Principles of Investing

Spreading your investments helps manage risk

When events impact markets, different industries and sectors can be affected in different ways. During the height of the COVID-19 pandemic for instance, tourism and travel suffered, but pharmaceuticals and online service providers fared better.[1]

Diversification matters

Looking at the bigger picture, here you can see how different asset classes performed from 2012 to 2021. Remember past performance is not a guide to future performance.

The detail of what's covered by each box in the grid is less important than the fact there's a great deal of variation – both in terms of how each asset class has performed over time and how they compare to one another.

Year-on-year ranking of asset class

Performance ranking (Highest to Lowest)

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
19.4% Europe Excl. UK Shares	30.6% North America Shares	17.8% North America Shares	16.2% Japan Shares	31.6% Global Emerging Market Shares	25.3% Asia Pacific Excl. Japan Shares	2.9% UK Direct Property	24.6% North America Shares	19.9% Asia Pacific Excl. Japan Shares	25.2% North America Shares
16.6% Asia Pacific Excl. Japan Shares	26.5% UK All Companies Shares	14.9% UK Government Bonds	9.4% Europe Excl. UK Shares	30.1% North America Shares	24.5% Global Emerging Market Shares	2.7% Global Government Bonds	22.4% UK All Companies Shares	16.5% North America Shares	17.1% UK All Companies Shares
15.4% UK All Companies Shares	26.3% Europe Excl. UK Shares	12.2% UK Direct Property	7.6% UK Direct Property	26.0% Asia Pacific Excl. Japan Shares	17.8% Japan Shares	0.4% Standard Money Market	20.4% Europe Excl. UK Shares	13.9% Japan Shares	15.6% Europe Excl. UK Shares
14.3% Sterling Corporate Bonds	26.1% Japan Shares	10.6% Sterling Corporate Bonds	5.0% UK All Companies Shares	24.3% Global Emerging Market Bonds	17.5% Europe Excl. UK Shares	-0.1% UK Government Bonds	17.1% Japan Shares	13.6% Global Emerging Market Shares	7.4% UK Direct Property
13.6% Global Emerging Market Shares	7.9% UK Direct Property	9.7% Asia Pacific Excl. Japan Shares	4.5% North America Shares	23.6% Japan Shares	14.1% UK All Companies Shares	-1.2% North America Shares	15.8% Asia Pacific Excl. Japan Shares	10.5% Europe Excl. UK Shares	1.6% Japan Shares
12.6% Global Emerging Market Bonds	1.9% Asia Pacific Excl. Japan Shares	8.7% Global Corporate Bonds	1.1% Global Corporate Bonds	17.1% Europe Excl. UK Shares	10.5% North America Shares	-1.7% Global Corporate Bonds	15.7% Global Emerging Market Shares	9.0% UK Government Bonds	1.5% Asia Pacific Excl. Japan Shares
7.5% North America Shares	1.3% Sterling Corporate Bonds	6.2% Global Government Bonds	0.5% Global Government Bonds	14.8% Global Government Bonds	7.6% UK Direct Property	-2.2% Sterling Corporate Bonds	10.2% Global Emerging Market Bonds	7.9% Sterling Corporate Bonds	-0.1% Standard Money Market
7.2% Global Corporate Bonds	0.2% Standard Money Market	3.4% Global Emerging Market Shares	0.2% Standard Money Market	13.4% Global Corporate Bonds	5.4% Global Emerging Market Bonds	-3.7% Global Emerging Market Bonds	9.5% Sterling Corporate Bonds	7.0% Global Corporate Bonds	-0.3% Global Emerging Market Shares
3.3% Japan Shares	-0.7% Global Corporate Bonds	3.4% Global Emerging Market Bonds	0.2% Sterling Corporate Bonds	11.4% UK Government Bonds	5.2% Sterling Corporate Bonds	-9.8% Asia Pacific Excl. Japan Shares	8.4% Global Corporate Bonds	5.6% Global Government Bonds	-0.8% Global Corporate Bonds
2.0% UK Government Bonds	-3.8% Global Emerging Market Shares	0.9% UK All Companies Shares	0.0% UK Government Bonds	11.0% UK All Companies Shares	3.3% Global Corporate Bonds	-11.2% UK All Companies Shares	7.2% UK Government Bonds	3.5% Global Emerging Market Bonds	-2.0% Sterling Corporate Bonds
1.9% Global Government Bonds	-4.0% Global Government Bonds	0.4% Japan Shares	-2.8% Asia Pacific Excl. Japan Shares	9.7% Sterling Corporate Bonds	1.7% UK Government Bonds	-11.3% Japan Shares	3.4% Global Government Bonds	0.5% Standard Money Market	-3.7% Global Emerging Market Bonds
1.5% UK Direct Property	-4.9% UK Government Bonds	0.3% Standard Money Market	-5.1% Global Emerging Market Bonds	0.3% Standard Money Market	0.1% Standard Money Market	-11.5% Global Emerging Market Shares	0.7% Standard Money Market	-3.8% UK Direct Property	-5.3% UK Government Bonds
0.5% Standard Money Market	-9.2% Global Emerging Market Bonds	-0.9% Europe Excl. UK Shares	-9.2% Global Emerging Market Shares	-2.0% UK Direct Property	-1.1% Global Government Bonds	-12.2% Europe Excl. UK Shares	-0.8% UK Direct Property	-6.2% UK All Companies Shares	-5.3% Global Government Bonds

