

Adviser insights: Core strength and client outcomes

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Vanguard asked founder of Marinis Financial Group, Theo Marinis, to discuss the core-satellite approach and why it's important for both his clients and his business.

At last, the word about 'getting rich slowly' is out - but this shouldn't be confused with taking sensible risk - that old truism 'you need to speculate to accumulate' is founded in experience.

I became a financial planner after the longest (and perhaps, the most appropriate) apprenticeship ever – at the ATO, the Insurance and Superannuation Commission and Centrelink. As a consequence I know the system, the markets and policy backwards – including the inherent risks.

While I recognise the importance of active funds and direct stocks, I also understand that the best foundation for most of my clients' portfolios is simply to 'buy the market' via a low cost, lower risk, diversified index fund.

This is because the broad diversification, style consistency and risk-control benefits of including an index core have been more effective in lowering overall portfolio volatility and keeping my clients on track over the longer term.

Indexing is also beneficial for another very important reason - costs. Index funds are often two or three times less expensive than active funds, sometimes more.

Protecting the retirement 'nest egg': the true cost of investing

I am quite passionate about the subject of costs as it is my view that Australians pay far too much for their investments. The impact of excessive fees is very real, and can have a significant impact on the retirement nest-egg.

Costs can take the form of management expenses, platform fees, taxes and any other related fees applied to investors' capital as it changes through time. These costs place a significant drag on the net performance of a portfolio.

In my view, many investors are paying over the odds in investment fees, particularly for active management, which relies on a manager's ability to outperform the market – a difficult task for many, particularly when fees are taken into account.

Focusing on minimising costs is an obvious way I have been able to drive better long term outcomes for my clients.

I talk to my clients a lot about compounding. If an investor saves one per cent in fees each year on their investment over a decade, they might believe they will therefore be 10 per cent better off. In reality, the impact on their portfolio balance is far greater, as cost savings have a compounding effect on their capital balance over time.

Core-satellite – the best of both index and active management

For the last decade I have been advising my clients on the benefits of a 'core satellite' approach to investing.

This approach provides the framework for including both index and active funds in one portfolio, meaning my clients are able to capture market returns at a lower fee, while also capturing the opportunity for outperformance from a smaller actively managed component.

The core therefore becomes the heart of a good investment portfolio. Based on low cost index investments, it is the engine that powers long term growth – and like an old diesel, it chugs away in the background. The satellite is the ancillary element of the portfolio designed to augment the core, capture potential alpha and isolate investment risk.

At a practice level, one of the biggest benefits of this approach is that once the index core is in place, we can take a very streamlined and efficient approach to implementing our clients' asset allocations by adjusting the active fund exposure to achieve a desired risk/return profile.

We assess the client's phase in the wealth creation cycle, their appetite for risk and their investment timeframe. If a client is interested in taking on a little more risk to increase overall returns, we allocate a smaller number of high-conviction 'satellites' to the portfolio, dedicating a portion of funds in more speculative sectors such as infrastructure, international shares or even technology. Our 'satellite' recommendations are guided by our research, as well as the comfort level and preference of the investor.

As a business, core-satellite allows us to be more productive and efficient with our time. Rather than endlessly researching and monitoring a large number of active portfolios, the 'set and forget' index core means we can really focus our time on our clients. Fewer investments in a portfolio means we have very high conviction in the satellites we do select, and we know they are aligned with our client's goals.

I also believe clients have greater confidence and comfort, as they are able to work toward their long-term investment goals with lower volatility and risk, and less of their nest-egg is consumed by fees.

I have found core-satellite to be the best way to successfully drive long-term portfolio performance and protect the best interests of our clients. Meaning we can take a sensible level of portfolio risk to help our clients 'get rich slowly.'



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