



# Keeping a level head: the balanced approach to investing

The recent rotation has put a spotlight on how quickly an investment style can fall in or out of favour. For many investors, timing the market is a challenge, which makes a truly active yet balanced approach appealing...

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In stock market terms, there have been few years less alike than 2020 and 2021 are shaping up to be. Last year, as the Covid-19 pandemic raged around the world, the rise of many of the world's stock markets was supported almost wholly by a handful of key companies. Although the beginning of the pandemic saw some market turbulence, over the course of the year the stock prices of the FAANGs<sup>1</sup> soared, while much of the rest of the S&P 500 struggled. This pattern was repeated in countries like the UK, with 'growth' stocks largely experiencing a vintage year, while their 'value' counterparts lagged.

What a difference a quarter makes. Hopes of an economic recovery surged in the closing weeks of 2020 due to the global rollout of vaccinations, and in turn encouraged investors to look towards the very value companies that historically benefit most in these conditions. In the first quarter, the FAANGs – and more defensive stocks more broadly – saw a marked sell off, while companies as diverse as banks and media companies saw their stock prices march upward. In fact, at the beginning of 2021 UK value stocks were extraordinarily cheap versus almost any previous time period, before posting strong and sustained rises through January.

## On the turn

Many investors had predicted this rotation for some time, with the disparity between valuations in growth companies and value companies reaching dizzying heights over the last three years or so. Indeed, it has been almost a decade since value indices offered investors anything approaching strong returns. Yet, if you had asked those same investors when the rotation might happen six months ago, you would have received a spectrum of answers, ranging from months to years.

Even with access to detailed market data, professional investors were broadly caught out by the market rotation. With less access, and less time spent on their portfolios, it is reasonable to assume that many retail investors experienced the same. And although value is currently the hot investing ticket, markets have the potential to revert again to favouring growth stocks – and it is impossible to call when this will happen.

In aggregate, this market turbulence demonstrates why, for a significant number of private investors investing for their pensions,

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school fees or other personal needs, taking a balanced approach to investing may be appropriate. Rather than trying to assess what investment styles, regions or sectors will be in favour at any given moment, a balanced investor seeks to invest across the market without particularly favouring any single factor. This means that investors should participate in the upside of market rotations but should also limit their downside risk.

## Steady as she goes

One fund taking exactly this approach is the long-standing **Alliance Trust (ATST)**. The trust invests in eight to twelve investment mandates at any one time, selected by Willis Towers Watson, one of the world's largest advisers to institutional investors and also a significant manager of multi-manager portfolios. These mandates encompass a range of styles, with each taking a distinctive approach to avoid overlapping holdings.

A common criticism of balanced fund investing is that managers could find it hard to be truly 'active' in their stock picking. This is negated in the Alliance Trust portfolio by each of the sub-funds being highly concentrated and with a high active share, meaning



that the underlying managers are picking the best stocks that meet their own clear criteria. The net result being that there is clear potential in each mandate to outperform world markets.

The power of this balanced approach has been proved in the rotation of the first quarter of 2021. In the first two months of the year, the trust posted an NAV total return of 1.3%, versus an MSCI ACWI total return of -0.4%, with the value managers making the most significant contributions to relative returns. This demonstrates the power of a balanced approach – the ability to capture significant upside from unexpected market rotations, while smoothing investment returns over the long term. ATST has demonstrated these attributes over multiple market shocks, including the pandemic.

## **Investing for a reason**

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While headline-grabbing boom periods, like the growth bonanza of 2020, can capture the imagination, it is important to keep your investing goals in mind when considering these opportunities. After all, every investment has downside potential, alongside its upside. Taking a more balanced approach could be key to achieving the smoother returns many investors are after.

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