

Retail investors are looking to diversification in the race to find strategies that work

Still seeking worthwhile opportunities

MARKET WATCH
STEPHEN BARBER



There were two statistics to emerge recently from the Investment Management Association (IMA), that interested me in particular.

The first was that UK investors are diversifying like never before, and the second was that in June the leading asset class was bonds and that the Sterling Strategic Bond was second only to Cautious Managed as the best-selling IMA sector. Given the global market context, this shows a confidence in portfolio construction and the belief that there are profits to be made in this environment.

Diversification is key to forming successful portfolio strategies in this uncertain market. While there are good signs that recovery has taken hold, not least with recent UK growth numbers, rumblings from the US continue to threaten a double dip recession. Nevertheless, the great growth stories on which portfolios of all sizes now rely are not emerging from a narrow range of investments, but rather they can be found in industrial sectors old and new, and from economies in the four corners of the world.

Prime minister David Cameron's recent visit to Washington, for

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instance, pales into the insignificance of his later trip to India via Turkey. The importance of these two economies is not only those crucial to the success of UK businesses, but they also represent exciting investment sectors, accessible through direct equities, managed funds and trackers. India, as the world's most populous democracy, growing by 8 per cent a year and Turkey, emerging as a strong economy, both offer a gateway to the east.

The attraction of bonds, of course, can be attributed to defensiveness in what remain highly volatile equity markets in the UK, Europe, USA and across the world. But there have been plenty of reasons to be cautious of bonds given the sovereign debt crisis which has throttled the eurozone in recent months. But while markets might have shown signs of being

spooked by the unsustainable public debt accumulated by Portugal, Ireland, Italy and Greece (Piigs) – and egged on by the credit ratings agencies, so discredited during the credit crunch – retail investors seem able to look beyond this.

One might say sensibly so, given that while Greek debt is deeply unattractive, there remains plenty of solid government and corporate debt in the region, presenting a good opportunity to buy.

The IMA data shows retail investors are still seeking worthwhile opportunities. The crisis does not appear to have unduly frightened investors from the markets but its broader implications have convinced many that the need to take control of their financial destiny is all the more critical.

Amid current volatility and uncertainty, investors appear to be sanguine about markets, able to assess the risk and return effectively.

And while the mighty markets are displaying their usual short-term reactionism, retail investors seem to be able to take a longer-term and more dispassionate view.

Stephen Barber is an academic who advises Selftrade on economics and markets