Taylored Money

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Looking beyond returns: Did the portfolio behave as expected?

Why judging your portfolio by process beats judging it by returns.

LOOKING BEYOND RETURNS: DID THE PORTFOLIO BEHAVE AS INTENDED?

We, investors, are funny beings. When things are going well, confidence can quickly turn into complacency. When things are going badly, discomfort can just as quickly or if not quicker, turn into doubt.

During these periods of underperformance, our minds naturally race to questions such as: Why are we underperforming the S&P 500, FTSE 100 or ASX 200? From there, more insidious questions can creep in: Why do we own this at all? Why don't we just hold the index?

These are perfectly reasonable questions when considered calmly and in context. But focusing on them too closely can encourage us to react emotionally rather than remain disciplined. So, it can be more constructive to ask: Is the portfolio still behaving as intended?

Shifting the focus in this way can help us manage one of the most difficult aspects of investing: our own behaviour.

Admittedly, our investment committee face a multitude of choices. Do we become owners through stocks, lenders through bonds, or hold a combination of both? Do we own emerging markets, and if so, at what weight? Do we intentionally tilt towards factors such as value and size? Do we include diversifiers in an effort to smooth the journey?

Each of these choices means deliberately building a portfolio that looks somewhat different from a given benchmark. We should therefore only make them for good reasons, supported by evidence, and with a clear understanding of the trade-offs involved.

We are not constructing a portfolio that always looks best in hindsight, but one that gives you the best chance of staying the course and enjoying a successful investing journey.

So what does "behaving as intended" actually mean?

It certainly does not mean that every part of the portfolio should be performing well at the same time. In fact, we have constructed a portfolio containing assets with different characteristics and purposes, so we should expect periods when some parts look disappointing relative to others.

The chart below brings this idea to life. It shows how some of the broad decisions within a portfolio similar to yours have affected returns so far this year.

FIGURE 1: WATERFALL CHART OF AN EXAMPLE SYSTEMATIC PORTFOLIO



Source: Albion Strategic Consulting. Data: YTD cumulative performance, January 2026 to September 2026. Data in nominal terms, in GBP. Portfolio allocations in footnote[1].

[1] Portfolio Allocations: Albion Developed Stock Market Index 45.9%, Albion Developed Value Index 15.3%, Albion Developed Small Index 15.3%, Albion Emerging Stock Market Index 9.4%, Albion Emerging Value Index 2.0%, Albion Emerging Small Index 2.0%, and Albion Developed REIT Index 10.0%.

Some have helped. Others have held returns back. That is not, by itself, evidence that one decision was right and another was wrong.

You can very easily get wrapped up in the numbers, but the important point is that a negative contribution does not necessarily imply a bad decision.

Take the overweight allocation to diversifiers such as commercial property (REITs). One does not hold REITs because they expect them to outperform stocks every year. Their role is to behave differently and help smooth the overall investment journey. Judging the decision solely by its recent return would therefore tell us very little about whether it is actually doing the job we intended it to do.

This is why it can be helpful to shift the conversation from returns to process. A great question to ask is whether the rationale for making that decision remains intact and whether it continues to fulfil its intended role within the portfolio.

And if doubts remain, there is another useful question to ask: if you were faced with the same circumstances again, knowing what we knew when the portfolio was constructed, would you still make the same choices?

If the answer is yes, then short-term underperformance alone may not be a compelling reason to change course. If the answer is no, however, then the portfolio deserves to be challenged. Perhaps the evidence has changed, the original rationale has weakened, or we are no longer comfortable with the trade-offs that came with our original decision. Perhaps our preferences, goals, and constraints have changed too. There are good reasons for portfolio change, but short-term performance is usually not among them.

This is an important part of the role of our Investment Committee (IC). Rather than reacting to whichever parts of the portfolio have performed well or poorly recently, the IC continually challenge both the portfolio and the rationale behind it. That includes asking whether each decision still has a sound rationale or understanding the extent to which and why the portfolio behaves differently from its benchmark.

After all, being structured differently from the market inevitably means returns look different from time to time. What is most important is whether ones portfolio is well positioned to meet their goals and crucially, that they can stick with it through time.

IMPORTANT NOTES

This is a purely educational document to discuss some general investment related issues. It does not in any way constitute investment advice or arranging investments. It is for information purposes only; any information contained within them is the opinion of the authors, which can change without notice. Past financial performance is no guarantee of future results.

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