6 Asset Allocation Tips for Irish Investors

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The global investment market has shown significant volatility & uncertainty in recent months, mainly down to the Greek debt crisis and the European Quantitative Easing (QE) programme.

This short note outlines **6 tips on positioning your investment and pension portfolio** in the current economic and market environment.

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1. Diversify Diversify Diversify

- Spreading your investment allocation into **different asset classes, geographies & sectors** will help to reduce your risk & volatility and protect your portfolio in falling markets
- Well-diversified portfolios also have a healthy **mix of security types** such as ETFs, Investment Trusts and Open-Ended Funds. These portfolios should also focus on **different fund management styles** such as active and passive
- In the current environment of high valuations, the case for **Absolute Return funds** is compelling. These strategies focus on avoiding relative, long-only 'beta style' market movements that traditional equity and bond funds offer

Collating and consolidating all of your investment & pension portfolios into one overall asset allocation to independently analysis and review your level of diversification is a very worthwhile exercise

2. Ensure your level of risk is appropriate to you

- You need to decide on your **own appetite to risk** by asking yourself difficult questions like your ability to sustain losses and your appetite to volatility. Completing the risk questionnaire section of a Financial Advisor's FactFind document is a good start

- Analyse the Asset Allocation of your existing Investment & Pension Portfolios to understand the **level of risk** within it. If there is a **gap** between your desired level of risk and the actual level of risk, then this gap needs to be remedied

- **Avoid taking unnecessary and inappropriate risk**. Buying individual shares in the stock-market can be extremely risky. To reduce this risk, investors can buy passive ETFs and active Funds that benefit from internal diversification

- Watch your **currency exposure**. A low risk investment listed in a non-Euro currency becomes significantly higher risk as now there is foreign exchange risk. Consider Euro-hedged shares classes if available

The more you understand your own appetite to risk and your investment objectives, the more your portfolio will be aligned to these metrics

3. Choose the right providers and advisors

- **Independence Independence Independence**: Your financial advisor and investment manager cannot have any conflicts of interest in providing advice to you and recommending portfolio changes

- For Investment Trusts and Active Funds, choosing **fund managers with a strong track record of consistent returns & outperformance** is very important. The movement of investment managers to and from rival fund management companies should also be closely monitored

- For **Pensions**, ensuring that the Pensioneer Trustees or Qualified Fund Managers are reputable and completely independent is of paramount importance

Getting access to the top global fund managers and portfolio strategies at the institutional level is possible and should be sought after

4. Understand the tax implications of your Investment Portfolio

- **CGT v Exit Tax:** Gains in certain investment instruments are liable to Capital Gains Tax (CGT) while others such as European ETFs and Funds are liable to Exit Tax. The CGT rate is 33% and losses in these assets can be used to offset gains. Exit Tax is liable to a more onerous 41% tax and losses in these vehicles cannot offset gains

- **Tax Compliance Cost:** Running complex investment portfolios with significant changes on an ongoing basis means that your accountant might send you a bigger bill for completing your tax returns. You might also find that a Revenue audit down the line could catch you out for not disclosing certain acquisitions in offshore funds correctly

- **Use your Pension**: In as much as possible, more active investment strategies should take place in your Pension to benefit from the tax-fee nature of these retirement vehicles

- **Watch avoidable taxes:** In Ireland, for non-pension accounts there is a 1% levy on buying funds through Life Insurance companies. Stamp duty of 1% and 0.5% applies on buying individual Irish & UK shares respectively. Certain jurisdictions outside Ireland impose dividend withholding taxes that are not recoverable

Ensure that your financial advisor knows your specific tax situation and structures your portfolio accordingly

5. Stay Liquid

- Keep **over 75% of your Investment Portfolio in listed assets** that are either traded on a recognised stock exchange or are daily traded funds through a life company

- This liquidity will enable you and /or your financial advisor to **react quickly to changes** in either market conditions or your own risk preferences

- Listed securities also provide you with a **more accurate up-to-date asset allocation and valuation** to assist you in your strategic & tactical decision making

Traditionally illiquid asset classes such as Private Equity and Property can now be bought efficiently on the stock market through listed vehicles. It now begs the questions of having any more than 25% of your pension or investment portfolio in illiquid assets

6. Be careful with fees & charges

- Getting clarity as to the **overall fee structure** in your Portfolio is essentially. The ongoing fees include the Portfolio Management fees and the Total Expense Ratio (TER) of the constituent holdings

- Stockbroking **commissions and third party costs** on buying and selling needs to be watched also. These fees are often a higher percentage for smaller transactions

- **VAT of 23%** may be levied on stockbroking annual management fees which is irrecoverable for individual, non-business investors. This is not the case for investing via Life Companies

- In terms of the instruments that comprise a portfolio, **Exchange Traded Funds (ETFs) are a lot cheaper** than Active Funds due to the fact that they are not actively managed

Keeping control of costs by reducing management fees, commissions and TERs is important. However, too much of a squeeze on costs can result in below-par advice and poor service