

# The advantages of a balanced fund

At Netto Invest we advocate using balanced (also known as multi-asset) funds as core building blocks in our portfolios. A recent methodology review strongly supported their ongoing use, and with the current market volatility, it's a good time to review the advantages.

## A balanced fund includes both growth and defensive asset classes

Assets in a balanced fund are allocated between shares and property (growth assets) and bonds and cash (defensive assets). The fund's returns thus comprise interest, dividends and capital growth and the proportions invested per asset class are determined by the fund's stated objective.

## A balanced-fund investment has three advantages

1. **Diversification** helps reduce the risk and volatility of the fund over time.
2. **Ongoing re-balancing** maintains the fund's asset allocations in appropriate proportions.
3. **Tactical asset re-allocation** aids risk management while still maximising returns.

### Diversification is key

This simply means that you don't have all your eggs in one basket, or in this case, all your assets in one asset class. Rather than being exposed only to high-risk, high-volatility assets or low-risk, low-return assets, a balanced fund gives you a mix of both.

### Automatic re-balancing

When you make investment decisions about your portfolio, you do so within risk and return parameters relevant to your long-term investment goals. As your assets make returns, you would need to adjust your personalised portfolio to keep the asset classes in the proportions you had selected.

The same applies to a balanced fund, but in this case, the rebalancing (adjusting the underlying asset class proportions) is done automatically by the fund manager, so you can be sure that you are exposed to appropriate amounts of risk to make the returns you require.

### Tactical asset allocation?

Tactical asset allocation adjusts the exposure to growth assets above and below the required allocation to reduce risk and adjust the portfolio for cyclical returns.

Timing the market is not possible, so these short-term adjustments are based on the relative value of companies as reflected by their share prices relative to their intrinsic business values.

## Asset allocation: is an in-fund or personalised portfolio better for you?

While separating portfolios into growth and defensive assets for individual portfolios can work, the research indicates that doing this in-fund achieves better long-term results as the allocations can be more objectively managed and adjustments more effectively timed and implemented.