Santander Asset Management

Helping your clients make the most of regular portfolio reviews

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In some ways, creating a portfolio that reflects an investor's appetite for risk, goals and circumstances is the easy part. Maintaining that over the long-term can be much more complex thanks to macro events, changing circumstances and investor behaviours or emotions. Regular reviews are one way you can help clients to keep on the right track.

The importance of conducting portfolio reviews at regular intervals won't be lost on any adviser. It's a chance to check that things are working as they should be, ensure the balance remains in line with the investor's appetite for risk, and identify any new opportunities and check on any changes that might have occurred since the last review.

It's also a chance to address any drift that might have occurred. Left unattended, asset allocations can easily become unmoored from the original mix - and from the investor's risk profile - when the value of the equity components is driven up or down by stock market movements, for example.

Risk and ageing

Risk may be a particular focus, given how our attitudes evolve over time. Many people become more cautious as they get older, and not just because retirement is approaching. Research shows that our risk appetite gradually falls with age, regardless of factors such as wealth, income and education[1]. Other studies have found that age-related changes in risk appetites might also be linked to changes in our brain anatomy over time.[2]

Keeping investor instincts in check

A good understanding of an investor's instincts and how they respond to events is increasingly important at a time when it's easy for people to reject advice and manage their own investments. It's here that the coaching aspect of the adviser role comes to the fore.

It might be about understanding how to communicate the principles of long-term investing in a way that will resonate with that person, or perhaps about knowing which cognitive biases to look out for. Some investors, for instance, will be overly cautious as a result of previous negative experiences, while others who haven't been through serious downturns might show signs of overconfidence.

It's particularly useful when it comes to managing the balance of monitoring a portfolio to keep in mind the risk of 'myopic loss aversion'. This refers to evidence suggesting that the more frequently investors look at their portfolio value, the more averse to losses they can become.[3]

An adviser who can spot such biases and behaviours is one well positioned to coach their clients through any kind of market conditions.

Capturing investment opportunities

Those regular reviews also create space to identify potential investment opportunities and consider how best to take advantage of them.

For long-term investors, this often involves the structural and transformative macroeconomic, demographic, technological and geopolitical trends that will shape the future of society and the world we live in. Portfolios are affected by these 'megatrends' whether we act on them or not.

One example is our ageing population, with the proportion of adult life spent beyond age 65 rising from less than a fifth in the 1960s to at least a quarter in most developed countries today.[4] This is influencing areas including energy, pharmaceuticals, and medical technology, the latter especially topical given the pressure on the global healthcare system during the pandemic.

There is also a greater focus on sustainability. People are increasingly aware of the environment and social inequality and want to use their investments to benefit others and not just themselves.

For example, companies leading the way in the transition to a net-zero carbon economy may also be those best placed to grow sustainably and benefit from market advantages over time. Conversely, those that fail to transition effectively can become more vulnerable and high-risk. As more fund firms aim to reduce the carbon footprint of their investments over the coming years[5], companies that fall short in the race to cut emissions from their activities will likely pay a price in terms of value as well as reputation.

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Keeping an eye on the big picture

Identifying exactly how to benefit from such themes isn't necessarily straightforward, however. This is where advisers can add value, particularly for the growing number of investors who want to invest responsibly but don't know where to start or how to avoid 'greenwashing' or who struggle to translate the jargon of ESG and sustainability.

Companies best able to adapt to trends and fund managers that work out how best to invest in them are well positioned for the long-term. So too are advisers that, through regular portfolio reviews, can help investors benefit from those opportunities over time while ensuring their portfolios remain balanced and on track.

Learn more

Stay up-to-date with our latest **Markets and Insights** at www.santanderassetmanagement.co.uk.

[1] The Economic Journal - Risk attitudes across the life course, 2017

[2] Nature Connections - Neuroanatomy accounts for age-related changes in risk preferences, 2016

[3] Behaviouraleconomics.com – Myopic loss aversion, accessed February 2021

[4] United Nations – World Population Aging 2019, 2019 (page 5)

[5] Investment Week – Scottish Widows targets net-zero across £170bn fund range by 2050, February 2021. FT.com - BlackRock pushes companies to adopt 2050 net zero emissions goal, January 2021

Important Information

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