



Among developed market stocks, Moore is most sanguine about US equities over the long term. In the near term, the S&P 500 could trade between 1,800 and 2,100, he says.

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Pragmatic asset allocator

Columbia Threadneedle chief investment officer Colin Moore recommends that investors reduce equity exposure and increase their holdings in bonds with decent yields in the current low-return, high-volatility environment

| BY KELVIN TAN |

Every winter, adventure seeker Colin Moore and his three close friends will brave the cold and voyage across the vast, snow-covered terrain of North America in their speedy snowmobiles for several days in a stretch, covering distances as long as 1,000 miles.

“Those trips on a snowmobile typically take four to five days. We ride nine to 12 hours a day and we are exposed to the extreme cold weather. But I love being in the great outdoors and I am not terribly worried about the cold. I get to see beautiful mountains, ride across frozen lakes and come up-close with deer and other animals,” says the 57-year-old, Boston-based Irishman, who was snowmobiling in Northern Canada a few months back. “We did 950 miles in four days and it was about -14 degrees [Celsius] there.”

Journeying in sub-zero conditions can turn perilous when a sudden blizzard strikes or should a mechanical failure befall their snowmobiles, admits Moore. “That’s why you have to do a lot of planning and understand what you are doing. Luckily, my friends are very good mechanically and if anything goes wrong with our snowmobiles, we can fix them.”

Moore, who is global chief investment officer (CIO) at international fund house Columbia Threadneedle Investments and oversees assets of more than US\$470 billion (\$632 billion), concedes that he is better at managing money than fixing snowmobiles.

According to him, during an unexpected turn of events in unfamiliar territory, the best strategy is to stay calm, stick to the contingency plan and minimise making hasty deci-

sions under duress. Similar to investing, when people make a sudden decision while they are “super excited or nervous”, they usually get it wrong, says the CIO in a recent interview with *Personal Wealth* when he was in town.

Citing the recent downturn in global equity markets in January and February as an example, Moore says investors who had sold out of their equity positions completely for fear of incurring more losses would have missed out on the strong rally in March and early April. Those who sold out but jumped back into stocks during the recent rally would have committed the investment fallacy of selling low and buying high, he points out. “Investors

have to move away from the ‘nervousness-based’ trading.”

As he sees it, most retail investors become victims of the “optimism and pessimism cycles”, which lead them to buy high and sell low. Their actual returns often fail to match the market averages or the gains achieved by their mutual funds because they “buy and sell at the wrong time”. Indeed, retail investors could underperform their funds or financial market indices by 200 to 300 basis points annually because they get nervous during market downturns and become greedy when markets go higher, Moore observes.

Every year, Boston-based financial services

market research firm Dalbar will gauge how the average investors in the US would perform relative to what they are invested in. Like in most years, its 2015 report shows that retail bond and equity fund investors in the US lagged the fixed income and stock indices. For instance, in 2014, equity fund investors generated gains of 5.5% versus the 13.69% returns achieved by the Standard & Poor’s 500 index. Over a period of 20 years, the results were equally glaring, with retail equity fund investors earning annualised gains of 5.2%, which is significantly lower than the S&P 500’s annualised return of 9.85%. According to Dalbar, the underperformance of retail investors is largely due to their tendency to sell low and buy high while trading the markets.

“If you are underperforming by 200 to 300 basis points versus the market averages, compound that over time, the cost to investors is colossal. This is especially so when the overall [expected] returns in the current environment are only 6% to 8%. You can give up 2% when you are making 20%, but not when you are only making 6%,” says Moore, who has more than 30 years’ investment experience.

Low-return, high-volatility environment

Global equity markets do not have much upside in today’s “structurally low-growth environment”, according to the CIO. “The US economy may grow at 2%, Europe at 1% and I am not sure if Japan will grow at all. In any case, earnings growth expectations [of developed market equities] have to be single digit.” The price-to-earnings ratios (PERs) of many listed companies will remain constant and their share prices will move higher “in line with



Moore: Compared with European and Japanese equities, US stocks look better

SAMUEL ISAAC CHIA/THE EDGE SINGAPORE

their earnings growth”, he says.

“You can’t really have much PER expansion from here on as the rerating has already occurred. Therefore, you are going to get modest single-digit returns from the markets. It is not that they can’t go up from here, but the upside is going to be fairly muted because each year, you will get 6% to 8% earnings growth and that is all you should expect from the market returns.”

At the same time, volatility of global equities will be higher than that over the past decade owing to economic growth uncertainties and more geopolitical upheavals, Moore predicts. The Volatility Index, which measures the volatility of the S&P 500, could move higher to the 18% to 25% range going forward compared with the average range of 12% to 13% over the past several years, according to the CIO.

With equities expected to return to 6% to 8% and their volatility spiking to 18% to 25%, the risk-return trade-off for stocks is not going to look attractive going forward, Moore admits. That is why he is recommending retail investors to scale back exposure to stocks.

