A fund for all seasons

A Fund for All Seasons

The world economy moves in cycles
Imagine a hump-shaped graph, or a bell curve if you will. The upward sloping portion right up to the peak denotes the expansionary phase of an economic cycle – a period when spare capacity is absorbed, aggregate activity accelerates, and wealth is generated.

The peak downwards – or the negatively sloping part of the curve – denotes the contractionary phase of an economic cycle, when economic activity plummets and wealth decreases. A full economic cycle, by definition, includes both phases.

Where are we in that cycle?

The answer largely depends on the country in question.

For example, the US is in the mature leg of the cycle – it’s not yet at its peak, but it isn’t too far away from it either.
The Eurozone, on the other hand, is further away, having entered the recovery phase of their cycle much later than their US counterpart.

As can be gleaned from Chart 2, countries almost rarely move in tight lock-step with each other. While broad trends may seem intact, we do observe mini-cycles within major phases as well.

Hence, a key challenge for any investor is to identify, with some degree of accuracy, which part of the economic cycle we are operating in, whether globally or for any specific country.

A second challenge would be to predict, as best as they can, how long a particular phase will last before it tips over or rises back up. These educated guesses inform, to some degree, the way we invest.

![Chart 2: Not the standard sine-cosine wave](image_url)

Source: Bloomberg
Investing in different phases of the cycle

Indeed, the way one invests in different phases of the economic cycle typically varies.

For instance, you would prefer equities during periods of expansion, when business and investor sentiments are buoyant, stock prices rise, and equity holders receive high dividends.

In terms of sectors, investors would prefer cyclical stocks, or companies that tend to do well during an economic boom. These sectors include consumer discretionary, information and technology and the like.

During periods of contraction, investors typically sought the safety of bonds – less volatile financial instruments that provide a steady stream of income during difficult times.

Investors would also prefer defensive stocks like telcos or consumer staples during periods of slowdown. These are companies that produce or provide essential goods and services that are in demand no matter where you are in the cycle.

One possible investment strategy would be to rotate from equities into bonds and/or from cyclicals into defensives when the economic tide turns.

This implies adjusting allocations in different sectors, asset classes and regions in response to or, in anticipation of, changes to the economic climate and investment environment.

To do this well requires agility, careful selection of assets, adequate diversification and an active hand to steer the portfolio through different market cycles.

This sounds nice on paper, but in practice, it is surely never as straightforward. To construct a fully diversified portfolio from the ground up requires a great deal of investment, not only in terms of financial resources to
acquire the assets, but also time and effort to research about markets and select individual names. This is in addition to monitoring the portfolio and reviewing the holdings on a regular basis.

**Why a fund?**
The good news is there is always help. You need only be willing to seek it.

The solution comes in the form of a unit trust, where investors can:

- Invest in a readily diversified portfolio of assets with a relatively small capital outlay;
- Tap onto a professional fund manager’s resources, experience and investment expertise and
- Access certain foreign markets that may not be as easily available to an average retail investor.

Of course, engaging such professional services will incur some additional costs.

But even within this space, there are funds that put a great deal of focus on minimising total investment costs for clients by adopting low cost strategies including periodic re-balancing (or less active management) and/or investing in a mixture of other actively managed funds and passively managed exchange traded funds (ETFs).

Ultimately, nothing ever comes for free. But some would argue it might be a small price to pay for some peace of mind knowing that your money is being looked after professionally.

**Why we like the LionGlobal All Seasons Fund**
The LionGlobal All Seasons Fund (Standard) and LionGlobal All Seasons Fund (Growth) invest in a variety of actively managed funds by Lion Global along with passively managed exchange-traded funds in varying proportions.
The Standard portfolio has a neutral allocation of 70 per cent into fixed income and 30 per cent into equity, while the Growth portfolio has a neutral allocation of 30 per cent into fixed income and 70 per cent into equity to cater for differing risk profiles.

The underlying assets making up these various investment strategies are globally diversified. In particular, the funds’ equity allocation is weighted by the size of the GDP of the respective home countries, allowing the funds to not only diversify their holdings across the globe, but also reflect, to some degree, prevailing global trends.

The funds manage the cost of investments very strictly, capping the total expense ratio of the respective funds at 0.5 per cent per annum, in recognition that reducing these overheads would lead to significant improvement in returns over the long term.

At 0.25 per cent per annum, annual management fee for the funds is relatively low compared to other globally diversified multi-asset funds, providing investors a low-cost way to access a fully diversified portfolio, in terms of both individual security names and regional exposure.

The funds are rebalanced monthly to maintain its intended allocations as well as to reflect changes in the market dynamics and the global economic outlook.

Active management in the form of these periodic adjustments should help the funds deliver better risk-adjusted returns over the course of the economic cycle. Global diversification can also help stabilise the portfolios during particularly rocky periods.

In all, through the LionGlobal All Seasons Fund (Standard) and LionGlobal All Seasons Fund (Growth), investors can access a solid portfolio, well-equipped to weather all economic seasons.
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This article was contributed by OCBC, July 2018. (Link to article)

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