High net worth individuals

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Equities still attractive, but watch values

Portfolio International stocks could provide an investment opportunity.

Alexandra Cain

Experts suggest pockets within equity markets remain attractive for high net worth investors.

But high valuations across not only equities but also other asset classes mean it is an idea to be especially prudent when investing.

Investors should also be very aware of heightened risks in global markets such as geopolitical tensions when forming investment views.

Brian Phelps, general manager CommSec retail distribution, says in the domestic markets equities remain a good choice for high net worth individuals. "But they need to be patient to find value. A number of stocks have received negative publicity recently yet still have attractive yields," he says.

"ETFs are useful for high net worth investors to gain exposure internationally and to different sectors to ensure their portfolios are well diversified."

David Sokulsky, chief investment officer of Crestone Wealth Management, agrees investors must become more selective about how they allocate funds to equities.

"Valuations are elevated because there is strong economic growth around the world. You've got earnings turning in the US and Europe in particular, in a low interest rate environment. So those factors justify higher valuations, but people are becoming concerned [values are too high]."

Sokulsky says for him it's a question of which asset classes look most attractive on a relative basis. "We were overweight US equities last year and into February, which was a very good call. Now we think European equities look very attractive for the high net worth space."

He says this is due to a good economic environment, a resurgence of company earnings in Europe, very low interest rates and an undervalued euro.

Martin Becker, a director of Fairbridge Wealth Management, says international diversification is important as Australian economic growth is likely to slow over the coming years, putting pressure on corporate profit growth and the Australian dollar.

"Our reading of US economic data over the past three months suggests a softening of the economy. Despite this, current market valuations are pricing in positive US economic growth, a stronger US dollar, as well as rising US interest rates," he says. "Any change in economic momentum will require a change in portfolio positioning with potentially significant implications for all major asset classes."

Outside traditional asset classes, Sokulsky says alternative investments are worth a look, including hedge funds and private equity.

He says volatility is still at record lows, but if it picks up it will favour hedge funds and these investments can be a way of diversifying returns and risk.

George Toubia, chief investment director, private wealth, BT Financial Group, agrees the investment backdrop is difficult for high net worth investors.

"Nothing is cheap. So the guiding principle is to ensure you understand reality and adopt a discerning approach to pockets of opportunity," Toubia says.

"You have to think forward because the blue chips of the last 20 years may

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not be the blue chips of the future. The pace of change has increased and there are new winners and losers from each sector."

He says alternative providers of capital and good-quality private businesses are opportunities for wealthier investors to consider. But these are far from the only opportunities.

"There are four popular markets trending right now," says Michael Bogoevski, head of sales trading for Asia Pacific for CMC Markets.

"In order of popularity [they are] FX, US index markets, US equities and gold. We've seen our traders make some solid gains on US equities since the Trump election."

Jonathan Philpot, partner, wealth management, HLB Mann Judd Sydney, notes investors who have taken on some risk in equity markets and had low exposure to fixed interest and cash investments have done well recently.

"We expect this will continue with a stable economic outlook and good dividend yields. So longer term, Australian shares will continue to offer an expected return of high single digits. When compared to the low interest rate environment, this is an attractive return," he says.

Philpot agrees international shares look attractive, although not so much on an income basis. "Valuations, apart from the US market, appear to suggest a return in the range of 7 per cent to 9 per cent a year over the long term. But, due to higher valuations we have lower expectations for the US market of [returns of] around 5 per cent a year."

As ever, there are numerous risks for high net worth investors to take into account. But, says Sokulsky, "the real risk is North Korea".

US President Donald Trump is another threat. "People were really worried about what Trump would do to harm the global economy by trade tariffs, immigration limits and lack of political nous," says Sokulsky. "But everything Trump said has been watered down. Now everyone is expecting large tax cuts and reforms in the financial and healthcare sector. But the risk is Trump can't implement these reforms."

Interest rate movements are another danger investors should watch for.

Becker says it is important for investors to recognise a portion of investment returns over the past few years are due to the favourable monetary policy environment which has led to historically low interest rates. His advice is to focus on capital protection.

"Don't take bold actions; don't bet heavily. Preserving capital and having cash available to buy quality assets when they become available at attractive prices is a good way to grow wealth over the longer term."

Many risks in markets stem from the possible end of a 30-year bull market in bonds, corresponding with interest rates having reached their trough. This is a particular risk for real estate assets.

As Greg Einfeld, a director in SMSF specialists Lime Super notes, any increase in interest rates would see many commercial properties move from being positively geared to negatively geared, making it less attractive to purchase new properties at existing prices.