Your wardrobe can help you understand your share portfolio

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Building a balanced and well diversified portfolio is the aim of every long-term investor, but it can be easier said than done. Building a balanced portfolio means having exposure to different types of company shares with varying characteristics such as risk, growth, size, industry, and track record. Building a share portfolio can be linked to the building of a wardrobe. Building your wardrobe is a far less daunting topic than building a portfolio, however both share similar characteristics. By looking at the share triangle below, we can start building our portfolio:

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**Basics:** The fashion experts – we are not those – simply enthusiasts. Often talk about the concept of a capsule wardrobe. Simple, safe, high quality pieces in blacks and neutrals. Yes... life would be easier if we made smart purchasing decisions at the core of our wardrobe. Your investment portfolio is no different. Think of those items of clothes that are worn weekly, because they serve as the basic to
your outfit. The items you trust most and will turn to when in doubt. Building the foundation of a portfolio means investing in reliable, low risk assets that will hold your portfolio in good stead over the duration of your investment career. ETFs allow investors to access a wide range of assets through a single investment, spreading risk and increasing the probability of sustainable returns. Cash also plays a vital role in the foundation, as cash investments allows predictable income streams in the form of interest income, and is highly liquid, meaning cash can be used when needed, so that long term stock position don’t have to change. The last inclusion in your foundation is emergency savings. We will all need cash for something at some point in our future, be it for home improvements, car servicing or a function. Having 3 months of monthly salary put away allows you to build a safety net, meaning you can leave your investments untouched and allow compounding to take its magical effect.

**Timeless statement pieces:** Like the perfect pair of sneakers or that black dress, you add high quality stocks to your portfolio next. Big companies with good growth potential in industries that will last. Anheuser Busch, Mediclinic, Woolworths, Shoprite. These stock selections should be based on what YOU know as a human and a consumer. If you find that none of your friends go to Pick n Pay anymore – do you really think they will be able to increase profits? Selecting your timeless stocks should always be linked back to profitability and what big companies have a future in this new world of ours. Blue chip shares form part of the top 40 shares by market capitalisation on the JSE. Building onto your foundation of cash and ETFs through blue chip shares allows a combination of returns in the form of increase in share prices and stable dividend income.

**Grudge purchases:** No one ‘wants’ to buy pyjamas or running shoes or a sensible ‘sports hat’. But these are the things that will make you a little more comfortable when you sleep, get fit, or stand around at a sports day. Buying pyjamas and running shoes are not supposed to be easy decisions. You need to make sure that you sleep comfortably (you spend a quarter of your life doing it) and you don’t want to break your ankle. Midcap investing is similar. This part of the market can be very rewarding – if you make the right choices. Midcap stocks are typically not in the top 40 but can offer a lot of
potential. Mr Price was midcap once. Think of the up and coming businesses you frequent and check out who owns it? You may have a love for ultramel custard... did you know you could buy clover on the stock market? Adding midcap quality stocks your portfolio allows you to potentially increase returns at a much faster rate than just exposure to low risk instruments. Remember the higher the risk, the higher the reward and vice versa. Having a balanced portfolio means reducing risk as much as possible but allowing potential upside should these shares perform. Having these combinations means stable returns lower down the triangle and the opportunity further up to increase portfolio growth.

**Trends**: Trends tend to last and they tend to be recurring in nature. Think of classic RayBan shape sunglasses, the perfect loafer and floral dresses. These will surely last more than one season. A theme for example will be the shared economy where things like Airbnb and Uber become more user friendly than hotel rooms and owning your own car. Now we are also talking about the fourth industrial revolution where computers and digital will change the way we do everything. While not a sure bet – many of the companies in this space end up changing the world and you want to be a part of it.

Allocating a small bit of your portfolio to themes is a sure-fire way not to miss out. Tesla was a theme, in improving the technology around electric vehicles as well as solar technology and became a talking point around the world. Although volatile this share is just over 500% up year to date and having exposure, even if small will increase overall returns in a portfolio.

Imagine you could press the reset button on your wardrobe. Would you do things differently? Would you have all the random bits in pieces you currently own or would you start out more conservatively. Perhaps with safe, high quality basics and a few statement pieces?

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