Five principles for managing family wealth

Structuring family wealth for succession planning

Host: Hello and welcome to the Legacy in Focus interview series. Through conversations with experts across different fields, we hope to help you approach family asset allocation and wealth succession planning with greater confidence and composure in a complex and changing economic environment.

For our first episode, we are joined by Mr Desmond Kuang, Chief Investment Officer, China, HSBC Global Private Banking and Wealth, to share his perspectives.

Host: Hi Desmond. In today's complex economic environment, how should high-net-worth families in China approach their overall asset allocation?

Desmond: Change is a constant in markets. Stay composed and remember one thing to subtract and one thing to add:

Subtract outdated thinking, particularly the belief that putting all your eggs in one basket is safe simply because you think it is a golden basket. Preserving wealth differs from creating it. Wealth creation carries a sense of excitement, whereas wealth preservation, and family succession in particular, require discipline and a marathon approach to asset allocation. Excessive concentration in a single asset often means greater risk: property moves in cycles, equities fluctuate, and even cash faces inflation. No asset class can deliver guaranteed gains without losses forever.

Add strategic positioning. With global policy uncertainty increasing, we suggest that investors, particularly high-net-worth families, diversify across regions and asset classes to enhance portfolio resilience.

Host: Indeed, preserving wealth can be harder than creating it. Even when high-net-worth families use tools such as family trusts to arrange an orderly succession, managing those assets more effectively remains a challenge. What core framework would you suggest for these long-term asset allocation needs?

Desmond: Over the long term, strategic asset allocation (SAA), based on an investor's risk appetite, is central to our investment positioning. It has four core pillars: diversification, a long-term focus, optimisation and rebalancing.

First, diversification. Historically, diversified portfolios have been relatively less likely to experience substantial drawdowns in average returns. Geographic diversification is as important as diversification across asset classes. Investing globally allows investors to capture opportunities worldwide while effectively managing potential market volatility.

Second, a long-term focus. To illustrate, for an investment in the MSCI World Index over

2001–2024, staying invested produced a return nearly twice that of a market-timing approach that missed the ten best days for global equities*. Maintaining diversified investments throughout the market cycle is therefore a reliable approach to successful long-term investing.

Third, rebalancing. Regularly re-optimising strategic asset allocation each year enables investors to buy low and sell high in a disciplined way, improving total portfolio returns over the long term.

Fourth, optimisation. An optimal portfolio is calculated based on the characteristics of different asset classes and the investor's risk appetite. Optimisation helps avoid irrational decisions while effectively implementing the other three pillars.

Host: Your observations suggest that asset management involves maintaining a dynamic balance. We have also seen growing enthusiasm for equities this year. Equity assets, such as stocks and funds, are often key to growing family wealth, but they are also relatively volatile.

What strategy would you suggest for allocating to equities for families with a moderate risk tolerance?

Desmond: For families with a moderate risk tolerance, a barbell strategy combining growth and defence can be an appropriate approach to asset allocation.

Growth focuses on an asset's return potential; defence focuses on its ability to withstand risk.

For example, we are positive on the Chinese equity market and use a barbell strategy to combine growth and defence. On the growth side, we favour technological innovation in China and a re-rating of technology stocks. On the defensive side, we balance technology exposure with dividend-paying assets, particularly quality central and other state-owned enterprises offering high dividend yields.

Host: What other defensive assets can enhance the resilience of a family's portfolio?

Desmond: Diversification across sectors, regions and asset classes remains central to enhancing portfolio resilience.

Within equities, alongside markets and sectors with stronger growth potential, investors can consider sectors with lower volatility and more stable cash flows.

In addition, against a backdrop of slowing global growth, bonds have become an important tool for diversifying portfolio risk.

Adding other assets with lower correlations, such as gold, infrastructure and other alternatives, can further strengthen the resilience of a barbell strategy.

Host: Finally, on a practical level, how should families select and combine investment tools to meet different financial goals?

Desmond:

Generally, where funding needs are more certain or the investment horizon is shorter, investors can consider investment tools and asset classes offering better liquidity, lower volatility and relatively stable returns.

Where funding needs are more flexible, the investment horizon is longer and risk tolerance is higher, investors can consider asset classes and investment tools with stronger growth potential and long-term structural advantages, such as fund products.

Returning to our earlier discussion, a long-term investment plan that balances risk and return often combines several tools, with underlying asset objectives and categories brought together in a portfolio suited to the investor's risk appetite. Professional investment institutions and advisory teams can often provide assistance and advice in this regard.

*Source: Refinitiv DataStream, as at November 2024.

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