“Higher volatility is something that many retail investors can’t tolerate,” says Moore. “We are doing a bad job as an industry, advising investors to have so much in equities when the volatility of stocks is against their so-called ‘behavioural norm’ [or acceptable level]. For most people, they could consider bringing down their equity exposure.” He adds that in today’s low-growth, high-volatility world, the emphasis is shifting from maximisation of returns to consistency of returns.

Moore observes that many financial advisers are still recommending retail investors to have 60% of their assets in equities and 40% in bonds. As he sees it, the recommended portfolio allocation of most common investors should be “the other way round” — 60% in bonds and 40% in stocks.

Bond bets

To be sure, with 10-year US Treasuries yielding less than 1.8% and European and Japanese government bonds generating negative rates, investors do not have to invest in these low-yield sovereign bonds, Moore points out. “For bonds, I am not talking about US Treasuries or [developed market government bonds]. I am talking about mortgages, high yields, investment-grade corporate bonds and emerging market [EM] debt.”

The CIO says he is sanguine about the prospects of non-energy US high-yield bonds, which could yield between 6% and 7% and are less volatile compared with equities. “Investors have to think about the risk-adjusted returns. In a low-growth environment, people are too focused on maximising the returns when they should be focused on maximising the consistency of those returns.” Expected returns from high-yield bonds are not as attractive as those from equities, but these lower-quality corporate bonds are also less risky compared with equities, he points out.

“Investors may be better off aiming at slightly lower returns with lower volatility. Yields of 6% to 7% for high-yield bonds are still pretty good,” says Moore, who points out that EM debt is another good bet in the global bond markets. “In recent years, a lot of the EM debt has been downgraded, but there are huge differences within EMs. You get to pick up [higher yields] if you go with local-currency-denominated EM debt. There is more risk with these bonds, but there is an acceptable trade-off.”

For adventurous investors, unloved investment-grade bonds of energy companies are another group of bonds with an attractive risk-return trade-off, Moore says. “I would play oil through investment-grade bonds. Many of them have done badly and been downgraded from investment-grade to near-junk status. But there is a real opportunity. For investment-grade energy issues, you can see

that these companies are cutting dividends and capital expenditure, so the free cash flow to their bond [interest payments] is improving even in the current low oil price environment.” But high-yield energy bonds are still too risky for his liking. “I am not brave enough to touch these bonds,” he says.

The more sophisticated investors could include alternative investments, whose prices are less correlated to those of stocks and bonds, in their portfolios, according to Moore. “For my personal portfolio, it is 40% in equities, 40% in bonds and 20% in alternatives.” Low-volatility equity mutual funds are another option to bring down the overall risk level of an investment portfolio, he says. “If you can hedge out part of the equity beta exposure and reduce the risk in your total portfolio, then that will be a good thing.”

Equity picks

For equity bets, Moore is recommending investors to have exposure to US stocks and EM Asian equities. “Compared with European and Japanese equities, US stocks look better,” he says. To begin with, the economic growth in the US and the demographics of the US working population look better compared with those of Europe and Japan. “In Europe, the growth and demographics are worse compared with the US. In Japan, they are dramatically worse. Growth of 2% in the US will turn out to be relatively attractive,” says the CIO, who expects the S&P 500 to trade between 1,800 and 2,100 in the near term. US equity sectors such as technology and health-care, both of which have long-term secular growth, look attractive to him.

“If I were to pick just the equity markets, I would choose the US as the relatively more attractive developed equity market. I would also add in the excitement through emerging Asia. I would rather be in emerging Asia than emerging South America. That is how I would create my [equity] barbell [strategy]. Over the long term, I am less sanguine about Europe and downright negative on Japan.” Long-term growth prospects of stocks in Thailand, Indonesia, India and China, all of which will benefit from the healthy economic growth and good demographics in their respective countries, also look attractive, he says.

Rebalancing versus trading

Instead of frequently trading the markets, which will inevitably lead investors to commit the fallacy of buying high and selling low, Moore says individual investors should rebalance their investment portfolios at regular intervals, such as every year or six months. An investment portfolio that has deviated from one’s target asset allocation owing to the out-performance or underperformance of certain asset classes could be brought back into line through rebalancing.

“Investors should rebalance when individual needs evolve or on the basis of how markets have performed. There is a difference between volatility-based trading and rebalancing. When investors make decisions when they are super excited or nervous, that’s bad. But when an investor rebalances to keep good diversification in his portfolio or because his personal circumstances have changed, that is a good thing. And that’s what advisers in our industry should be focused on,” he says.

Another advice Moore has for investors who are targeting specific financial goals such as building wealth for their retirement needs or children’s education is to start early. It is never too early to plan for your future financial needs, says the CIO, who likes to plan early for his expeditions to the great outdoors. He reveals that he and his friends are already making plans for their next snowmobiling expedition to Iceland in 2017. “Next year, we are going to Iceland and we will try to get to the volcano on a snowmobile,” he says. **E**