

WEEKLY INSIGHT

Tips on Balanced Investing

BY CEMIL OTAR

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Since the current bear market put an end to the mega-bull markets that started in 1982, many investors are switching to safer ways of investing.

Balanced funds provide the convenience of "one-stop shopping" for equities and fixed income. Investors buy balanced funds because they can provide a better return than a GIC, at somewhat higher risk. How do you know when it is a good time to own balanced funds?

Not all balanced funds are created equal. The recent performance of some balanced funds showed more volatility than some of the equity funds. For example, CI International Balanced Fund lost about 28% from peak to trough between March 2000 and the end of September 2001.

If you consider switching your portfolio to balanced funds to reduce your risk, "buy and hold" may not be your best option. You may want to compare the performance of your balanced fund to a money market fund. You would hold the fund as long as it is doing better than the money market fund. Otherwise, you can stay in the safety of money market funds or T-bills.

I use the rate of change of weekly closing prices. Then I smooth it out with a 20-week moving average. As long as this value is above 2.5% (on an annualized basis), I keep the fund. Otherwise, I switch it to a money market fund. What is the magic about 2.5%? There is no magic, it just happens to be the current yield on most money market funds.

The method is slow enough not to trigger too many switches. The charts show two of the popular balanced funds and how they behaved during the last few years. The band on the bottom of each chart shows whether you should be invested in money market or in the fund. The hatched areas on the band indicate when money markets give you a better return. Otherwise, stay in the fund.

Sometimes the fund may go into neutral, which is indicated by a vertical line. If that happens continue to hold (blank means hold) until it clearly goes into the "sell" (hatched) zone. When the sign changes from "cash" to "buy" you may want to wait a few weeks just to make sure that it is a valid signal and not a false signal. Buy funds which charge no switching fee.

You can build a core portfolio of balanced funds – say two Canadian and three foreign, preferably with different styles. Depending on how each one performs relative to the money market, some may be invested in the fund, and some may be (temporarily) in the money market. In either case, you reduce your risk.

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If you are not too enthusiastic about calculating moving averages, these charts are available to readers on my "Fingerprinting" web site at www.canadianmoneysaver.ca. Click on the "Special Services" page.

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