Five tips to minimise risk in your investment portfolio

At its best, property can be a 'set and forget' investment that grows in value while you focus on the rest of your life. Here are five ways to reduce risk and make your portfolio low-stress so you can do just that

ONE of the first things people ask me when they are interested in starting to invest in property is how risky real estate is and how worried they should be about a falling market. What they often fail to understand is that while risk and return go hand-in-hand, you do have control over how much you're willing to expose your portfolio to unexpected downturns and other circumstances. All you have to do is consider a few simple steps.

My first piece of advice is to always factor in a 'buffer'. A buffer is a sum of money that helps cover you in difficult situations. In the case of property investment, you should consider a buffer when you first decide how much you are comfortable borrowing. In simplistic terms, the bigger your deposit, the more comfortable you should be with downward market movements. This is because you are less likely to face negative equity, which happens when you owe the bank more than the property is worth.

You can create your own buffers for any part of the investment process, such as for repairs or in the unlikely event your tenant stops paying rent.

Secondly, you should always be willing to insure yourself and your assets. I cannot speak too highly of the benefits of income protection and landlord insurance, but there are many different policies you can consider, depending on your own risk appetite. Ask yourself how you or your loved ones will manage in the case of death, divorce, sickness or unemployment, and plan ahead.

Next, plan an exit strategy. This is best done before you buy, but if you already own a property and haven't considered when and how you would sell, then I recommend giving it consideration. The best investors I have worked with are those who are absolutely clear on what would cause them to sell their investments, how quickly they could sell in the current market and the minimum they would need to accept for their properties to break even. They look at these decisions unemotionally and are prepared to sell if they have to.

It is now time to consider tax and diversification. This is really a step for more experienced property investors who are ready to expand their portfolios. It might be broadening out to other states and territories, different types of property, and even different types of investments, such as shares and bonds. You should also consider the different structures to buy property, such as in your super fund or in a trust. It's a good idea to seek qualified and personalised financial advice at this point.

Your fifth and final step is to regularly review your portfolio. Although you need to adopt a long-term view, make sure you keep tabs on how property prices are moving in relation to the debt you have. It will hopefully give you the comfort that your portfolio growth is moving according to plan. You also need to review your cash flow and reflect on how you could improve it. Fixing rates, refinancing or rent increases are all actions you can take to optimise your cash flow.

Speak to your investment advisor and your team of investing professionals to seek their opinions on how the market is faring. Knowledge absolutely is power when it comes to success and staying afloat in the downturns. YIP

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OUR EXPERT

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NEED HELP WITH YOUR PORTFOLIO?

Contact Philippe at Multifocus Properties & Finance and get a jump-start on your portfolio with expert advice.

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