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What is your investment roadmap for 2021?

When looking ahead to next year, it's very easy to get overwhelmed by the immediate chaos and uncertainty that the current state of the world presents.

Sharemarkets here and around the world have responded to the government support by posting an extremely fast recovery. However, it has not been consistent across countries or sectors. The Australian sharemarket remains well below where it was in late February before the fall, whereas the NASDAQ 100 is significantly higher. Companies like banks and energy businesses remain under considerable financial stress and their share prices are well below their peaks, whereas IT stocks are higher.

Protect savings

So where do you invest in 2021? For savings you need in the near term, it is worth being cautious and sticking to safe investments. But if you are investing your retirement savings, then you can take a longer-term perspective and take some risk – but well-considered risk. Just because an investment has gone up by 48% over the past 12 months – as the NASDAQ 100 had at the time of writing in early October – does not mean it will do that in the next 12 months.

Mix the investment styles

As always, it is important to remain diversified across assets and countries when you are investing your retirement savings. Also be aware of the style biases in your share portfolio. As the growth-style fund manager Hyperion will tell you, in a low-growth world you need to look for companies offering earnings growth that is not dependent on economic growth. As a contrarian, the value fund manager Allan Gray will tell you that buying companies when they are out favour and trading cheaply is an excellent way to earn good long-term returns.

There will be times when each of these approaches works better – and in 2020 the growth style has definitely been the winner – but be aware that some growth stocks could be in bubble territory now. In times of economic recovery, value often does well as cyclical companies bounce back. My view is that both styles work well over the long term when well executed, but if bubbles worry you then make sure you also have some cheaper shares in your portfolio in 2021.

Listed property is a sector that is still well down on its previous high so is worth watching. Given the cloud that retail properties and offices are under, it may take some time before prices start rising, but patience should be rewarded.

Set aside a cash pool

Where to invest the conservative part of your portfolio in 2021 is tricky. The Reserve Bank cash rate and government bond yields are historically low – the 10-year Australian government bond yield is currently 0.88%. You don't get much return for the risk of owning it: if the yield increases (say due to higher expected inflation in the future), the price of this bond will fall. Corporate debt offers a little more yield, but you need to be careful about what you buy.

With the current level of uncertainty, it will be good to go into 2021 with some cash in your portfolio – both to cushion falls if things take a turn for the worse and also so you can take advantage of any opportunities in a downturn.

WHERE I WOULD INVEST $10K

Given I am a financial adviser, it would come as no surprise that I have a clear plan about where I invest my savings – some invested for retirement, some for nearer-term goals and so on.

So, I will assume that this $10,000 is a windfall that I put into my investment portfolio. This portfolio is invested for the long term and mostly diversified across Australian and global share funds and ETFs.

I would add it to my investments in an area of good long-term opportunity such as Chinese shares.

A China share fund that is designed to capitalise the ongoing growth of China's middle class is the VanEck Vectors China New Economy ETF (ASX: CNEW). It is a passive fund that is designed to track the CSI MarketGrader China New Economy Index, which selects "120 of the most fundamentally sound companies in the consumer discretionary, consumer staples, healthcare and technology sectors" listed on the Shanghai and Shenzhen stock exchanges (China A-shares).

The domestic Chinese sharemarket has historically been very volatile and dominated by Chinese retail investors, but this is changing over time as more institutional investors gain access. I expect it to remain a volatile investment but with good long-term return prospects.