Performing a Midyear Portfolio Check-up

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It's hard to believe but we are already midway through 2020. With all of us tucked in under stay-at-home orders, each day seems to meld into one another and then before you know it the week is over.

With plenty of time for reflection, it is also a great opportunity for investors to reassess their life goals and check if their portfolio is aligned to their own personal financial standing, risk appetite and investment horizon. Think of it as a portfolio tune-up akin to servicing a car, so that investors can continue to stay on track to achieve their investment goals for the rest of year.

Here is a 4-step guide investors can observe when performing a midyear portfolio check-up.

01 Revisit goals and risk appetite

The first step is to ensure that the portfolio is still in line with the investor's goals and risk appetite. A lot can change during the year and investors may find that it is necessary to revisit certain goals especially if there are major life changes.

For example, an investor may be welcoming a new addition to the family and needs to set up an investment plan for the child's education with a focus on growth and long-term capital appreciation. Another example could be an investor nearing retirement who would need to tweak the portfolio's allocation towards more conservative asset classes like fixed income. These are important considerations to ensure that the portfolio is not working against the investor's objective.

During the midyear mark, investors should also ask themselves if they can still take the same amount of risk that they did at the start of the year. The COVID-19 pandemic has spurred volatility back in markets in levels not seen before, which some investors find that they cannot stomach especially if there has been a change in their financial circumstance (e.g. loss of job, medical expenses, etc.)

With volatility expected to persist, investors need to be comfortable with the level of risk they are taking. An investor may opt for a more defensive portfolio composed of fixed income and bond funds. Alternatively, an investor who has the capacity for risk may want to be positioned heavily in equities in anticipation of a rebound.

In both instances, investors must ensure that they have a wide financial safety net and liquid cash reserves to tide them over during this period of uncertainty.

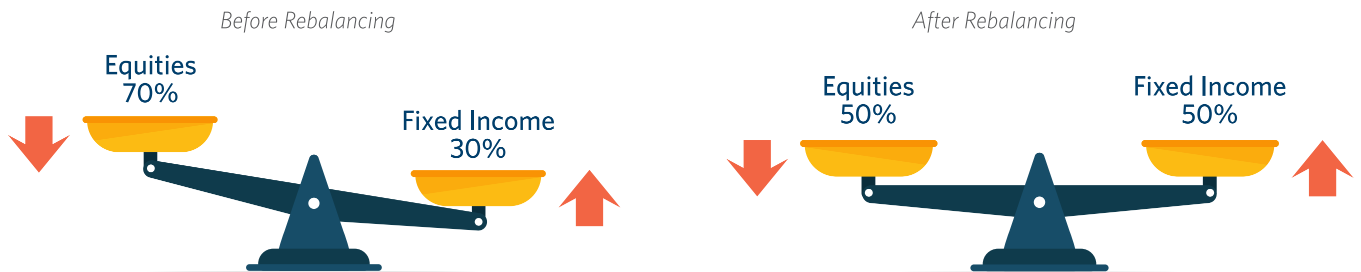
02 Evaluate asset allocation

In the next step, investors will now have to drill down into their portfolio composition to see if the asset allocation matches the investment goal or risk appetite that was revised in Step 1. Investors will have to consider if they have the right asset allocation composed of a mixture of equities, fixed income, commodities, REITS, etc., to avoid any portfolio mismatch to their investment objective and risk appetite.

For example, an investor who is now close to retirement and is need of replacement income may consider tweaking the portfolio more defensively towards fixed income. If the portfolio's asset allocation is heavily geared towards equities or small-cap funds, then there may be a portfolio mismatch in the asset allocation and the investor's goal. Over the course of the year, investors may also find that the portfolio has drifted away from the target allocation (% equities, % fixed income) due to market movements.

To illustrate, assuming an investor has invested into a balanced portfolio composed of 50% equities and 50% bonds. If the equity market appreciates at a much faster pace, this will cause the portfolio to drift away from the target asset allocation to now reach 70% equities and 30% bonds. Such an aggressive allocation would not be compatible with the risk-profile of a balanced investor, who desires a moderate level of risk on their investments. The investor can adjust the allocation through a process known as **rebalancing** to correct any portfolio drifts back to its target allocation. This step ensures that the current portfolio allocation appropriately reflects the investor's objectives and risk-appetite.

