



Asset Allocation  
Investing in the new reality...



CONFERENCE

# Managing the secure part of your portfolio.

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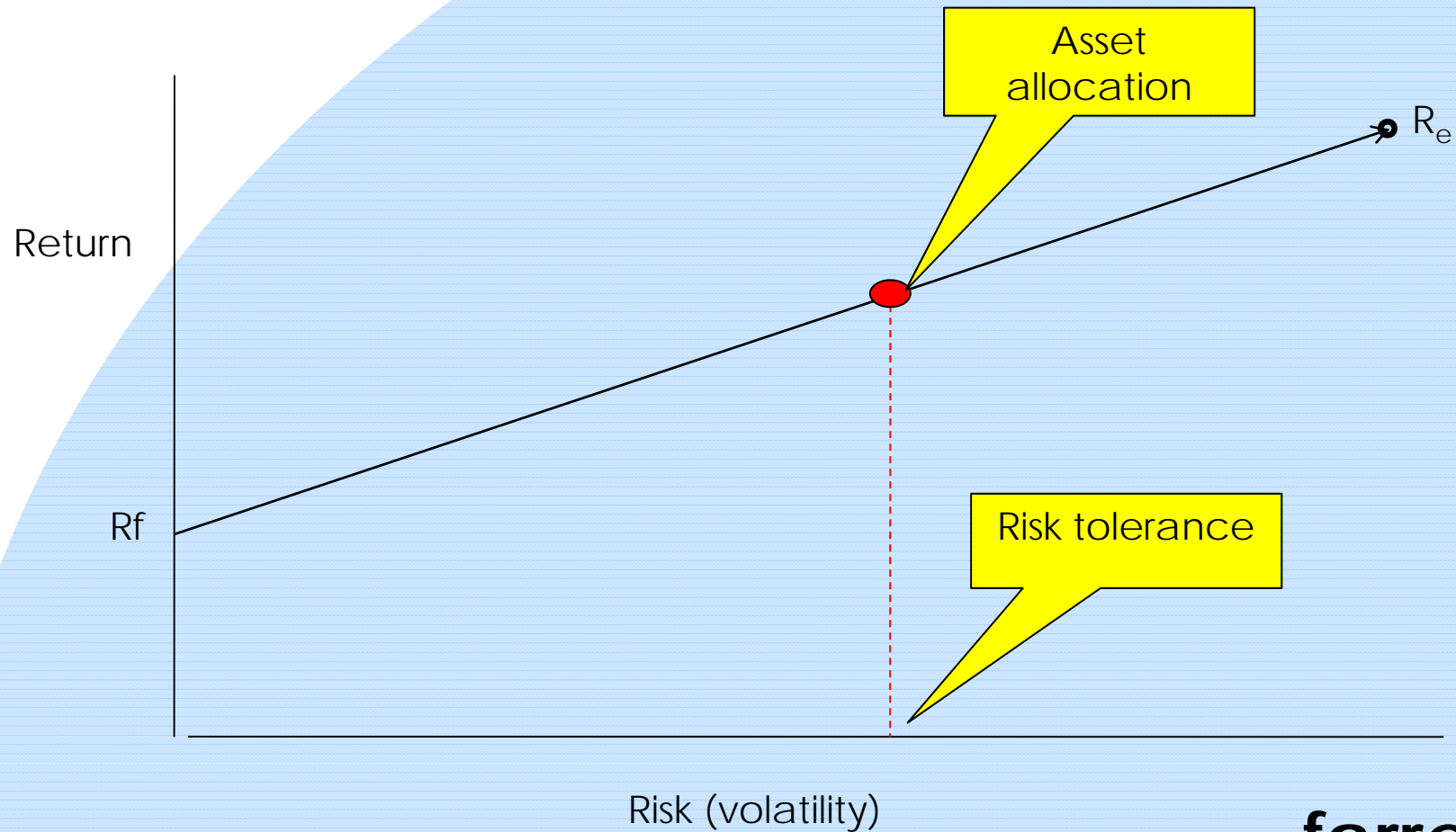
# Managing the secure part of your portfolio

- Growth and income vs Risky and secure.
- The equity risk premium and risk profiling
- How low returns can give better outcomes

# The equity risk premium and risk tolerance

- Equities have higher volatility and therefore command a risk premium
- So they outperform in the long term
- We work out risk tolerance (ability to tolerate volatility)
- We maximize returns by positioning investors at their maximum risk tolerance
- Maximise standard of living by maximising returns

