Media Release No: 80 **7th May 2018**

Core and Satellite investing – a sound strategy

By Theo Marinis

When it comes to investing I am by nature conservative, preferring the less glamorous side of strategic advice (based on the interplay between superannuation, social security, investment and tax policy).

There is, however a sizeable sector of the investing community who want advice on where to invest to gain the 'best' performance results. In some cases, core and satellite investing can provide a sound strategy.

This very cost-effective approach also satisfies what I call the first three rules of investing ***Diversify, Diversify and Diversify!***

For clients who are interested in a core and satellite investment strategy, I generally recommend that 85% of the portfolio is indexed to the market. This passive investment component forms the core portfolio and acts as the insurance policy to avert disaster for the medium to long term investor by virtue of the level of diversification it provides. As the market moves, so does the core of the portfolio.

The remaining 15% of available funds can then be invested as satellites or 'active tilts' to specialist asset classes. This strategy offers an investor exposure to the active side of investing, without risking the entire portfolio and / or their retirement savings.

As well as the risk management factor, smaller satellite exposures can also help to keep total portfolio costs down, as active 'tilts' are often much more expensive investments.

Active satellite investments can have the potential for great upside, but also a rapid downside, often significantly much more severe downside than the market as a whole.

If one of the satellites gets 'lift-off', in other words if the sector booms, the overall investment outperforms. Obviously, the reverse is also true, hence the argument for a smaller 'tilt' and not one which could risk blowing up the portfolio!

This is one of the reasons I generally recommend this approach only to clients with an investment portfolio of $2 million or above, and who are looking for an exposure to greater market volatility for the potential to gain market outperformance.

Satellite investments currently worth considering:

- **Infrastructure** – globally, particularly since the GFC governments, have and are investing heavily to grow infrastructure at this time of the cycle, and based on the international and historically low interest rate experience, potential for upside is attractive. Infrastructure also tends to have a complimentary correlation to the share market and therefore can reduce the volatility of a portfolio.

- **'small caps'** – companies which sit at the tail of the share indices and often described as the ugly ducklings of investing, unloved as smaller and/or newly listed companies. And yes, sometimes we manage to see them grow into swans. It is often forgotten that Apple, Facebook and Microsoft were once **Small-Cap** players – until their transformative technologies started to get traction.

  (Small Caps work well as an active 'tilt' because larger capitalised stocks are analysed to within an inch of their lives with the same information available and measured by all the analysts. Small caps, however, often slip under the radar, allowing enormous upside). Having said that, last year most active small cap manages were beaten by the index – as is the nature of speculation. This further re-enforces why we only recommend small active 'tilts'.

- **Asia** remains very attractive as an active 'tilt' given that within eight hours flight time from Sydney, an unprecedented social change is occurring, and consumers in these countries are demanding goods and services similar to those we enjoy in the West. The business opportunities in Asia have and continue to grow exponentially.

  Potential for active fund managers to outperform the index remains relatively high; Asian equity markets are perceived to be less efficient than the equity markets of developed countries, and paying extra for an active manager to undertake the extra research for stock selection can be worthwhile.

So, how can a core and satellite strategy help an investor in difficult times?

Over the last 5, 10 and 15 years research repeatedly shows that most active managers have not been able to beat the index benchmarks they proclaim to be able to beat (and their clients have been charged significantly higher fees for the privilege of providing them with poor returns).

Of course, no one can consistently beat the market, and as I often tell my clients, if I knew how to beat the index consistently I would not be selling that information. I would use these 'super powers' for my benefit and NEVER give my secrets away.

Even Warren Buffett, aka 'the sage of Omaha' and widely regarded as the world's greatest investor, says he would advise his family to follow a passive investment approach, unless they had developed his kind of 'oracle-like' insight into the markets, and his deep pockets!

Hence the reason that the 'solid core' of a core and satellite investment approach is based on low cost, fully diversified index investments, allocated in line with the client investment risk profile (the degree of willingness for exposure to greater market volatility in exchange for the prospect of higher long-term returns).

The additional costs of a modest active 'tilt' will not blow out total portfolio investment costs and thus eliminate any of the gains that may be achieved via exposure to actively invested funds.

In line with my conservative view, I believe that thirst for speculation in investing should be tempered – human nature is such that we are often victims of irrational enthusiasm. If we get it wrong, and are at a stage of life where it would be difficult to recover, it could be very painful.

This is why I won't ever recommend investing the bulk of available funds solely into speculative investments, particularly when retirement savings are involved.

This is the primary difference between 'investing' in the share market and 'betting' on the share market which is what many people do. If you want to bet on the market why not instead head to the casino and put your life savings on either black or red. You will know the outcome much sooner and can retire in great comfort or NOT retire ever!

I personally prefer (and want the same for ALL my clients) to "**get rich slowly and stay rich!"**

For further information please contact:

Theo Marinis

Financial Strategist
(08) 8130 5130

-o0o-

For further information, please contact:

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
E admin@marinisgroup.com.au
W marinisgroup.com.au
A 67 Kensington Road
NORWOOD SA 5067