RUGBY'S ROYALTY
Iain Balshaw: Prince Philip said I was an idiot | p13

Diversify and conquer to ride out storms

Investors can weather the stock market volatility; just hold on and branch out, writes **Mark Channing**

BRYAN MEADE

INVESTORS are being urged to "hold their nerve" after a sell-off in stock markets and a warning from a leading bank that another global recession could be imminent.

Earlier this month, New York-based bank Citigroup warned investors that the chance of another global recession had risen to 55%.

Willem Buiter, global chief economist with Citigroup, said that there is now "a high and rising likelihood" of a Chinese, emerging market and global recession.

The warning from Citigroup follows a period of turbulence on world stock markets over fears that the slowdown in China could spread to the rest of the world. The Dow Jones Industrial Average index of shares has lost 9% in value in the past three months, while the German DAX is down 11% over the same period.

Financial experts say, however, that long-term investors shouldn't rush for the exit but instead take a long-term approach if they want to reap the rewards of their investment.

Liz Field, chief executive of the Wealth Management Association in the UK, said: "With global markets currently see-sawing, some people may be tempted to withdraw their money. However, investors must hold their nerve. Those who stay calm and adopt a buy-and-hold approach will see better days and much better returns."

We tell you how to bullet-proof your portfolio.

INVEST FOR THE LONG TERM

Investors should ignore short-term volatility and take a long-term view when it comes to investing, say experts.

Dave Quinn, chief executive of Investwise, a financial planning firm in Dublin said: "You can tie yourself up in knots trying to get in and out of the market at the right time but if you have a long term time horizon it really doesn't matter."

For example, an investment in the S&P 500 Index, which is made up of the 500 largest companies on the US stock market, posted an annualised return of 7.3% by staying fully invested over the past 10 years.

However, within this 10-year period, annual returns varied enormously. For example, in 2008 the index fell by 37% followed by a 30% increase in 2009.

Eoin McGee of Prosperous financial planning in Kildare, said: "It's about time in the market, not market timing. The most damage you will do to your portfolio is by withdrawing the money at a bad time. You need to make sure that you have complete control when you come out."

Experts say drawing up an investment plan at the outset can help stop you from making rash decisions during periods of volatility.

Gary Connolly of investment consultancy firm iCubed said: "You need to step back and commit to a proper plan and ignore, in so far as possible, any short-term volatility."

STAY DIVERSIFIED

Holding a diversified portfolio of assets including equities, bonds, cash and property is one of the keys to successful long-term investing, say experts.

Owning a diversified portfolio protects you against the impact of large falls in the value of a single asset or asset class.

"The main element of diversification is investing in a variety of different asset classes, some of which you'd expect to be performing better than others, at different points in the cycle," said Connolly.

"Successful diversification essentially means that some of your portfolio will be underperforming some of the time," he added.

You should also aim to be diversified within asset classes.

"You could buy an apartment as your property investment which is fine, but it's not very diverse," said Quinn.

"A more diverse way to invest in property would be to buy shares in a real estate investment trust that would have dozens of properties in one fund."

Holding a small proportion of your portfolio in alternatives such as gold is also seen as an important tool to achieve diversification.

Mark O'Byrne, research director with Goldcore, a gold broker in Dublin, said: "Gold is a safe haven asset and remains an important element of diversification in order to protect from the risk of falling stock and bond markets.

"An allocation to gold reduces volatility in your overall portfolio and smoothes and enhances returns over the long term."

PICK THE RIGHT FUNDS

Absolute return funds are tipped for cautious investors looking for steady returns regardless of market conditions. These types of funds seek to preserve your capital and provide consistent positive returns that are better than cash.

Absolute return funds have grown in popularity in recent years, becoming a favourite among investors seeking long-term growth with minimum volatility.

"With absolute return funds, you know what you're getting," said Quinn. "They publish their strategies every month and define their target return. They're liquid, priced daily and if you strip out commissions they charge less than 1% a year so they're not bad value."

The Global Absolute Return Strategies (GARS) is the flagship fund from Standard Life and is one of the biggest retail funds in Ireland.

GARS targets a return of cash of +5% per annum on a rolling three-year basis with one-third to one-half of the investment risk associated with equity markets.

