Transcript

The Ideas Exchange

Episode 30: Long-term investing - a 60/40 portfolio approach

August 2023

[00:00:00] **Jacinta Schlosser** Welcome to the Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I am Jacinta Schlosser, Business Development Manager, Investment Products at ASX, and this is our regular podcast, covering everything from investment trends through to different ways to invest using a variety of products.

[00:00:21] **Disclaimer** A quick note about this podcast. Information is provided for educational purposes only and is not intended to include or constitute financial product advice. You should obtain independent advice from an Australian financial services licensee before making any investment decisions. Please refer to ASX's full disclaimer with respect to this podcast on the section of the ASX website titled The Ideas Exchange by ASX.

[00:00:48] **Jacinta Schlosser** Hello and welcome to the Ideas Exchange. My name is Jacinta Schlosser and I am your host. Joining me today is Balaji Gopal, Head of Financial Advisor Services at Vanguard and we're going to explore the principles of a 60/40 portfolio and how a diversified portfolio can weather market volatility. For many, the Vanguard Group need no introduction. Founded in 1975 by Jack Bogle, Vanguard have been a leading provider of actively managed funds and ETFs in Australia for 25-plus years. Today, the Vanguard Group manages over 10 trillion Australian Dollars in assets globally. And they offer more than 75 funds in Australia and 29 of those are exchange-traded products listed on the ASX. You may even be invested in 'VAS', Vanguard Australian Shares Index ETF, for example, as this is one of their most popular funds. Prior to his current role, Balaji spent several years as Head of Personal Investor and Head of Product Strategy at Vanguard. So we're really pleased that Balaji could join us for this conversation. As he is well placed to discuss our topic. Welcome, Balaji.

[00:01:53] **Balaji Gopal** Thanks Jacinta. It's great to be here.

[00:01:55] **Jacinta Schlosser** Thank you and happy new financial year. I wonder if, in your mind, you've made any new resolutions financially or sort of feeling reinvigorated for the financial year ahead?

[00:02:06] **Balaji Gopal** Yeah, feeling really reinvigorated for the financial year. Not sure about resolutions. I'll leave that for the new years to either make them or let them pass.

[00:02:15] **Jacinta Schlosser** I must say I'm the same. I used to make resolutions years ago, but I kind of let that go and I tend to like to just tweak and adjust throughout the year as I go. Otherwise, it feels like too much pressure.

[00:02:26] **Balaji Gopal** Yes.

[00:02:28] **Jacinta Schlosser** Look, listen, can you please start by telling us a little about your background and the work you do at Vanguard?

[00:02:34] **Balaji Gopal** Yeah, you touched on it a little bit just before, Jacinta. But I have the pleasure of leading our financial advisor business for Vanguard Australia. One of our really long-standing businesses within Vanguard that we've been supporting advisors for over 20 years. The financial advisor team is made up of sales and business development. We have a proposition team which is continuing to enhance our offer for financial advisors. We have tools and technology development for advisors through platforms. Yeah, it's a great business and I'm very happy to be part of it. Prior to this, I had the opportunity to lead a retail business, which we call 'personal investor' at Vanguard. And before that I started at Vanguard as head of product strategy, building up funds and our ETFs and other investment capabilities.

[00:03:21] **Jacinta Schlosser** So yeah, that's why you're very well-rounded with a vast experience at Vanguard. So firstly, I wanted us to delve into discussing the principles of a 60/40 portfolio. Because of late, there's been numerous articles and talk which question whether the 60/40 portfolio is still viable in today's market environment. So for our listeners who are newer to investing, can you please explain what we mean when we talk about the 60/40 portfolio and then share Vanguard's view on this for investors?

[00:03:50] **Balaji Gopal** A 60/40 portfolio really refers to a mix of assets, which is, in the 60/40 sense, it means 60% in equities and 40% in bonds. It's a universal portfolio construct designed to deliver sufficient returns for a range of investor goals while continuing to provide diversification to satisfy risk tolerances for an investor and different investors have different risk tolerances. It's really important to note that the 60/40 portfolio is not always about the exact split between bonds and shares, but it's more around having adequate portfolio diversification. It's that diversification that is a core message. So the equities give you the growth typically and bonds give you some of the defensive properties. Also the 60/40 is just a guide. The exact mix of equities and bonds that each investor should own should be driven by their own return requirements, risk tolerances, the long timeframe and other factors.

[00:04:46] **Jacinta Schlosser** Yes, thank you. Because in in my preparation for today's conversation, I sort of buried myself in different articles and comments around the 60/40 portfolio and it reminded me that these are a guide. It's about always assessing which is the right strategy and investment for you for what your goals and timeframe and risk tolerance is. And that leads us to some of the themes that will touch on later in our conversation. But first, I'm going to actually move to talking about diversification, because in June this year, the ASX released the ASX Australian Investor Study. So it's a survey which is undertaken every three years and it provides an in-depth analysis of investor attitudes and decision making. Now in our report we discovered that 44% believe they're diversified, which is actually in line with our 2017 study, which was around 46%. But interestingly, it's been a decline since the 2020 study, so 56% perceived and said they were diversified versus now. So in another question though, the average investor holds 2.7 products, which may include pooled investment structures. So there is a bit of a disparity between actual holdings and perceptions of diversification from what we saw in the study. So how would you define a diversified portfolio and how does it help weather market volatility?

