For many investors, a balanced portfolio means having a nice portion of bonds and stocks in your investment chest which you keep pretty much unchanged for years. But these days, some investment analysts reckon that modern market volatility calls for a very different investment strategy. LIN ZHANG examines the issue in the Channel NewsAsia programme, When The Bears Are Out – Invest Wise.

MR CHRISTIAN SEUNN (PICTURE), HEAD OF INVESTMENT SOLUTIONS, SOUTH-EAST ASIA AND AUSTRALASIA, PRIVATE BANKING, CREDIT SUISSE

Why is a balanced portfolio so good?
The balanced portfolio has two objectives. One, it generates income for the investor. Two, it gives exposure to the equity markets for appreciation of the capital.

In a portfolio which is solidly established, we want to achieve the highest possible diversification. And we want to do this exactly when the markets are going down. And we want to balance it with elements and ingredients in the portfolio which are going up. So diversification is clearly a key ingredient.

What about the question of risk? A balanced portfolio is traditionally thought of as one where you lower risk. Then, without risk, there is no profit. That is not exactly true. Obviously, the diversification, meaning not putting all eggs in the same basket, does not let you participate in the up-trending market by 100 per cent.

But the exposure that a typical balanced portfolio has towards equities, for instance, or towards alternative investments which have different behaviour in different market circumstances, still give you plenty of outside potential if built solidly.

Nowadays, the universe of investment instruments which is available to the average investor is huge. And I do believe that when you look at instruments like investing in copper or timber — some things which have not been accessible by a bank account in the past — give risk return characteristics which are very beneficial within a portfolio complex, also to a balanced portfolio.

MR SUNDAI AMARAKAMAH (PICTURE ON FACING PAGE), ASSOCIATE PROFESSOR OF FINANCE, LIE KING CHIAN SCHOOL OF BUSINESS, SMU

Some behavioural economists argue that a balanced portfolio is based on an idea that you don’t have any specific knowledge. If you have knowledge about something — say a particular equity, bond or commodities — that would mean that you should not have a portfolio that’s diversified between asset classes. What do you think?

I agree with that because as you gain more knowledge about a particular sector of the industry, or an industry with respect to stocks or if you know about bonds, it’s better to get into that.

I think the balanced portfolio is good for people who have no idea what investment is about.

They have money but they have no idea about financial instruments. But if you have some ideas and if opportunities come, then it’s better to go for it.

Given that it’s a pretty volatile market these days, do you think that a balanced portfolio is one that performs better or do you think it’s one where, as you say, that shifts from opportunity to opportunity?

I think in this particular market, especially in the last three to four months, the market has not only been volatile, but has been going down.

In such a market, I think it’s better not to have a balanced portfolio because in a balanced portfolio, the allocation of stock is about 60 per cent.

And you are going to lose when the market is doing so badly. In this bad market, it’s better to get out of the stock market and get into the other areas.

And if you want safe investment, it’s better to get into bonds because at least you’ll get your money back.

If you invest in a stock, you won’t know whether you’ll get your money back or not.

The programme is shown on Channel NewsAsia every Thursday at 9.30pm.