Over the past five years, GARS has posted an annualised return of 5.4%.

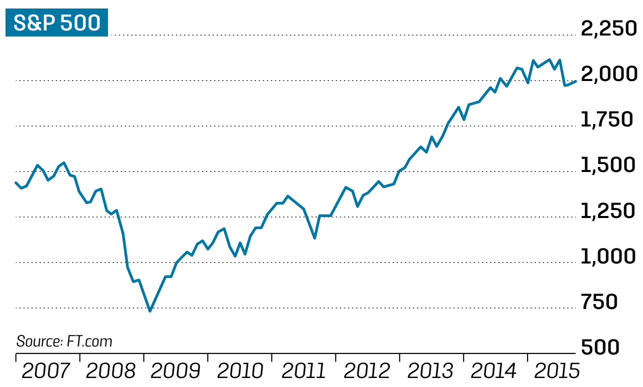
Multi-asset funds offer another way to achieve much-needed diversification while also adjusting for risk. Multi-asset funds invest in a range of different assets and fund managers and are designed to match a different investor risk profiles.

For example, Friends First's Magnet portfolio funds are a range of four multi-asset funds with options for cautious investors, as well as adventurous investors seeking a higher-risk option. Standard Life, New Ireland, Zurich Life and Aviva have similar multi-asset options. Experts advise caution about investing in capital guaranteed products. Also known as tracker bonds, these products claim to pay stock market-type returns without the risks but there is no guarantee you will get a return.

"With interest rates so low the cost of offering the protection is so high that the chances of making a return are very slim," said Quinn.

> **IT MEANS THAT SOME OF YOUR PORTFOLIO WILL UNDERPERFORM SOME OF THE TIME**

S&P 500



Source: FT.com

EURO COST AVERAGING

Experts say that euro cost averaging, where you invest a lump sum by drip feeding in at regular intervals rather than investing it all in one go, is a good strategy to reduce risk, although it may hurt your returns.

For example, if you invested a lump sum of €100,000 into a share priced at €100 and the share price falls by 30% over a year, you are left with a loss of €30,000.

However, if you invested the €100,000 in four chunks of €25,000 at the beginning of every quarter, your loss at the end of the year would only be €16,210, assuming the share fell by €10 a quarter.

"When you look at the long-term evidence, investing in a single go compared to over a long period of time can actually do better than regular investing, however cost averaging certainly reduces your risk. Emotionally it's also a very good strategy," said Connolly.

HOLDING CASH

Investors worried about the future direction of the markets who want to hold onto gains should consider holding cash, say experts.

"If someone wants to take money off the table and protect what they've got, I would say not to look on cash with such a jaundiced eye," said Connolly.

"Cash provides ballast in an environment where markets do decline. It is also realisable very quickly, giving you the option of putting money back into the market when it's likely to be a good time," he added.

Despite the low interest paid on cash deposits, rates in Ireland are still significantly above the European average.

Deposits with an agreed maturity up to a year can earn up to 1.1% interest in Ireland, compared to the eurozone average interest rate of 0.68%.

Equities offer best returns

Financial planner David Devine said for long-term investors, equities are the asset class most likely to pay the best returns.

Devine, principal of Platinum Financial Planning in Kildare, said that more than 75% of his pension portfolio was invested in equities.

"The longer you have to invest, the less chance you have of a loss being made. All the statistics bear that out. I'm 38 and have a lot of years to go before I retire, so I've got time on my side to ride out the highs and lows," he said.

Devine, *pictured*, said he wasn't too concerned about the current volatility in stock markets and said it hasn't caused him to change his overall investment strategy.

"My own feeling is that we're not looking at a market crash as such, certainly nothing as bad as in 2008. There's definitely a correction taking place, but one that was probably overdue given that equities have performed so well in the last couple of years."

Devine said that he liked absolute return funds because they generate positive returns in both rising and falling markets.

"I think absolute return funds have a place in every portfolio. Other funds make a loss and try to spin it as a success because they beat their benchmark. However, making a loss is not in the interests of investors."

Devine said that he thought property remained a good investment but only as part of an overall portfolio.

"There's definitely merit in investing in property but it's not a strategy that I would solely rely on. Irish people have an obsession with owning property but it should be part of an overall portfolio. You should never keep all your eggs in one basket."