# Risk profiling and asset allocation



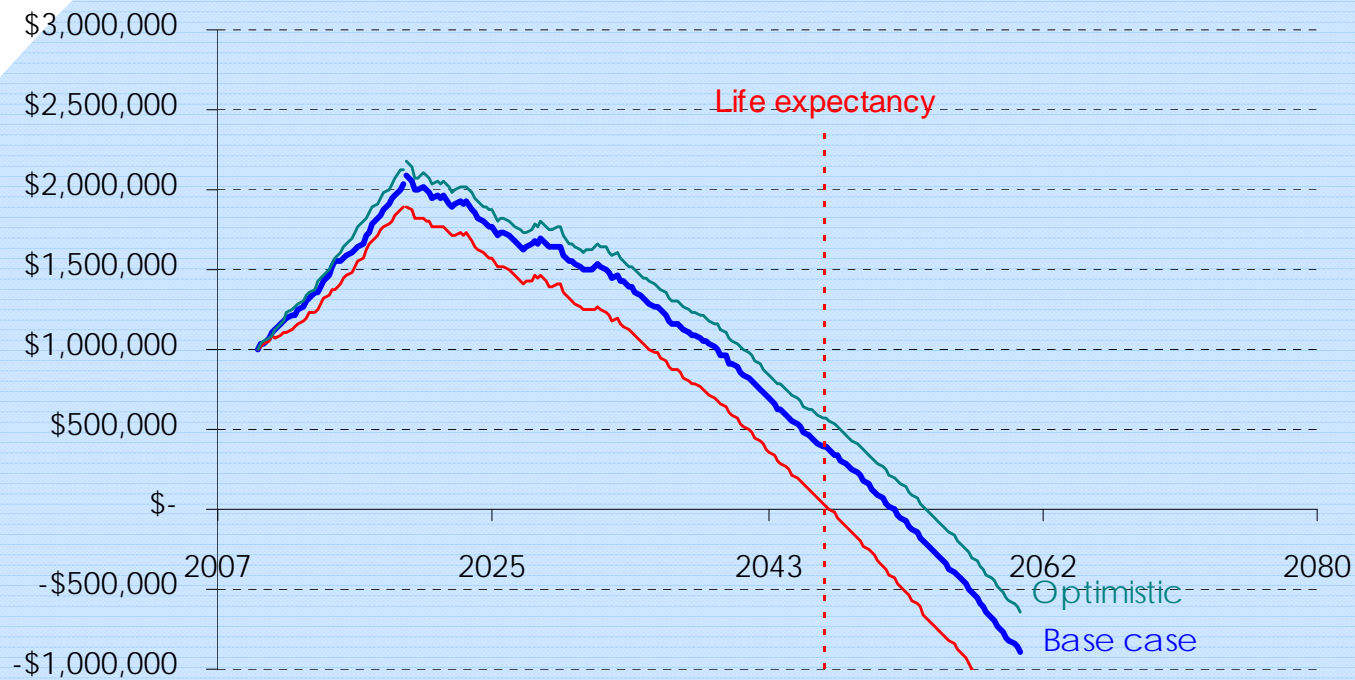
**So what?**

# Case study : Bill

- Assets \$1,000,000
- Earns \$120,000pa after tax
- Spends \$95,000pa
- Age 55
- Expected retirement 65
- Life expectancy 93

