

## A Resolution Worth Keeping



**Capital Partners**

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**When the calendar turns over to a new year, we often find ourselves making resolutions to ourselves—whether it be getting into shape, spending more time with our families or quitting all those things that aren't good for us.**

Aware of this seasonal desire for renewal and reinvention, particularly after a year of such momentous volatility, a large part of the investment industry is busy marketing financial New Year resolutions.

For distraught investors looking for a fresh start, these slickly advertised promises to “armour-guard”

portfolios, quarantine retirement savings and make money in down markets can seem awfully tempting. But it's at these times that we need to remind ourselves that our search for investment quick fixes can leave us vulnerable to the persuasions of those who make promises they know they have no chance of keeping.

Just look at the history of hedge fund performance. These highly speculative and complex investment vehicles promise to deliver positive returns in any market and charged very fat fees for doing so. As one analyst observed, the global financial crisis may merely have confirmed what many suspected: that the "alpha" that many hedge funds were charging all that money for was just "beta", or the ordinary market return.

*So what's the answer as you review your returns?*

Firstly, *be wary of any marketer of an investment solution that promises to "beat" the market or puts your money at the mercy of their own forecasts.*

Secondly, ask yourself whether you understand what you are investing in. It is difficult to judge your risk exposure and level of diversification when your fund refuses to disclose its activities beyond the most basic requirements.

Thirdly, even if the hedge fund managers really are highly skilled, consider who actually reaps the rewards from their arcane activities. *Is it you as the end investor or the managers themselves?*

Lastly, before you make any rash decisions, you might consider an alternative approach—one that makes no promises other than ensuring your portfolio gains reliable and efficient exposure to asset classes worldwide. This approach recognises that markets are inherently unpredictable and that risk and return are related. Your best chance of harvesting the gains on offer is to remain disciplined in a diversified portfolio built around the known dimensions of risk.

To be sure, the premiums to be gained from taking on risk are not always there, which is why they are called risk factors. But you are more likely to have a successful investment experience with this approach than you are by placing faith in those that promise you the world.

It's a New Year's resolution worth keeping.



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