MARK CHANNING

We need more houses, not more help for first-time buyers

COMMENT

BRENDAN BURGESS

During the week the OECD welcomed the mortgage caps introduced earlier this year by the Central Bank and warned about the dangers of house price increases. In response, tanaiste Joan Burton said that helping young people to access finance to get onto the property ladder was a top priority.

Earlier in the year, some Labour party TDs had suggested giving first-time buyers grants of up to €5,000 to help them get around the Central Bank restrictions. The Construction Industry Federation also wants a Help to Buy scheme similar to the one operating in the UK. Last week a group of mortgage brokers called for a Special Saving Incentive Account type scheme to help first-time buyers.

Throwing more money at the problem won't help. Government's focus should be on getting more houses built. Helping a particular group such as first-time buyers is misguided. Focus on the developers and buyers of new homes — it doesn't matter whether they are first-time buyers or not.

The best way to increase the supply of new houses is to bring down the cost of building and selling new houses. The government pushes up the cost of building houses in many ways. Developers of new homes are obliged to donate 10% of the site to social housing and to build social housing at cost price for the local authority.

This is seen as a "tax" on property developers but in reality it's passed on to the buyers of the homes, as are all other costs. Effectively, it means that buyers of new homes subsidise social housing. Buyers of second-hand homes don't pay this levy.

Private renters don't have to subsidise social housing. The full burden falls on the buyers of newly built homes. This makes absolutely no sense at all.

The government imposes development levies on new homes which further push up the price of homes. These can be particularly high in urban areas, such as near the Luas, where housing is most needed. Again, the buyers of new homes are subsidising these developments, while existing home owners, who also use infrastructure such as the Luas, are not.

The new building regulations specify solar panels and rainwater harvesting which first-time buyers can't afford. Department of the Environment regulations insist that 50% of any apartment development must be dual aspect (windows facing two directions), which is probably fair enough.

Dublin city council insists that 85% of apartments must be dual aspect. This makes the building of apartments in Dublin uneconomic, so few new apartments are being built in the capital despite a chronic shortage and burgeoning demand.

But the biggest impact of all is the VAT on the selling price. A house selling for €300,000 has around €35,000 VAT included in the price which goes straight to the government.

When all these costs are added up, they push up the cost of building a property, and therefore the price, by around 20%. If the government abolished or reduced these taxes, levies and regulations, then more houses and apartments would be built, prices would fall and young people would not need subsidies.

Fixed-rate future

Burton might like to address another big problem facing first-time buyers: high mortgage rates in Ireland. Not only are Irish borrowers paying around 2% more than borrowers in other Eurozone countries, but these already high rates are stress tested by a further 2%.

So when a borrower applies for a mortgage, the bank will check to see if the borrower could still afford their mortgage payments if mortgage rates were to increase to 6%. A mortgage is a 20 or 30 year commitment, so it is not enough to check affordability at today's rates.

So although the variable interest rate today is "only" 4%, if a borrower wants to borrow €200,000 over 20 years, the lender will check to see if they could still afford the repayments at 6% which would be €1,400 a month. This approach protects both the borrower and the lender from reckless lending. As we are still recovering from the fallout from reckless lending and borrowing, few would disagree with such a sensible approach.

Last week, Brian Hayes MEP, tweeted some information about mortgage rates in Belgium. Borrowers there can fix for 20 years at 3.25%. When the rate is fixed for the duration of the mortgage, there is no stress testing. European Central Bank rate rises have no effect.

If such rates were available here, then a would-be purchaser needing to borrow €200,000 would have their affordability tested at €1,100 per month, instead of at €1,400 a month. The loan would be more affordable.

Burton would be better employed encouraging finance minister Michael Noonan to get the banks to reduce mortgage rates and to provide real, long-term low fixed-interest rates.

Building more houses, lowering house prices and reducing interest rates would help everyone. First-time buyers would get on the housing ladder earlier. Those wishing to trade up could afford a bigger house. Building more houses would take the pressure off the rental market. The only losers would be the banks which would be prevented from making excessive profits on mortgage rates.

Brendan Burgess is the founder of askaboutmoney.com