Sample Portfolio

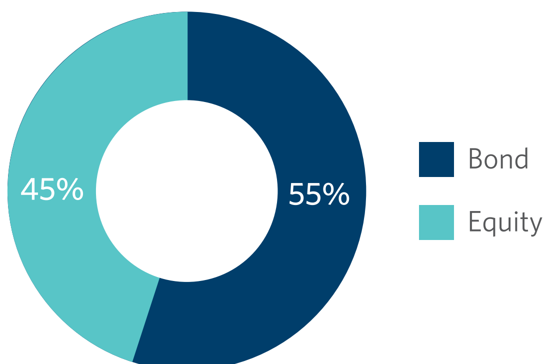


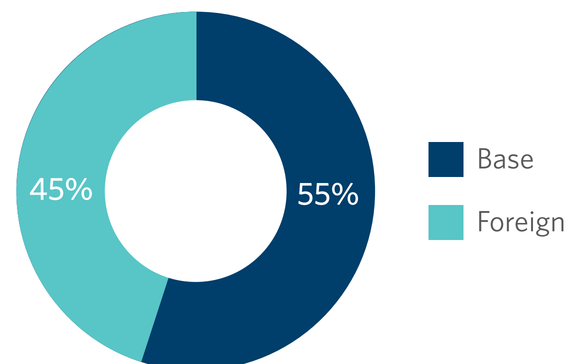
03 Fine-tune portfolio diversification

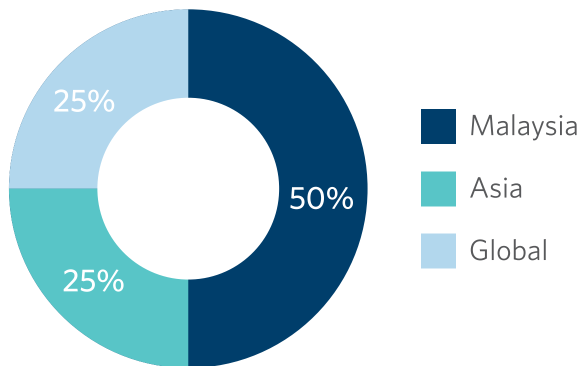
During the portfolio review, investors should also assess if they are sufficiently **diversified** in each asset class from a range of factors including sector, geographical and currency exposure. Investors may want to discuss this step with their respective client portfolio managers to do a detailed breakdown of their portfolio to see if there is any concentration risk in any specific area.

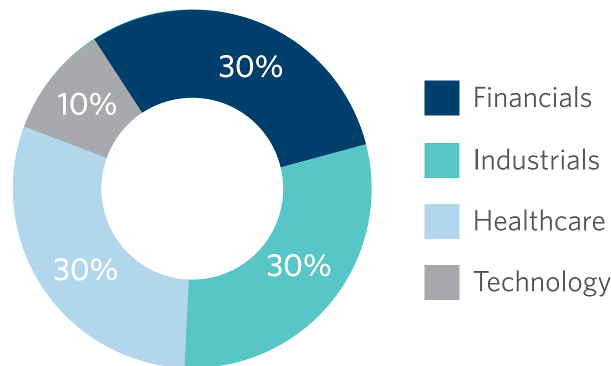
Through lower correlations in a diversified portfolio, an investor can potentially reap more attractive risk-adjusted returns by varying layers of equity and bond funds with different strategies, sector and geographical focus. In equities, this can be achieved through a mix of small-caps and blue chips that span different sectors of the economy that may respond differently in each cycle. Ensure that these are geographically dispersed across developed and emerging markets that have different growth profiles and risk characteristics. For fixed income, investors can consider apportioning their portfolio through a range of bond and target maturity funds with different maturities, as they would have different levels of sensitivity to interest rates. Consider investing in a variety of investment-grade (IG) and high-yield (HY) bonds as well to deliver an attractive blend of risk-adjusted returns that suits the investor's needs.

Across the portfolio, investors should also ensure that the funds they hold are not overly concentrated in a single stock or bond holding that may be unintentional. Consider diversifying your portfolio across a range of funds with different style exposure such as dividend funds or value-based strategies. This will minimise any concentration risk that two funds would have the same stock as its top holding by mixing different fund manager styles and strategies.









04 Staying on track

After investors have reviewed and made adjustments in their portfolio, it is now time to measure their progress against their set goals. To do so, investors can keep a simple scorecard to track their portfolio and how close they are from achieving their goals.

Assuming that an investor in his mid-20s is seeking to accumulate RM1,000,000 by the time he retires, he can make a simple calculation to determine how much more he needs and if it is necessary to make any adjustment to his regular investment plan.

The investor may find that it is necessary to top-up his retirement fund or scale-up his monthly contribution. In any case, one should avoid investing in a lump sum amount and instead **dollar cost average** to stagger one's investment periodically.

Over the long-term, a dollar cost averaging approach would reduce the impact of volatility by spreading out one's investments over periodic time intervals. This ensures that an investor does not buy at inflated prices as well as seize the opportunity to acquire more units at lower prices.

Finally in this step, it is important for investors to put performance into perspective and focus on the long-term. Don't be discouraged by temporary setbacks due to market volatility.

Investors may be tempted to chase recent winners in order to catch-up in terms of performance, but this move can ultimately backfire if valuations have run ahead of fundamentals.

Instead maintain focus by remaining disciplined and sticking to the investment plan. Avoid making drastic shifts in one's asset allocation by moving in and out of the market which can significantly hinder progress. As always, stay invested and remain diversified.

Always remember that investing is a marathon and not a sprint. A clear investment plan coupled with regular portfolio maintenance will help an investor finish the race with a higher chance of success.

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