Belmores Wealth Management

Protect & grow wealth in uncertain times

Interest rate swings, market volatility and global tensions make one thing clear: wealth management needs both protection and growth strategies to thrive.

Finding the balance between driving growth and safeguarding capital takes a disciplined approach to portfolio construction but it could help your wealth to endure, despite the ups and downs of the market and the impact of inflation on your purchasing power.

Many investors equate balance with diversification alone. But balance means understanding how each investment or exposure contributes to the twin goals of growth and protection and whether the portfolio is robust enough to withstand challenging times.

There's no one-size-fits-all answer. Depending on age and stage in life, some investors are chasing aggressive growth while others want capital preservation. The key is to ask:

- What am I earning and why? (High returns usually mean higher risk – are you comfortable with that?)
- How will the portfolio behave when it matters most? (Will it cushion losses or make them worse?)
- What investment decisions will I regret if inflation persists (for say, the next five years) or markets tank?

A US study of almost a century of data confirmed that portfolios handle downturns better and recover faster if they combine growth assets with true diversifiers, including a mix of low-correlated investments and defensive assets.[i]

Low-correlated investments are assets that don't move in the same direction as equities, helping to reduce overall portfolio volatility. Their correlation to stocks is low or even negative. Examples include government bonds, gold, some hedge fund strategies and commodities.

Defensive assets are expected to hold their value or outperform during market downturns. They're chosen for stability and capital protection. Examples include cash, high-quality bonds, defensive equities (such as utilities, healthcare) and infrastructure.

The 'cost' of growth

Growth typically comes from listed equities, private equity, venture capital, real assets and exposures to big, long-term trends that may cut across multiple sectors. For example, healthcare innovation, energy transition or AI.

The catch? Growth invariably means volatility. If the markets dive you could feel pressure to sell at the worst time.

Defensive equities may help provide some balance. They're shares in companies that tend to provide stable earnings and dividends regardless of whether the economy is booming or in a recession. They have strong cash flow because they sell needs rather than wants, such as power, food and medicine, and they have the ability to raise prices to cover rising costs without losing customers.

While portfolio protection starts with bonds and cash, some would say they're not enough today and

a broader range of assets may be more beneficial.

Bonds, for example, have lost a little of their shine as the chief risk stabiliser after a crazy five years or so. The rollercoaster ride of historic low interest rates during the Covid era to the great reset from about May 2022 when the RBA's (and the US Federal Reserve) rate hikes began. Both stocks and bonds crashed. Today, bond investors are enjoying a 'rare sweet spot' with yields well above the pandemic lows.[ii]

Because yields are higher, bonds now provide a significant income buffer. If bond prices fall slightly, the high interest payments can offset that loss. If rates stay the same or fall, investors lock in those higher yields.

Since most economists believe the hiking cycle is over or nearing the end, there is a chance that as central banks eventually cut rates, bond prices will rise, giving investors both high income and capital gains.

Other strategies

Other protective strategies may include buying bonds that mature at different intervals, such as every year for five years. Known as a bond ladder, this strategy means a portion of your money becomes available every year and it may provide some interest rate protection.

Physical investments, or real assets, such as real estate, infrastructure, commodities, natural resources and equipment can act as a hedge against inflation. When the cost-of-living increases, the value of physical assets tends to rise as well.

Alternatively, you could consider floating rate exposure or inflation-linked bonds (known as Treasury Indexed Bonds or TIBs in Australia and Treasury Inflation-Protected Securities or TIPS in the US).

Floating-rate bonds adjust interest payments as rates change, while TIBs increase principal and interest when inflation rises, providing a hedge against rising prices.

TIBs offer further protection with a built-in deflation floor that protects your original investment if prices fall.

Currency is the silent player

If you invest globally, currency matters. So, foreign exchange planning should be an intentional decision rather than a portfolio by-product.

The Australian dollar often falls when global markets panic so unhedged overseas assets can act as a shock absorber.[iii]

But full exposure can swing returns wildly. On the other hand, a partial hedging policy, for example, hedging some developed-market bond exposures, may balance volatility and opportunity.

Finally, protection is a liquidity plan. For families using trusts, SMSFs or investment companies, keep enough cash or short-term assets to cover 12–24 months of cash needs (tax, capital calls, distributions). That's real protection.

Please give us a call to check your portfolio meets your current needs for growth and protection.

Portfolio protection in a nutshell

- Include defensive equities and quality bonds
- Diversify with low-correlation assets
- Consider inflation-linked bonds or floating rate exposure
- Maintain liquidity for 12-24 months of cash needs

i https://www.aqr.com/Insights/Research/Alternative-Thinking/It-Was-the-Worst-of-Times-Diversification-During-a-Century-of-Drawdowns

ii https://www.vanguard.com.au/adviser/learn/insights/markets-and-economy/a-terrific-environment-for-bonds

iii https://www.rba.gov.au/education/resources/explainers/drivers-of-the-aud-exchange-rate.html

Belmores Wealth Management
70 Belmore Street
Yarrawonga VIC 3730
P 03 5744 1221
F 03 5744 2553
E bwm@belmores.com.au
W www.belmores.com.au