

# Beyond SSIA: building wealth in turbulent times

**Brendan Reade** considers the lessons for Irish investors from markets where asset diversification is recognised as the key to managing wealth over the long term

An old proverb tells us that ‘money grows on the tree of patience’ and, although the Government’s introduction of Special Savings Incentive Accounts (SSIA) in 2001 brought some legitimate criticism about its generosity, there can be little argument that the scheme was hugely beneficial in reintroducing the culture of saving regularly. Irish savers diligently contributed to their SSIA’s to create lump sums that could be used for a rainy day, to fund a specific event in the future or to fund the purchase of an expensive item or pursuit that could not be paid for of ordinary income. However, the SSIA phenomenon ended over a one-year period between 2006 and 2007. Will the culture of regular saving continue and, if so, what regular saving vehicle are investors likely to choose?

The banks, building societies and life assurance companies all introduced and heavily advertised and marketed SSIA rollover or continuation solutions. You can reinvest your lump sum and/or continue saving in a vast range of similar traditional regular savings vehicles (but without the government’s 25 per cent bonus on top of what you save). There were lots of incentives on offer from the financial institutions including: attractive introductory offers; discounts for SSIA account holders who continue to save with the same institution; and bonuses for savers who switch their lump sum and/or regular saving habit to a new organisation.

#### Traditional regular savings

Traditional regular savings vehicles include:

- regular savings unit linked contracts: from banks, building societies & life insurance companies;

- regular savings with profit contracts: from life insurance companies;
- regular savings deposit accounts: from banks;
- building societies, credit unions, An Post etc.

There is no doubt that the traditional method of saving a certain amount by way of direct debit into these regular savings vehicles will continue and these methods and solutions should benefit from the savings habit that the SSIA accounts have engendered. It is logical for financial advisors to continue to give impartial and valuable advice to their many clients who wish to continue to save and invest in this way.

#### Alternative methods and solutions

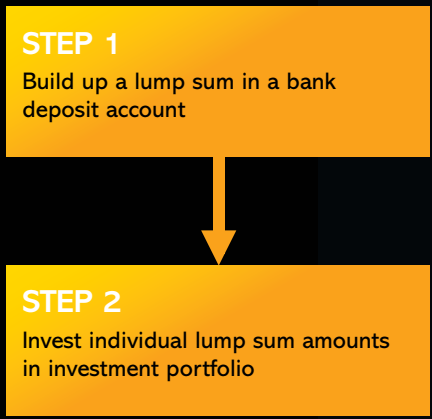
However, while many will favour these traditional routes, interest in new savings solutions have also developed. As Irish investors acquire greater wealth and become more financially sophisticated, their savings habits will evolve as they have done in other countries where the creation and preserving

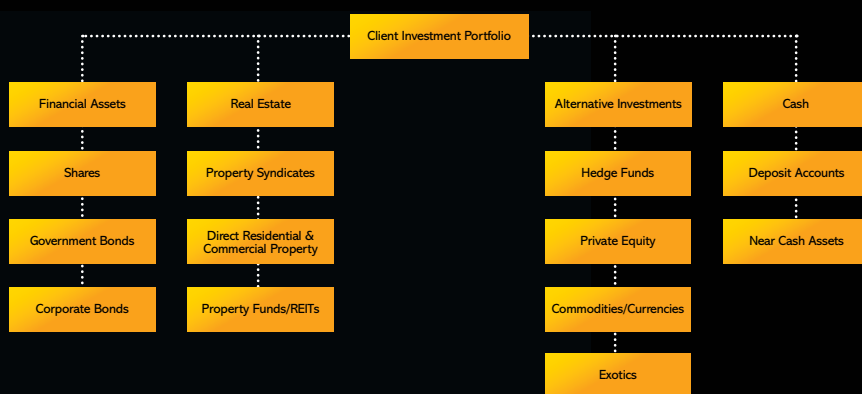
of wealth is not just a recent phenomenon but an on-going concern for centuries and from generation to generation.

In these environments, regular saving is sometimes viewed as a stepping stone to an investor’s overall investment portfolio construction. For example, investors save their excess income in a simple deposit account on an ongoing basis. When the balance in this deposit account becomes a substantial lump sum amount, this amount is then invested in one of the building blocks used to construct the investor’s investment portfolio.

Using the lump sums that result from regular saving to construct investment portfolios allows investors to adopt a more balanced approach to portfolio management and, therefore, results in more diversified portfolios. The chart below illustrates a typical balanced portfolio approach taken by an investor in most wealthy countries.

The largest and most respected investment specialists around the world have long since argued that asset allocation and the construction of diversified portfolios is the single most important contributing factor to both investment portfolio performance and risk management. Wealthy investors in mature wealth economies have been using the lump sums generated from regular saving to invest in each of the building blocks illustrated in this chart. Irrespective of an investor’s risk profile or the precise proportion allocated to each block, the balanced portfolios that result have the potential to produce attractive investment returns and to preserve capital during periods of turbulence or volatility in the capital markets.





