# Don't put all your eggs in one basket: a broad range of assets can help in managing investment risks

**Investors are, quite understandably, wary of taking risk. When you place a portion of your wealth into an investment portfolio, watching news reports of tumbling financial markets can be alarming to say the least. However, it is important to remember that risk is an important feature of financial markets, and in many ways a welcome one: without taking on some risk, there can be no potential for greater reward.**

Many investors will have seen their portfolios drop in value as financial markets crashed this spring, amid the global outbreak of COVID-19 (or coronavirus) and an ill-timed oil price war. However, while this sudden market fall was certainly very disconcerting, and its impact should not be underplayed, it is also worth remembering that the prices of riskier assets, like shares, have broadly spent the past decade on an upwards trajectory. What's more, global stock markets have so far staged one of the fastest recoveries on record, with many asset prices already recovering considerably from recent lows.

Even outside of these extraordinary times, investment portfolios face many different kinds of risk. One crucial example is 'market risk': the chance that a portfolio's value will be impacted by fluctuations and events within financial markets. The most obvious instance of this in recent history is the 2008 financial crisis. As this event unfolded, reality checks on excessive behaviour in the financial sector ultimately led to dramatic falls in stock markets and investment portfolios, as well as grave consequences for the global economy.

Inevitably, much of the analysis surrounding the current economic shock has drawn upon the 2008 crisis as a point of reference. However, the 2020 COVID-19 pandemic does not truly fit into the same category of risk. The 2008 crisis was a financial market event (born of 'market risk') which went on to impact the wider economy, whereas the COVID-19 pandemic is a global health event which has gone on to impact financial markets. Importantly, no matter the source of these unexpected events, it goes without saying that it is difficult (to the point of impossible) to predict their timing or magnitude.

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As a result, it behoves investment managers to ensure that they fully understand their customers' attitudes towards risk (and potential reward) when helping to build, position and monitor their investment portfolios. Critically, while exposure to negative risks is inevitable in the search for financial reward, customers who opt to place some of their capital in an investment portfolio should not feel defenceless against risk – far from it.

At Heartwood Investment Management (the asset management arm of Handelsbanken in the UK), the investment team believe there are ways to lessen the negative impact of unpredictable events, while still participating in financial markets enough to make financial gains over the longer term. Their preferred approach to this challenge is to diversify investment portfolios across a carefully selected range of holdings.

They believe this also helps in combating another (rather infamous) risk faced by investment portfolios: 'inflation risk'. This is the risk that a portfolio's real-world value could fall as inflation rises. Inflation typically follows a rather steady course, usually derailed only by outright periods of recession. This makes the journey of inflation relatively smoothly upward-sloping, unlike that of financial markets, which follow a more volatile course, particularly over the short term. As a result, investment portfolios must play catch-up with inflation following any period of underperformance. The Heartwood approach of investing across a range of asset types, which follow subtly different long-term investment journeys, can, the team believe, create returns above the level an investor would receive on cash alone. This however, does come in exchange for taking on some risk.

Graham Bishop, Heartwood's chief investment officer, said: "Amid the worst of the market falls this spring, this well diversified approach has proven itself vital within our portfolios. Naturally, losses were not entirely avoided, but we believe that the spread of risk across hugely varied asset types went a long way towards mitigating some of the worst effects of the crisis on our customers' portfolios. In turn, this allows breathing room for positive financial returns to be built into portfolios over the long run."

He concludes: "Put simply, risk can never truly be eradicated within an investment portfolio – and thank goodness, as we use risk as a tool in our search for attractive financial returns – but it can be well managed. We believe that a 'multi asset' approach, spreading the risk across different types of assets, is a compelling way to achieve this goal."