# A typical plan if equities consistently outperform...

Lifetime Capital  
in today's dollars



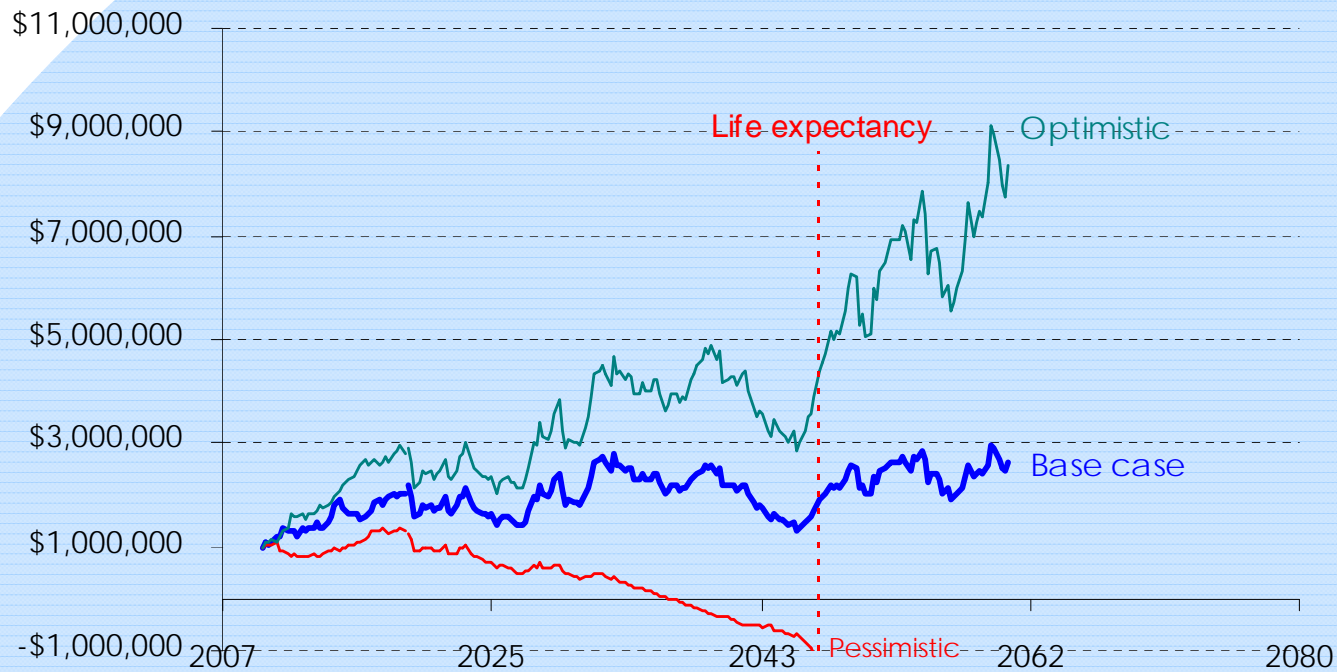
Balanced portfolio, spends 95000 pa,  
8.8% return

farrelly's



# Reality is more like this...

Lifetime Capital  
in today's dollars

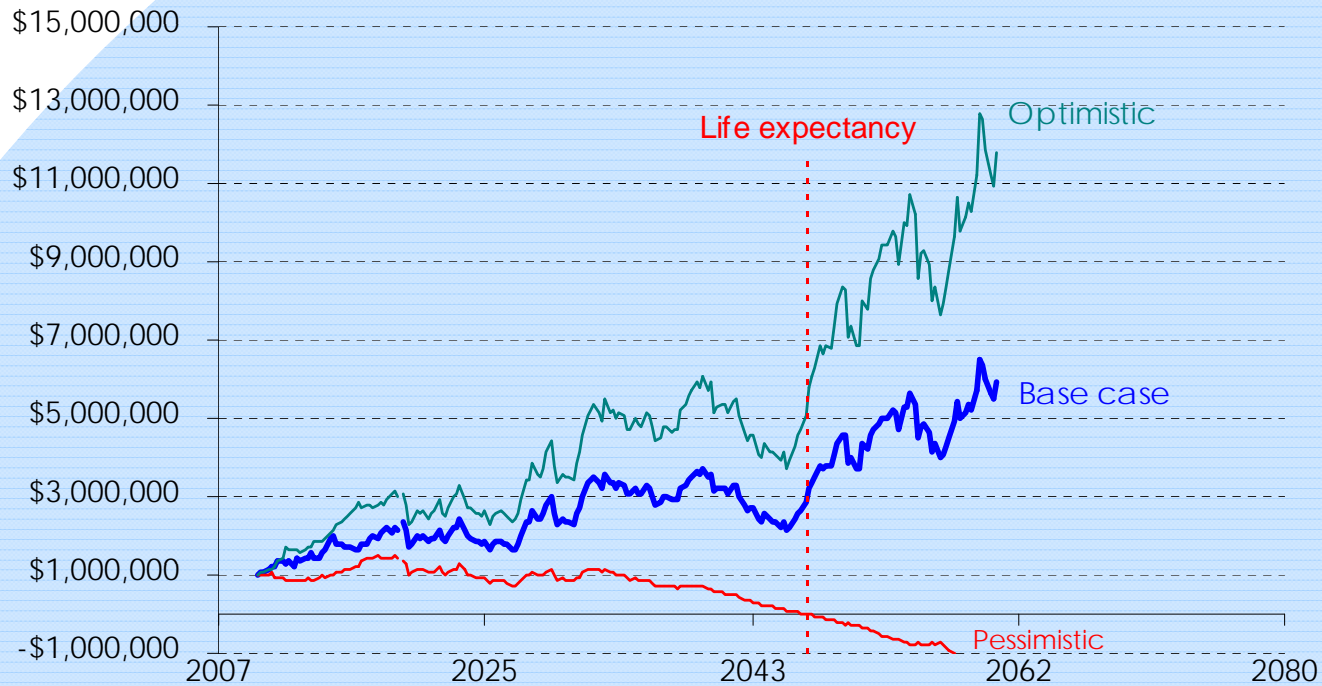


Balanced portfolio, spends 95,000 pa,  
8.8% return

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# Way too much spending....

