A guide to multi-asset investing

Multi-asset investing

Multi-asset investing has always been a good way for investors to spread risk. Pension funds, for example, have long invested in a mix of shares and bonds to help meet the needs of their clients.

In the UK, the popularity of multi-asset funds has really taken off over the last 20 years.

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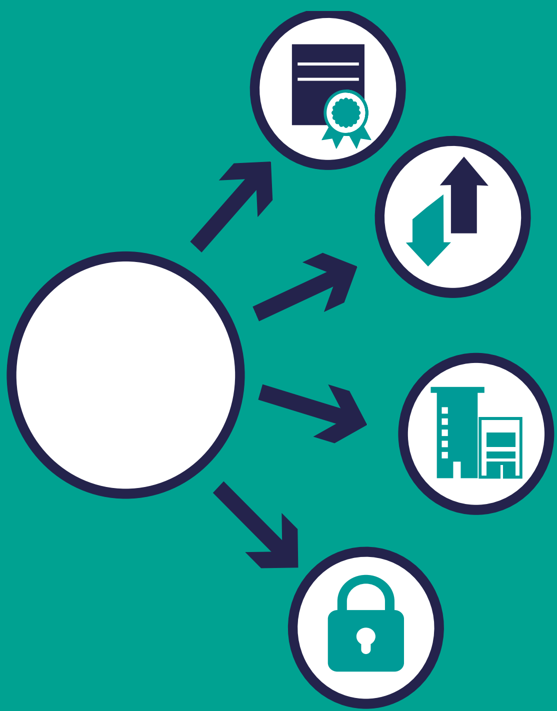
What is multi-asset investing?

In its simplest form, it's investing in a mix of different types of investment. Company shares and government bonds are among the most common kinds of investment held in multi-asset funds. Though in recent years the range of investments held in multi-asset funds has expanded widely. Many funds now invest in other assets that individual savers would never consider investing in. Examples include private equity, infrastructure and commercial property, among others.



Why invest in multi-asset funds?

Perhaps the biggest benefit of multi-asset investing is diversification. By investing in more than one kind of asset, you can spread risk and improve your potential for returns.

Diversification works because different types of investment often don't perform in the same way at the same time. For example, share prices often go up while bond prices are falling, and vice versa. This is because factors such as economics, interest rates, politics, conflicts and even the weather affect different asset classes in different ways. What's positive for one may be negative for another.

Diversification can also help to even out returns and lessen the effects of short-term market ups and downs. Share prices can be quite volatile and change a lot in a short period of time. Bond prices tend not to move up and down quite as much or as fast as share prices. So, by investing in both, you can achieve less volatile returns than would come from investing in shares alone.

We can't predict all the factors affecting how different asset classes perform. But in most years, the difference between the best and worst-performing asset classes is substantial. That's why 'correlation' is such an important concept here.

Understanding correlation

Correlation is the relationship between asset classes. The lower the correlation between two investments, the less similar they are in their behaviour. If they're negatively correlated, they move in opposite directions – one rising in value while the other falls. If they're positively correlated, they'll tend to rise and fall in value at the same time.

If you invest in just one type of investment (for example UK shares), you may be exposed to a lot of risk. If the stock market fell suddenly, the value of your shares would substantially fall in value. A well-diversified portfolio spreads this risk by holding investments that aren't positively correlated to shares. In other words, multi-asset investing means not putting all your eggs in one basket.

How can you make money?

Like the underlying investments that it holds, a multi-asset portfolio can make money in two main ways. As an investor, you might be looking for one or both of these types of return. It depends whether your investment goals centre on growing your money or getting regular income payments.

1. Capital growth

Capital growth means an increase in the value of the assets you invest in. For example, buying shares that rise in price before you sell them is one of the most straightforward examples of capital growth.

2. Income

Income may be a set or variable amount. Bonds, for example, usually provide an investor with regular fixed payments. Rent from a property investment also fits into this category. Shares will often pay out dividends, which tend to be variable.

How can you lose money?

Taking a multi-asset approach can reduce the risk of losing your money compared to investing in a single asset. But it doesn't eliminate it completely. Although it's unusual for all types of investment to fall in value at the same time, it can happen.

The last time was in 2008, in the middle of the financial crisis. In extreme circumstances such as these, a multi-asset portfolio is likely to fall in value along with other investments. It may not lose as much as an investment in a single type of asset, though.

It's also worth considering that, while multi-asset investing often reduces risk, it can also limit returns. Spreading your money around means that you might not make as much as you would if investing in one asset that performed very well. So, in a year where shares do well, a portfolio made up of shares might typically enjoy better performance than a multi-asset portfolio. However, in a year where shares do badly, a multi-asset portfolio is likely to fare better than a portfolio made up of shares.

How to invest

It's possible to build a multi-asset portfolio by investing directly in different assets. But doing it effectively can be a time-consuming and labour-intensive process. You need extensive knowledge and experience to choose the optimum mix of investments. It can also be costly.

Because of this, many people choose to diversify their portfolios by investing in multi-asset funds run by professional managers. These funds pool investors' money together and then divide it between different asset classes. You benefit from the managers' expertise and their ability to access a wider range of investments than that available to individual investors.

Some multi-asset funds include niche investments that need significant research to understand the risks. On top of this, it can be difficult for an individual to buy and sell these kinds of investment quickly. But you can get access to these and the advantages they potentially offer through a multi-asset fund.

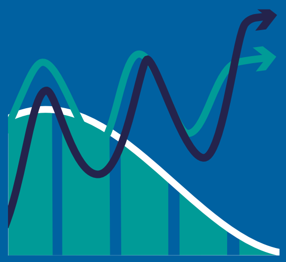
As with all funds, you'll pay ongoing investment management charges. These will vary depending on the type of fund you choose. The charge is usually a percentage of the current value of the fund.

There is a wide assortment of multi-asset funds to choose from, each with its own level of risk. Whichever route you choose, we'd always recommend that you speak to a financial adviser before you make an investment decision. If you don't already have a financial adviser and would like to find one in your area, take a look at www.unbiased.co.uk.

Multi-asset funds include:

Growth-biased

Growth-biased multi-asset funds



Balanced multi-asset funds

Balanced multi-asset funds, which tend to have an approximately 60/40 split between equities and bonds

Style-specific fund

Style-specific funds focus on providing investors with a particular outcome, such as paying an income

Highly diversified

Multi-asset funds that typically invest in a wide range of assets

Definitions

Equity

(n) shares in a company that can be bought and sold on a stock market

Bonds

(n) debenture, a security, issued by a government or a company when borrowing money

Multi-asset

multi- combining form meaning much or many; asset *(n)* an item of monetary value e.g. she invested in a multi-asset portfolio

Important Information

This information is to help you understand more about multi-asset portfolios, how they work and why you might want to invest in this asset class and all the risks.

The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested. Past performance is not a guide to future results.

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