[00:06:04] **Balaji Gopal** So the ASX Investor Study had some really interesting insights around investors perception of diversification, as you mentioned, with many unsure whether they were adequately diversified and importantly not prioritising diversification amongst other considerations. But actually when you think of it, holding a diversified portfolio is one of the most important things that an investor can do to better their chances of reaching their investment goals. It's much more important than picking a winning stock or timing the market or chasing outperformance, which are all really notoriously difficult to achieve. When we talk about diversification, we essentially mean not putting all of our eggs in the one basket. So in an investment context, not purely investing in one stock or one asset class, such as equities, or not only investing in one market such as Australia. This is because diversifying reduces the risks associated with a particular company or a sector or a segment. Different markets behave differently. So owning a portfolio with exposure to many different markets allows the investor to participate in stronger-performing areas while mitigating the impacts of weaker areas. It all balances out. Now diversification, in our view, is therefore an investor's best defence against market volatility. No one can predict how markets can perform, so investors should focus on the things they can control, such as ensuring portfolio diversification, their ability to save, their ability to continue to be able to contribute to their portfolio. The best-performing asset class in one year is not guaranteed to be the best again next year. So having a mix of assets will really help you manage these risks.

[00:07:40] **Jacinta Schlosser** Your colleagues, Alexis Grey joined me on the ASX Investor Days, through May this year. And we also welcomed Daniel Shrimski onto our panel for the launch of the ASX study actually. And I like that they both drew attention back to the importance of goals, balance, cost and discipline. Can you also expand on these for our listeners please?

[00:07:59] **Balaji Gopal** Yeah, these are our principles that Vanguard have come up with looking at over the 50 million investors that we save worldwide. And everything we do, whether we construct products or building portfolios, really comes down to these core principles that really guide us. So, the four main principles, as you said, one is it starts with a goal. It's about setting clear appropriate investment goals around your risk and return objectives and this could mean investors setting a goal for a short-term, for a holiday, all the way through to saving for their retirement. Once you've set your goals, it then comes down to the mix of asset classes that are going to help you get to those returns. Again, we recommend a good diversified portfolio of different asset classes and sectors as we've touched on before and we call that balance and it really comes down to that diversification. Third one is cost. Paying higher costs eats away at your investment returns. Our belief is that the more you pay in cost, the less of that money is working for you towards your investment goals. So we think low-cost investing, puts you really in the best position to be closer to achieving your investment goals. So be really mindful of costs. And this includes trading cost, investment cost, potential tax over the long-term. So these are all things that we pull together under cost. And the final one is probably the most important one is discipline. Discipline is to maintain perspective and long-term discipline. What this means is essentially to stay the course, I found that Jack Bogle called it, staying the course. Once you have your goals clearly defined, you've got to make a good portfolio of assets that are working for you and you're very mindful of cost. Markets will move up and down in the interim and there will always be market noise. There's always going to be events happening in the markets, geopolitical events, political events. I think it's really important for investors to maintain that perspective, maintain that long-term perspective in terms of understanding and having a clear understanding of why they're invested in what they invested. And to continue to resist the temptation to react to short-term market movements. We see this time and again from both our advised business as well as our retail audiences. Some of our best investors are those who have had a very long-term time horizon, stayed true to their investment strategy, they've continued to invest or contribute to their investing goals, really tuned out the market noise and that's really put them in good stead. So, again, these are goals, having three goals, having a good portfolio of diversified asset classes, being mindful of costs and the final one being staying the course or having that discipline, being a disciplined investor.

[00:10:40] **Jacinta Schlosser** On that point about discipline and the behavioural side of it, I know that many of us probably find that challenging. What do you think for those who are able to stay the course, as Jack Bogle put it, what are some of the characteristics or behaviours that people exhibit that allows them to sort of think that long-term?