Lifetime Capital  
in today's dollars

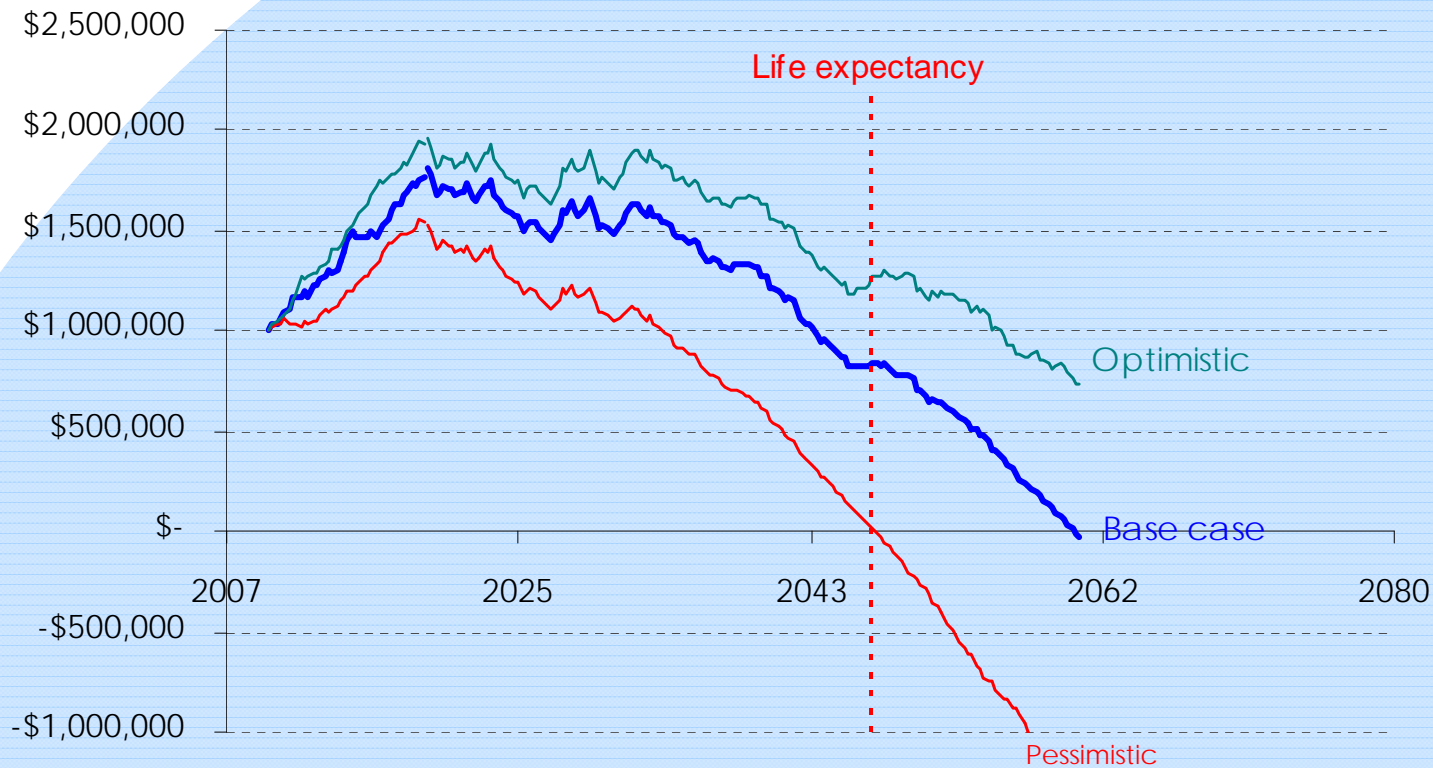


Balanced portfolio, spends 82,000pa

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# Less risk can mean a better lifestyle!

Lifetime Capital  
in today's dollars



Conservative portfolio, spends \$90,000pa,  
6.4% forecast return

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# The equity risk premium and risk tolerance

- Equities have higher volatility and therefore **should** command a risk premium
- So they **should** outperform in the long term – **but may not**
- We work out risk tolerance (ability to tolerate volatility) **and financial risk capacity (ability to tolerate low returns)**
- Maximise standard of living by **optimising balance between maximising returns and minimising uncertainty**

# Need to minimise uncertainty

- Risky vs defensive
- Defensive assets give low returns
- Low returns does not mean poor outcomes

# Summary

- Think in terms of risky vs defensive
- Need to establish financial risk capacity as well as risk tolerance
- The defensive part of your portfolio can be critical to achieving good outcomes

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