**Balancing your portfolio to weather economic volatility**

Global and local economic uncertainty are making it a tough time to invest. Diversity is key, says the deVere Group.

Here are some asset classes to consider.

Given the volatility of South Africa's currency, its political situation and its economy, local investors would do well to establish portfolios that preserve their capital for the long term, that incorporates offshore investments as a rand hedge.

"High-net-worth South Africans who remain in the country may benefit from having a financial presence elsewhere," says Tom Elliott, international investment strategist at the deVere Group.

"It's no secret that the local economy is currently in the doldrums – if not a true recession – and that political and economic uncertainty continues to hinder growth."

One of the key issues facing the South African economy is the uncertainty about the way forward for Eskom. Finance Minister Tito Mboweni has to present some sort of resolution to the challenges faced by the embattled utility in his mid-term budget, due end-October, and the outcome seems far from clear.

"Eskom underpins the economy – as can be seen by the stark difference between the GDP in Q1, when there was loadshedding, and Q2 when there was none. Uncertainty around power supply is not only holding back existing commercial activity, but preventing investment in future growth by local and international business, causing long-term harm as well."

South Africa is also at the mercy of international economic factors, and threats of US-China trade wars, a downturn in manufacturing fortunes, skittish financial markets, and Brexit uncertainty have a knock-on effect on the performance of the rand.

"For a country so precariously placed, global economic turbulence has a significant impact on economic performance," says Elliott.

"Moody's Investors Services will be making a call on the nation's only remaining investment grade credit rating towards the end of the month, which will be watched closely by investors."

To ensure capital preservation, he advises local investors should have a significant portion of their investments offshore. This will help to buffer against the volatility of local markets.

Elliott suggests diversifying portfolios through investments in assets other than developed equities, bonds or cash instruments.

"Many fund managers are looking positively towards emerging market equity and debt on a long-term view, while alternative asset classes, such as real estate, are also worth considering".

But Elliott warns investors not to read this as an excuse to maintain a ‘home bias’ in local markets.

“Most economists believe it is the Asian emerging markets that are most likely to drive the EM asset class over the coming years, with African equity and debt markets relative laggards but still contributing usefully to overall returns.”

Elliott has a final word of caution for investors considering rebalancing their portfolios in the face of such volatility.

“Don’t resort to knee-jerk responses. Consider whether your portfolio is already responsive to volatility. It’s always helpful to speak to an investment advisor to be sure that you are accounting for all possible outcomes.”

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