Strategies for investors after the U.S. election

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COLUMBIA THREADNEEDLE INVESTMENTS

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Don't panic. It's the usual advice. I'm sorry that I tend to repeat it, but generally that has worked out very well for us.

There is just too much that is unknown yet, and there will be time to begin to figure that out. Once we get past the shock of the election result, we'll actually begin to see what the true series of policies are and then let's react to that if it needs a reaction, not react just to the surprise of the election result.

Don't confuse volatility with direction. Think of volatility as a lot of movement, which isn't necessarily a big directional move in favor or against anything. I'm more confident we'll see volatility over the next six weeks until we learn more of the policies that are going to be put in place rather than them seeing any big direction. And that's going to be important. That's why I think it's very unwise for someone to make a strategic bet on their portfolio when you're just dealing with volatility. The cost of trading in that, unless you're a real expert, is extremely high. So that's my advice is let us sit down and think about this, and see the actual actions both in terms of rhetoric and reach out, and policy statements, and then begin to figure out what the real impacts will be.

Remember what volatility is is emotion. It's people reacting emotionally and if you're reacting emotionally and not rationally, you're I think unlikely to make a good decision. If you get it wrong in a period of higher volatility, then getting your trade wrong means that the cost of that trade is amplified many, many times. That's why you actually need a financial advisor. People need the advice of that third party to take that emotion out of it. When you talk to a third party who's just a little more distant from your personal portfolio, but prepared to give you that advice and put it into context for you, that can be incredibly valuable.

I do think one area that where people could look at their portfolios is, is have they enough inflation protection. I do think a number of the things regardless of the detail to policy, are likely to lead to a rise in inflation expectations, and therefore we sense that because really there hasn't been much inflation for some time, that's an asset class that is absent from most people's portfolio. It doesn't have to be fulfilled just through inflation linked bonds. There are ways to invest in inflation linked assets that are outside the bond area, and therefore I think it's a package of asset classes that respond well to rising inflation trends that people may need to consider. That traditionally was commodities for example, but don't forget about equities within that. Equities because mild inflation pressure puts up the price of goods, that can have quite a beneficial effect on company earnings, and therefore equities themselves may be a bit of a hedge against mild inflation.

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