

# Three investment lessons to learn from 2021 about risky asset classes

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been much more stable and consistent relative to 2020, especially for global bonds in ZAR.

### Three lessons we can learn from this experience

Firstly, not all asset classes and years are equal. As demonstrated below, all asset returns are risky – they vary in unexpected ways. This risk must be managed, and having a 'risk budget' is a vital part of this process. A risk budget is a plan for how much risk your portfolio is going to take on. If it is clearly stated and understood by all parties (the investor, their adviser and their investment manager), everyone can be prepared in terms of what can be expected in worst-case scenarios.

Secondly, diversification is key – even when things seem to be reverting to normal. The 2021 experience is far more like what our historical experience suggests, that asset class returns should be on average. The problem with averages, however, is that they hide all the variation of the short-term experiences, like we saw in 2020. The asset class returns in that year are not that much of an outlier; the volatility we experienced in this period, while relatively high, is not that unusual in terms of how often it can happen. These periods, where returns are significantly different to their expected values, have happened before, and will happen again. The important point is that we do not know when the next time will be. Therefore, we must always remain diversified to deal with this uncertainty.

Finally, 2021 teaches us that we must stay invested – we must not panic when crises occur. The 2020/21 pattern of returns has been repeated time and again. Risky asset classes give you significant rewards, on average, for the risk you take. The catch is that you must be invested in them to get the reward (when it happens). Investors are very

When viewed in isolation, 2021 has been a remarkably stable year in terms of investment returns. This apparent stability is, however, potentially deceiving – especially when compared to the 2020 experience. At Momentum Investments, we believe there are at least three key lessons that should be learned from this.

### What happened to asset class returns in 2021 vs. 2020?

While 2020 was a year of extremes in terms of investment returns, 2021 has, to date, been a more 'traditional' investment environment. As graph 1 shows, the experience of risky asset classes – equities and property, both local and global (in ZAR terms) – have been very different between the two years.

This pattern was repeated for the less volatile asset classes – bonds and cash (local and global in ZAR) – as illustrated in graph 2. The 2021 experience has



bad at following this advice. A study of South African investor behaviour by Momentum Investments in 2020, showed that investors who panicked and swapped riskier assets for safer ones suffered losses on average of 19% of their switches relative to what they would have got if they had stayed put. The cost of short-term emotional relief is high.

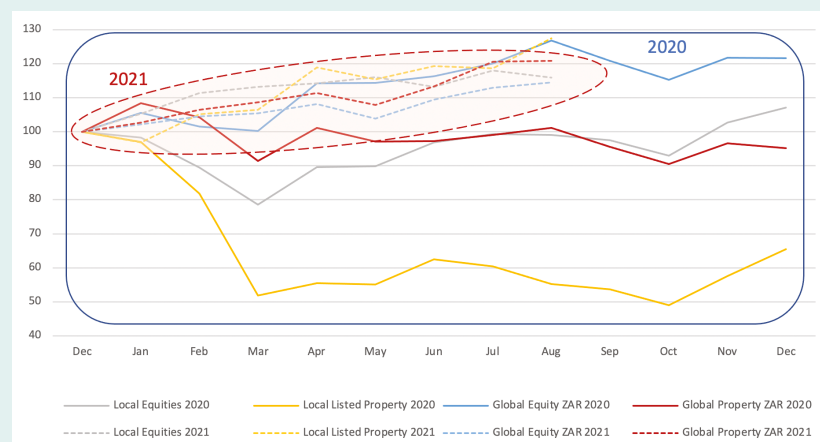
In short, the asset class returns of 2021 (and 2020) have shown us that risk is real and you need to have a plan that

your client understands and can stick to. Momentum Investments' outcome-based investing approach sets out to design portfolios to make these plans real and effective for investors. We use risk budgets aligned to the client outcomes and always diversify our portfolios. This approach helps investors remain invested and focused on achieving their desired long-term investment outcomes.

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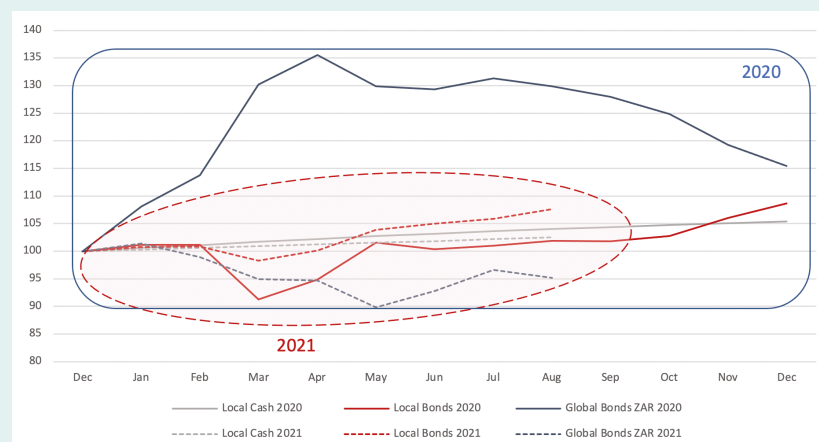
**"Investors who panicked and swapped riskier assets for safer ones suffered losses on average of 19% of their switches relative to what they would have got if they had stayed put"**

Graph 1: Performance of local and global equities and property in ZAR terms



Source: Momentum Investments, 31 August 2021

Graph 2: Performance of local and global bonds and cash in ZAR terms



Source: Momentum Investments, 31 August 2021