Investors should adjust strategy to adapt to environment - acsis

The current economic environment and volatile markets have left South African investors confused as to where and what to invest in. Over the last ten years the world has changed fundamentally and areas where local investors used to invest are no longer providing them with the same returns.

According to Henry van Deventer, head of business development at acsis, this situation is set to remain as rocky over the next five years and if investors do not adapt accordingly they stand the chance to lose grou on hard earned investments.

Van Deventer says that while it isn't possible to predict the markets, investors can protect themselves fron their behaviour and how they react to these changing markets. "This can be done by re-evaluating and adjusting an investment strategy to adapt to the current environment."

People are pattern seekers

Investors are experiencing a time of unmitigated confusion and that the financial crisis has resulted in a tough ride for investors over the past few years. "While this will undoubtedly affect investment decisions a financial plans going forward, how investors adapt their behaviour to embrace these changes will ultimatel affect investments returns. As the current situation stands, interest rates, bond yields and inflation rates ar all at almost record-low levels, the global property cycle has been turned on its head and some leading global markets have only recently starting to overtake the 2008 recession levels."

Van Deventer says that investors' reactions to market changes need to be controlled in order to prevent th occurrence of irrational decisions being made. "People are pattern seekers in general and as a result investors tend to look back over the past ten years before making their investment decisions going forwar Strategies that worked well in the past will very likely fail to remain successful."

There has been a fundamental shift in the investment environment. "If investors hope to repeat the returns they have seen over the last ten years based on the asset allocation that worked for them in this period, th may well be in for a rude awakening. This is driven by the fact that the star asset classes of the last decad are not only set to provide lower returns, but also by the fact that we will likely not see other asset classes provide the greater returns we will need to sustain the levels of growth we have become accustomed to."

Volatility a major concern

Van Deventer points to the fact that local property provided an actual ten year after-inflation (real) return of 20.50%, while the expected real return for the next ten years is only 6.5%. "In addition, local equity has als dropped from 11.46% to 8% while global equity has increased from 3.73% to 6.5%. In order to generate similar returns as the past ten years over the next ten years, investors need to change their investment strategy to match the lower returns environment."

He adds that volatility will become an even greater concern to investors with more sideways movement in t markets and the ongoing turmoil in European markets. "The countries driving economic growth will also slowly shift to emerging economies such as China and India. Because of this uncertainty, targeted return strategies and asset allocation funds, as opposed to single asset class investments, must be considered order to drive returns in the new lower returns environment.

He advises investors to defend themselves against factors that can be controlled, such as behaviour patterns, rather than trying to defend their investments against foreign factors such as increasing market volatility. "There is always going to be bad news, but how we react to this news is what will make the difference in an investment strategy. The more volatile the markets become, the more investors feel the need to change their strategy, which could lead to disappointing results."