Market & Portfolio Update – November 2017

Risk Management – balancing risk and opportunity

This year has been a very rewarding time to be an investor. Global share markets have risen by over 20% since January. When times are this good, it can be easy to lose sight of all the decisions that guided how you got there. Risk management is the hidden gem that often goes unnoticed in your portfolio. This is particularly true when performance is positive.

What is Risk Management?

Risk management involves analysing and mitigating against potential adverse outcomes. The most common risk management tool is insurance. Most of us have car insurance. This is because we don't want to risk the inconvenience, cost and frustration that comes with a car accident. To manage this risk, we buy insurance, which protects us financially in case of an accident.

Every day we manage risk to some degree. Saving more than we spend is managing the risk that tomorrow we may earn less than today.

In your portfolio, there are many areas of risk and opportunity to be considered. Managing these includes thinking about:

- your portfolio's allocation to share markets – having more or fewer shares than usual
- diversifying across different asset classes – having money in shares, bonds, cash and property
- changes in interest rates – are they rising or falling?
- fluctuations in the currency.

Looking back

The rise in global share markets this year has been driven by strong economic growth and solid company earnings growth. Investors with more global shares based on these two key pillars have been well rewarded. Those who chose to avoid global shares, or own less – because of news headlines and geopolitical drama – have not been rewarded.

Importantly, risk management is **not** about avoiding all risk, as this also means avoiding all reward! Rather, it's about taking intelligent risks, which is where we focus.

Looking forward to 2018

Ahead are more opportunities and risks that can be managed. As an individual investor, it's best to consider when you need to use your savings. Knowing your timeframe will help you choose the most appropriate fund, managing the risk of disappointment.

Over the long term, if you don't have enough invested in 'growth' assets, such as shares, you put at risk achieving your goals.

Don't know where to start? Rede Advisers are financial planners and we have the tools, knowledge and experience to help you identify your goals and make sure that your investment strategy is right for you.

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- With another month of moderate gains, portfolio returns are now at very solid levels for the year, depending on their allocation to shares. For example, a balanced portfolio is up around 10%.

- Closer to home, the change in government has caused some concern among business owners, with confidence levels dipping. However, the New Zealand share market has brushed this off so far and has continued to rise, with some prospect that the dip in confidence is short lived.

- Looking forward, 2018 is likely to hold a few surprises, both positive and negative – as is usual for investment markets. This is a natural part of long-term investing. Pleasingly, the global economy continues to do well, and this gives us some confidence for the year ahead.