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Release the performance brake

01 July 2024, 4:31 pm CEST, written by Daniel Kalt

With a well-structured, broadly diversified portfolio, it's possible to avoid the mistakes that have recently cost many investors significant returns: excessive cash holdings and equity investments concentrated in the home market.

Anyone looking back at the investment year will be amazed by the breathtaking development of various market sectors. Despite geopolitical upheavals, the stock markets, driven by technology stocks, have staged an impressive rally. Many commodities have also performed well. However, the strong performance in these markets has not always been reflected in investor returns. This is due to three specific problems that often plague local portfolios: First, an excessively high cash balance. Second, an overly high allocation to the domestic market. And third, portfolios are often concentrated in a few large stocks.

Even though high cash balances give many investors a sense of security, they are not as safe as they seem. Since 2017, the real purchasing power of 100 Swiss francs in a savings account has decreased by about 6 percent. In contrast, an investment in the global equity market would have nearly doubled in value over the same period. This means: Keep cash reserves at a reasonable but not excessively high level. The ideal amount of emergency funds can best be determined through liquidity planning as part of our UBS Wealth Way approach, which divides your assets into the three strategies of Liquidity. Longevity. and Legacy.

This brings us to the second and third problem areas of many investors' portfolios. Our analyses show that a very high proportion of equity investments are often held in the Swiss market, concentrated in a few large stocks. Here too, an intuitive sense of security—since one "knows" the companies—can lead to a skewed allocation toward the familiar. However, this has not paid-off. If the three largest Swiss stocks were held in a portfolio, it would have achieved a performance of just over 30 percent since 2017. In contrast, a portfolio with an investment in globally diversified technology stocks would have seen its value roughly quadruple over the same time. Unfortunately, it appears that a significant portion of Swiss investment portfolios only have a low single-digit percentage allocation to technology stocks. For comparison: Measured by market capitalization, technology stocks today account for around 30 percent of the global

equity market. Many investors would do well, in our view, to increase their allocation in this area to at least double digits. This is because we believe technology stocks are likely to continue delivering above-average returns in the coming years, given the enormous opportunities in artificial intelligence, automation, and robotics.

The best way to release the often self-imposed performance brake is to invest the core of an investment portfolio into a well-structured and diversified model portfolio across regional markets, asset classes, and sectors. Ideally, an automated, regular "rebalancing" ensures that the portfolio remains on track. Such an optimally structured core can then be complemented with satellite investments according to personal preference, such as private market investments or opportunistic positions in currency or commodity markets.

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