[00:10:59] **Balaji Gopal** It's really about putting some practices in place and automating things that really that you're not in control of. Markets will go up and down. It's really important for investors to continue to focus on what they can control. I've had the privilege, for example, of working in a really sophisticated investing environment, and no one can consistently forever pick where markets are headed and time markets by, you know, getting out of the market and sitting in cash and then waiting to bounce back. There's two main decisions you need to get right. There's not just one. You need to get the decision about getting out of the market and also getting into the market right. We find even for professional investors around the world, this is really, really difficult to get right most of the time and for a very long time. So our view is investors should focus more on what is within their control and by this we mean, having some goals. Having control over how much they can save and having more control over what proportion of their pool of money that they can invest is invested. And to continue to automate these behaviours so that you are essentially taking yourself out of the equation and automating these practices. So there's the money's always going towards meeting your goal and you're not letting shorter-term market gyrations try and influence your thinking. We've also built a lot of our platforms within Vanguard with this view in mind. For example, within Personal Investor, which is our digital platform, or our superannuation offer, you'll find we've taken away things that are likely to cause a lot of reactions from investors. So for example, we don't have an up arrow and a down arrow. Typically you find these large share brokerages where markets go up it's green, when markets go down it's red. What this does is it really, especially when markets go down, it initiates emotional responses from investors, even seasoned investors. And what we've done is we've taken that out. So, again, to make sure that our investors can continue to not be subject to intraday or intramonth or even intrayear market movements, because if so long as someone has a long-term investing time horizon and we think all investing should be for the long-term, then these sort of shorter-term market movements don't really help in an investor's journey. Vanguard publishes, every year we publish an index chart, which really looks at the last 30 years of equity market returns. It plots how every asset class would have performed, say, for the last 30 years. What that shows is it's assumed our perspective of asset classes go up and down, especially for equities it generally trends upward. So if you ignore that noise and stay invested, those investors would have stayed well. So from our standpoint, again, investors choosing to control what they can do through their own actions and having a realisation that, markets in the short-term, you can't predict them and you can't consistently predict them. So investors are much better off focusing on their own actions.

[00:13:56] **Jacinta Schlosser** That's interesting. So a seemingly subtle visual change on the tools there has a greater impact longer term for investors and their experience. In the ASX Investor Study, we've seen an increase in the number of new investors in the past three years. So in 2020, investors in Australia represented 46% of the adult population, excluding people who hold investments in their home and SMSFs, so that's self-managed super funds. In 2023, investors in Australia have increased to 51% of the adult population. So incremental change, but a good change nonetheless. I hope it speaks to our industry and the wider, providing education and encouragement for people to understand and be engaged with their investments. Now I note that Vanguard also released a study recently titled 'How Australia Retires'. It surveyed more than 1800 working and retired Australians aged 18 years and older. And you wrote an article which explores some of these themes from the study. It was published in 'The Fin' on the 19th of June this year. And the article was titled 'why you need a roadmap to grow your wealth' and you state that Australians with the highest retirement confidence have taken the most purposeful actions to prepare for their retirement. Can you tell us more about the benefits of financial advice and education?

[00:15:12] **Balaji Gopal** Yeah, absolutely. Vanguard strongly believes in the importance of financial education. We believe that an informed investor will have a better chance of making the right investment decisions and achieving investment success than one who's not and simply follows what everyone else is investing. This was brought to life through our 'How Australia Retires' piece of research that we recently conducted. At Vanguard, we aim to equip all of our investors with the right investing knowledge that enables them to make the best financial decisions for them. We provide weekly educational content through our smart investing newsletter, which covers a range of investment topics that cover investment fundamentals to market outlooks to, as well as plain talk guides that really break down all of the investment jargon that are prevalent in the industry. So I'd encourage your investors, if you haven't signed up to smart investing, to look into some of the content that we write and then, to the extent it is relevant, to sign up to it. And fundamentally, we also support investors by providing low-cost, high-quality products that not only enable them to achieve their own investment and financial goals and to keep more of their returns, but also the ones that stand the test of time. When we build products, when we build our funds and our ETFs, we take a very principled approach. All of our products would be low-cost, highly diversified liquid products, so you'd never find us investing in something very, very concentrated or something very, very niche. We believe that the value of advice goes beyond just investment returns. Advice doesn't provide value in the form of portfolio and financial value. It does, but on a relative basis. Where advice is really, really important as it encompasses the emotional value in terms of the financial peace of mind and the confidence that you're on the right track. And I think this is where advisors provide a lot of value and it goes to some extent to the fourth discipline that I spoke about, staying the course and staying disciplined. It's easier said than done, particularly when markets are volatile. People do tend to panic, do tend to have a propensity to react to shorter-term news and the importance of advice and education.

[00:17:20] **Jacinta Schlosser** Absolutely, because in those difficult times to have someone that you can speak confidently to, it's really hard sometimes making those decisions on your own or just with your partner or if you're in an investment group. Look, thank you for speaking with us, Balaji, at the Ideas Exchange today. I've enjoyed our discussion and feel we could just keep talking. But unfortunately, that's all we have time for. So thank you again for taking time out of your day.

[00:17:45] **Balaji Gopal** No problem. It's great to be here.

[00:17:47] **Jacinta Schlosser** If our listeners would like to know more about Vanguard, please head to their website: vanguard.com.au/personal. From there you can click on 'Invest with us' for Vanguard personal investor and products. You can also click on 'Learn' for some good quality articles and education pieces that Balaji mentioned earlier. Thank you also to our listeners. You can enjoy more of our podcasts which are released monthly or sign up to our newsletter 'Investor Update' by heading to the ASX blog via - asx.com.au/blog. Also, if you look for the investor tab, there is a lot of great resources and education sections available there. Until next time.

[00:18:29] **CTA** Want to test market strategies? Sign up to participate in the ASX ShareMarket Game and receive $50,000 in virtual cash to invest in a range of stocks and ETFs. Visit: asx.com.au/smg to register today.