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Risk adverse investors face capital erosion

Shaun Manuell, head of asset management at Equity Trustees Limited, says it is of concern that current commentary about the investor shift to bank deposits does not highlight the capital risk of this approach.

“Indeed, little has been said about the impact of this trend on investment strategies, or the need for a new strategy if a major shift occurs in the balance of a portfolio.

“Long-term investors in particular need to be very cautious about moving out of growth assets into cash for a number of reasons.

“While putting savings into bank deposits and other forms of cash might ensure there is no short-term capital loss, it also ensures there is no possibility of capital gain, which will always act to the detriment of long-term investors,” Mr Manuell said.

Mr Manuell says that investors must clearly understand that a “no risk” bank deposit approach to capital carries its own risk.

“Being massively overweight in cash guarantees that the purchasing power of existing capital will be eroded by inflation in the medium to long-term.

“Short-term thinking will nearly always be detrimental to long-term needs, and long-term investors should be aware that the current fixation with avoiding capital risk comes with its own risks,” he said.

Mr Manuell said he was concerned that investors do not seem to appreciate the full ramifications of what they are doing when sitting on the sidelines waiting for a more positive view on markets.

“What these investors are saying is that they are able to time the market, yet all previous experience shows this to be a general fallacy.

“Few investors are able to pick market highs or lows, and anyone who thinks they can sit on their cash for now, and then buy into the market in good time for the next rising market, are likely to find it is an approach that will cost them dearly.”

Mt Manuell said that for long-term investors who need to think in time frames of years and decades, appropriate diversification remains the cornerstone to a sound investment strategy.

“They need to ensure that they have some protection against the impact of inflation, as well as being positioned to take advantage of growth and to avoid becoming a victim of inflation-based capital erosion,” he said.

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include private client wealth management, funds management, responsible entity appointments, and corporate and personal superannuation.*

The company manages over $4 billion in its funds management, private client and superannuation businesses and has more than $19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.

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