Source: Morningstar, based on the Investment Association sector average returns. Data as at 30 June 2022.

That's why, whether the markets are going up or down, having a diverse portfolio of investments is so important.

Why diversification works

Assets like shares, bonds, property, and cash respond to different factors in different ways – what causes one asset to fall in value may cause another to gain value so, when some of your assets lose value, others are likely to be doing better.

If one asset moves or responds in a similar way to another they are said to be highly correlated. If they move or respond differently, they are less so. Making sure your portfolio is made up of investments which are not all highly correlated to each other means there is less chance they will all go up or down to the same degree at the same time, smoothing your investment journey.

Modern Portfolio Theory

In 1952, US economist Harry Markowitz was the first to propose the importance of asset mix to investment outcomes.[2] He received a Nobel prize for his Model Portfolio Theory, which still influences how we invest today.[2]

It states that a portfolio of different, unrelated (diverse and uncorrelated) assets is the best way to maximise returns for any given level of risk.[2]

Finding the right level of risk for you

The mix of assets which works for you will depend on several factors including your individual goals, how long you intend to invest for, and how comfortable you are with taking a risk with your money for the possibility of achieving a higher return.

You don't have to do all the hard work

There are investment professionals, such as fund managers, that can help do all of the hard work to manage your money by making decisions to navigate changing market conditions throughout the time your money is invested. A financial adviser can help guide you before making the decision to invest and may recommend, for example, a multi-asset solution, which is designed to offer diversification at a level of investment risk that matches your individual circumstances.

[1] Investopedia, 5 May 2022
[2] Refinitiv Datastream, 30 June 2022

Diverse doesn't mean risk-free

Investment always comes with some level of risk. Markets go down as well as up and there is always a chance you will lose some or all of your money. Having a diverse portfolio doesn't mean that your investments won't fall in value or that you can't lose money. What it does mean is that your investments are unlikely to all lose or gain value to the same degree at the same time. That helps limit your risk of losses while keeping some potential for growth.

Do I need to take action?

If you're in a diversified portfolio that matches your risk profile you're as well set as you can be to weather all market conditions. However, it is important to review your investments regularly, and if you're unsure about how your portfolio is currently diversified or think your risk profile has changed, a financial adviser can help.

Explore the other principles of investing

To cut through the noise and understand the principles of investing, visit our website **here** where you can watch or read about them.

Let's be clear!

Investment terms explained

Asset class: A group of investments with similar traits. shares, bonds, property, cash and alternatives are all examples of asset classes.

Bonds: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Corporate Bonds: Bonds issued by a company as a way of raising money to invest in their business. They have nominal value which is the amount that will be returned to the investor on a stated future date (the redemption date). These bonds are bought and sold on the market and their price can go up or down.

Diversification: Spreading your money across different investments to help manage risk.

Government Bonds: Bonds issued by governments.

Multi-asset fund: A fund that offers a diversified, mixed asset portfolio.

Property: Property or real estate investment refers to land, buildings or both purchased with the intention of earning a return on the investment either through rental income, the future resale of assets, or both.

Portfolio: A group of investments that are managed together to meet a particular objective.

Shares (often referred to as equities or stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.