



Building a diversified investment portfolio

Why it's imperative to consider your objectives and attitude towards investment risk

Constructing a diversified investment portfolio is crucial for safeguarding your wealth against market fluctuations. Diversification involves spreading your investments across various asset classes, sectors, regions and countries. However, tailoring your portfolio to your unique circumstances – such as your financial goals and investment timeline – is equally important. Before assembling your portfolio, it's imperative to consider your objectives and attitude towards investment risk.

UNDERSTANDING RISK AND INVESTMENT TIMEFRAMES

Typically, the longer your investment horizon, the more risk you can afford to assume if appropriate. This extended timeframe allows you to recover from potential losses during volatile periods. The last scenario you want is to experience a decline in investment value just before a planned withdrawal. If you're nearing retirement or already retired, you might prefer safer investments like cash and fixed-interest securities. Conversely, younger investors with a lengthy investment outlook might allocate a larger portion of their funds to equities.

KEY CONSIDERATIONS FOR PORTFOLIO CONSTRUCTION

When constructing your portfolio, reflect on your goals and whether you are saving for the short, medium or long term. Ideally, aim for a minimum investment period of five to ten years. Acknowledge that investment values can fluctuate, and while investing carries inherent risks, equities have historically outperformed cash over extended periods. Align your investments with your risk tolerance, ensuring you only invest what you can afford to lose.

THE IMPORTANCE OF DIVERSIFICATION

Regardless of your risk approach, diversification is essential to prevent reliance on a single investment type. This involves allocating funds across various asset classes, including cash, fixed-interest securities like corporate bonds and gilts, and equities. Some asset classes exhibit a negative correlation, meaning they react differently to economic changes. If one portfolio segment

underperforms, other investments counterbalance losses, stabilising overall performance.

EXPANDING DIVERSIFICATION WITHIN ASSET CLASSES

Even within specific asset classes, further diversification is possible. Consider international investments or sector-specific allocations. If income generation is a priority, broaden your investment scope. Fixed interest has traditionally been favoured for income, property and infrastructure, and some private equity firms offer viable alternatives. No investment guarantees returns, but a well-balanced, diversified portfolio should endure market turbulence.

ROLE OF PROFESSIONAL FINANCIAL ADVICE

Building a diversified investment portfolio tailored to your personal circumstances can be daunting. This is where professional financial advice becomes invaluable. We can construct a balanced portfolio aligning with your needs, whether your aim is capital growth or income generation. Regular portfolio rebalancing ensures continued alignment with your long-term objectives, giving you confidence that your investments are optimised without undue risk exposure. ■

READY TO DISCUSS THE RIGHT TAILORED INVESTMENT SOLUTIONS FOR YOUR GOALS?

Please contact us to develop a strategy that helps you achieve your financial goals and realise your ambitions. We are ready to assist in structuring a plan tailored to your individual needs, ensuring that your investments work as hard as you do.

THIS ARTICLE DOES NOT CONSTITUTE TAX, LEGAL OR FINANCIAL ADVICE AND SHOULD NOT BE RELIED UPON AS SUCH.

TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE.

THE VALUE OF YOUR INVESTMENTS CAN GO DOWN AS WELL AS UP, AND YOU MAY GET BACK LESS THAN YOU INVESTED.

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