proposed transfer that is specific to your circumstances.

Your existing pension may have valuable benefits which you might lose when you transfer.

Sources:

1. *Calculated using the This is Money monthly or lump sum savings calculator.*