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# According to plan…

## Issue 81: February 2018

When all goes well, we often forget how good we have it, or what a scenario might look like if something goes "off the rails". It is classic comfort and complacency. This week a substation blew in Paarl and started a fire that left a large section of our town without power for 3 days. This on top of our water crisis in the Western Cape!

Good planning is in essence trying to mitigate risks associated with something catastrophic (not necessarily with a certain outcome) or something with a material impact on our well-being, physically or financially speaking – obviously all unforeseen circumstances. We need to assess the known as well as the potential unknowns and plan accordingly. Easier said than done.

### The frailty of forecasts

Nils Bohr, a physics Nobel laureate apparently once said: "*Prediction is very difficult, especially if it is about the future*." Take the weatherman's forecasts this past winter. Basically they were all wrong. Yet, we listen to "expert" predictions all the time. Bertrand Russell said it another way: "*The trouble with the world is that the stupid are cocksure and the intelligent are full of doubt*". After all, professionals certainly don't charge a fee for humility.

As a result most of us end up worrying about potential future outcomes that may in the end never come to fruition. In the world of financial markets predictions are often pointless, never mind difficult. The challenge really is to evaluate news flow and commentary critically and to guard against emotional decision-making on the basis of a sensational viewpoint. This is somewhat easier with a sound financial plan in place. We anticipated or tried to discount the following events over the past several quarters:

- Our political turmoil and the related outcomes
- Volatility associated with our foreign exchange rate
- After Steinhoff, who is the next *Viceroy* victim?
- Markets abroad that are at all time highs etc.

Here we are a couple of months later, the presidency in in a process of change, our currency potentially on its way in a different direction (albeit short term) and fears abroad of a market correction.

### Think about the following for a minute…

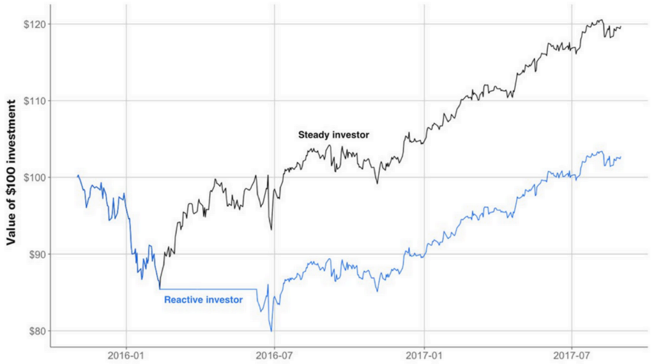
1. Investors tend to see past market declines as opportunities, but future market declines as a severe risk. So much of successful planning and investing is our ability to think long-term;
2. Compound returns is what makes investing magical – and it takes an incredible amount of time (with reference to our previous issue). Warren Buffett accumulated the bulk of his wealth after his 50th birthday;
3. **Everyone needs a financial plan, but the most important part of the plan is planning on the plan not going according to plan;**
4. Investing has less to do with mathematics or numbers (although vital), but a tremendous amount more to do with psychology and temperament;
5. The solution to most financial problems is to "save more money." It means spending less than you earn;
6. The perfect investment has never, and will never, exist. Ask the people who still own Bitcoin or Gold;
7. You can probably afford to not be a great investor, but you can't afford to be a bad one. The point of investing shouldn't be to maximize returns, but to earn sufficient returns to meet your goals. It is not about the right answer, but the better outcome;
8. "*I don't know*" are the three most underused words in our industry. Everyone has an opinion…

### So, what do our actions reveal?

Investors should have a fire-drill plan for the next market correction. Anticipating your own behaviour is an importantn part of what makes us successful. The question isn't if, but when this will happen. What does research and data tell us about the past? A study by Vanguard of 58,000 of their retirement account holders from 2008 to 2012 found that those who reacted to the financial crisis (by making changes to their fund allocation) had significantly worse performance than those who kept to a plan. When you consider that a reasonable rate of return for global financial markets is roughly 6% that could mean sacrificing about 17% of your expected return. It is a significant figure. The bottom line is:

- Allocate capital wisely and review regularly;
- Write out your own approach during a market downturn. What do you intend to do, or not do?
- And, stick to the above.

Below is the outcome of a *steady* versus *reactive* investor. The reactive investor was caught on the side-line while the markets moved on. That begs the question when you should get back in?




### The Steinhoff debacle

Hopefully this episode did not overshadow the Festive Season for you. At this stage commentary entails mere speculation since there are virtually zero facts available. Amidst everything that has been said or written about the Steinhoff debacle, on the most fundamental level it is a reminder that greed and the abuse of power is not a public sector problem. Nor is it a private sector problem. It is a human problem. We need to take home two basic lessons: First, when we judge, we need to do so with a measure of restraint. We understand the anger at yet another financial scandal that has eroded public trust and worse, savings. There need to be consequences for wrongdoing. At the same time though, the temptations and pressures that come with life in the fast lane must be enormous. In order to remain standing, it requires character and an unwavering value system.

Which brings us to the second lesson – the merits of any investment proposition need to be judged within the context of the ethics and core values that management stand for. While this is a highly subjective undertaking and by no means fool proof, giving consideration to this dimension could at least help stack the odds in favour of avoiding the Steinhoffs of this world.