SYNERGY
INVESTMENTS

Investment Report for
Quarter Ending 31st March 2017

DON'T SECOND GUESS A SOUND STRATEGY

A year ago the world looked like a scary place. In fact, in January 2016 some commentators were literally recommending that investors should "sell everything". But as history now records, that would have been a terrible idea, at least for Synergy investors.

Synergy model portfolios had a great year in 2016, delivering returns comfortably ahead of our long term expectations. We are very pleased to be able to report the strong performance has continued into the first quarter of 2017.*

Synergy has been able to deliver such good returns because it follows a long term strategic asset allocation approach. What this means is that Synergy's investment process doesn't get distracted by trying to:

a) Predict what future events may or may not happen, and then
b) Guess at how the market might react

That might sound a little strange, but even if you can consistently and accurately predict future events (and most of us can't), you are not guaranteed any investment success. You still have to work out what to do with the information, and that is often just as hard.

If you try hard enough you can always find a country, an industry or a business with problems, but that's precisely why investors get paid. Investors are rewarded for taking risk.

Take Donald Trump's victory in the US presidential elections as a recent example. Before the election he was seen as the wild card candidate due to his questionable attitudes towards women and minorities, brash and offensive tweeting and, at times, seemingly making up economic policy on the fly.

The widely held view was that, if he somehow managed to make it to the White House, it would dramatically increase political and economic uncertainty, and the markets don't tend to like uncertainty. Historically, it is bad for risky assets like equities and good for 'safe haven' assets like US Treasury bonds.

But what happened was the complete opposite. As we now know, Trump won the election, and the bond market initially slumped while international equity markets haven't stopped going up. It turns out the markets weren't overly concerned about his political and behavioural shortcomings after all. They cared much more about his massive spending promises (including building a wall) and promises of tax cuts, as these were both considered to be very favourable policies to support US economic growth, and therefore, the share market.

We don't know exactly what lies in store for the rest of the year, but we do know that Synergy portfolios are carefully designed, and very well diversified, which means they are well placed to handle whatever market conditions lie ahead, good or bad. Their very strong performance since inception gives a good indication of this.

Of course, if markets overall go down, then Synergy portfolios will be very likely to go down as well. However, Synergy's diversification will help provide a degree of downside protection – even in down markets, some assets or companies will perform better than others, and Synergy will also have an exposure to many of these better-performing assets.

The only thing we can guarantee is that the media will continually tell us that there are many more new reasons to be worried. They'll try to find the next Donald Trump story and highlight all the terrible things that could happen to your investments as a result. The best advice we can give you is not to allow such scare-mongering to distract you from your strategy.

If you try hard enough you can always find a country, an industry or a business with problems, but that's precisely why investors get paid. Investors are rewarded for taking risk. Without any risk in the world, investors could only ever earn the risk free rate which, in the current environment, is negligible.

The trade off when accepting risk is that sometimes returns will be negative. But when maintaining a long term strategic approach, the gains usually outweigh the losses. As a result, the most successful investors are generally those who can successfully set aside their natural behavioural fears and tendencies and hold fast to a prudent, well diversified, long term strategy, regardless of the daily headlines.

* The observations about 2016 and first quarter 2017 returns assume portfolios were held through the period, and not significantly modified due to deposits or withdrawals.

REDUCE RISK THROUGH DIVERSIFICATION

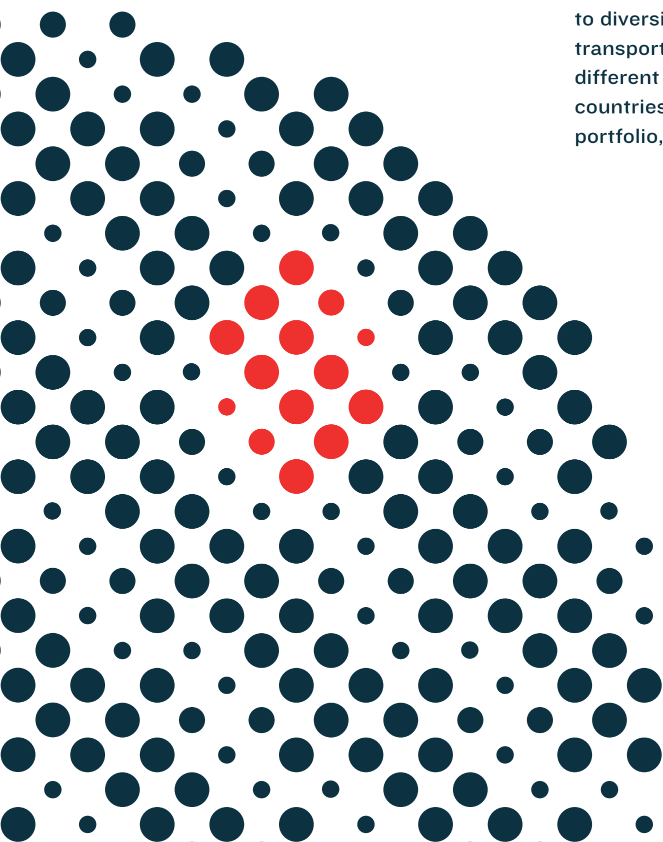
Most investment professionals agree that diversification is one of the cornerstones of any sound long term investment strategy.

So, what is diversification?

In essence, it is a risk reduction strategy. Diversification is when you invest across a broad variety of different assets; the key is to invest in assets that would each be expected to react differently to the same event.

Some risks just can't be diversified. In this category are factors that affect all investments such as, amongst other things, political instability and war. When all companies or industries are impacted by the same risk, then it is a risk that investors are forced to accept. It cannot be eliminated or reduced through diversification.

Where diversification really works is in enabling investors to reduce the specific risks that may be associated with a single company, industry, market, economy or country. Specific risks can be reduced by holding a range of different investments which are expected to react and perform differently in a given situation.



For example, imagine you are only invested in shares of commercial airlines. If it was announced that all airline pilots were going on an indefinite strike and that all flights would be cancelled, the price of your airline shares would probably suffer. So too would the value of your portfolio.

If, to offset this concentrated exposure to airline shares, you also owned shares in a couple of railway and coachline companies, then only part of your portfolio would be affected by the pilot strike. In fact, in this scenario, there is a good chance that the railway and coachline shares might go up as passengers turned to trains and buses as alternative forms of transportation.

This simple example gives you some idea how diversification – not having all your eggs in one basket – can work in an investment portfolio.

Of course, there are many risks that affect all rail, road and air companies, because all are involved in transportation. An event that reduces demand for any form of travel – for example a war or a global shortage of oil – would be expected to hurt all transportation companies in some way.

Therefore, to achieve even better diversification, you would ideally want to diversify not just across different transportation companies, but across different industries and even different countries. The more varied your overall portfolio, the better your diversification.

Diversification can help investors manage risk and reduce some of the fluctuation in the performance of their portfolio.

It's also important to diversify across different asset classes, for example, equities, fixed interest and listed property. Different asset classes such as shares and bonds tend not to react in the same way to adverse events. Therefore, a combination of these asset classes will help to reduce your portfolio's sensitivity to market swings.

Normally, bond and share markets tend to move in opposite directions. If your portfolio is diversified across both, an unpleasant movement in one will hopefully be at least partially offset by a positive result in the other.

Diversification can help investors manage risk and to reduce some of the fluctuation in the performance of their portfolio. Remember though, no matter how diversified your portfolio is, risk can never be eliminated completely. Risk associated with individual shares can be reduced, but general market risks that affect nearly all shares, cannot.

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