**Diversification**

Property is the celebrated asset class of choice for many Irish investors. Most Irish investors have complemented their real estate assets to a greater or lesser extent with investments in financial asset classes like equities and bonds. However, very few Irish investors or savers have incorporated alternative investment strategies and alternative asset classes like hedge funds, private equity, currencies, commodities or many of the other “exotic” alternative investments into their portfolios. Investment experts argue that alternative investments are crucial in order to construct truly balanced portfolios. Alternative investments are not necessarily correlated with the positive or negative momentum of the financial markets or the business cycle and, therefore, deliver genuine portfolio balance and diversification. Structuring balanced investment portfolios that retain the potential for capital appreciation (or income generation) while also managing investment risk through diversification deliver more efficient long term risk adjusted returns.

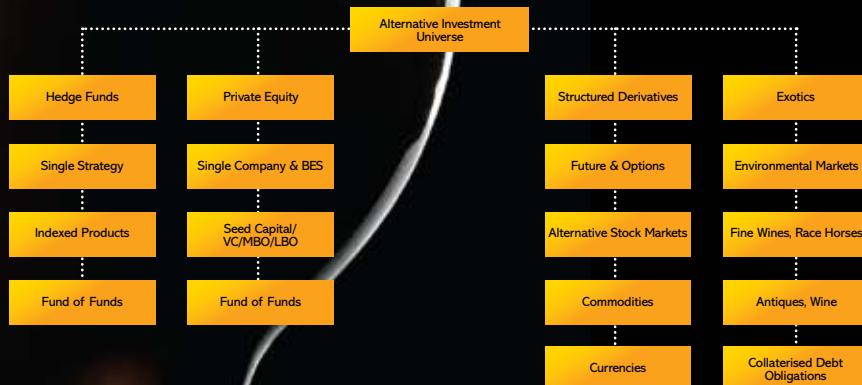
The universe of alternative investment strategies and asset classes is expanding at a rapid pace. The chart below illustrates some of the sub sectors that have emerged in the last 20 years:

By adopting this approach of regular saving to invest multiple individual lump sums in a balanced investment portfolio,

savers are provided with the potential to introduce a whole raft of new investment assets and techniques. These new asset classes and investment techniques and strategies can be introduced to their investment portfolios in a complimentary manner and without comprising the building of the traditional foundations of the portfolio. Property, equities and bonds can continue to provide the solid foundations on which the portfolio is built. However the portfolio’s construction can become all the more robust from a strategic point of view and all the more interesting from the investor’s point of view when these new alternative asset have been introduced.

**New asset classes**

The alternative asset classes selected by wealthy individuals and their advisors is currently one of the more interesting aspects of the investment industry. While hedge funds and private equity are relatively well known alternative asset classes and still make up the largest proportion of this area, the net is being cast in the direction of more and more interesting sub asset classes all the time. Real assets, raw materials or commodities have become increasingly popular. Investors are adding energy commodities (e.g., oil and gas), precious metals (e.g., gold, silver and platinum), industrial metals (e.g., steel, iron, copper and aluminium), agricultural produce (e.g., livestock, cotton, coffee and cereals) and other commodities like rubber and timber to their portfolios with increasing momentum. Infrastructure investments like toll roads,



railway networks, airports, car parks, mobile phone masts and other utilities are also growing in popularity. Investors are using structured products or derivatives to gain efficient and easy access to the stock and property markets in alternative or emerging markets like Brazil, Russia, India and China.

Currency is also an asset class that has gained increased prominence. The Yen carry trade; wide variances in interest rates in different regions across the world; US dollar declines; and massive trade imbalances have attracted investors searching for attractive and uncorrelated returns. One of the newest buzz asset classes is environmental markets. Ethical and socially responsible investing were the forerunners but environmental markets differ slightly. The environmental markets are alternative and renewable energy (e.g. wind energy, solar power, bio fuels, nuclear power and recycled energy); water treatment (e.g. decontamination and more efficient transport) and waste management (recycling companies, land fill, and incineration). The investments do not necessarily have to be ethically or socially motivated but are aimed at producing energy, clean water and disposing of waste in more environmentally friendly ways. Alternative investments like environmental markets not only have compelling investment rationales, bring further diversification to portfolios but can also leave the investor with the ‘feel good’ factor that comes from knowing that they are doing something to promote a cleaner environment.

**Conclusion**

The success of the SSIA innovation can lead us to conclude that the regular savings habit has been rekindled and is set to continue. However, we might also expect the methods of regular saving adopted and savings solutions employed to evolve. As Irish investors become wealthier and their investment appetites develop, we can anticipate their savings habits becoming more sophisticated as has been the case in other wealthy countries. In other more mature wealth management markets, regular saving is a part of investor’s overall investment portfolio construction. Investors often use the lump sums that result from regular saving to play a role in the investment portfolio construction process. This can allow investors to adopt a more balanced approach to portfolio management and to incorporate new and interesting alternative investment techniques and alternative asset classes. The universe of new and exciting alternative asset classes is growing all the time. These alternative investments are not only interesting but facilitate the genuine portfolio diversification required to generate more efficient long term risk adjusted investment returns. ■

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