Perpetual

Perpetual knowledge bank series: Correlation

By Perpetual Asset Management
15 June 2021

Correlation has several meanings and applications within investment and financial services but here we are looking at the concept in terms of basic portfolio management. The degree to which two securities move in relation to each other is called correlation and should be a fundamental consideration when creating a diversified investment portfolio. A common

misconception among investors is that they are broadly diversified across multiple asset classes when they have merely invested in multiple sectors of the equities asset class, which are likely to rise and fall with that market's movements. However, it is only when positions are held across multiple uncorrelated asset classes that a portfolio is genuinely diversified and better able to handle market volatility, as the high-performing asset classes can balance out the underperforming classes.

Both equity and fixed income products are financial instruments that can help investors achieve their financial goals. Each of these and other asset classes have distinct risk-and-return profiles and investors, in consultation with their financial adviser, should choose an optimal mix to achieve the desired risk-and-return combinations for their portfolio. However, whether an investor thinks fixed income presents an attractive opportunity for growth or not, it is vital they understand the asymmetric nature of credit investing means avoiding the downside is as (or even more) important than capturing the upside. This means looking for providers that take a measured approach to risk, have experience across multiple market cycles and the discipline not to push further into riskier segments to pick up yield. The value of defensive assets should after all be measured by their ability to protect investors against significant losses from major market downturns. Delivering modest growth should be a secondary consideration.

This analysis has been prepared by [Perpetual Investment Management Limited (PIML)] ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML and PSL do not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website http://www.perpetual.com.au .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.