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PERSOONLIKE PORTEFEULJES
PERSONAL PORTFOLIOS

Medley II

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Bill Gates said: "*Most people overestimate what they can achieve in a year and underestimate what they can achieve in five, or ten years*". It hints at a potential behavioural error, thus ignoring the steady compound effect over several years. Often, during financial market uncertainty, we might believe we can do better by postponing a critical decision. The investment world is definitely more nuanced…

Just think about the following:

1. Investors tend to see past market declines as opportunities (I should have), but future market declines as a severe risk. So much of successful planning and investing is our ability to act steady and think long-term;
2. We expect 1 + 1 + 1 + 1 + 1 + 1 + 1 = 7, but it actually works like this: + 1 -3 + 4 + 2 - 3 + 5 + 1 = 7;
3. Embrace volatility. We have no control over the movements of markets, whether up or down;
4. The pace of change and frequency of swings in markets over time, across the globe, will increase. More financial instruments, liquidity and technology have enabled this trend to continue;
5. There is no such thing as the "best" investment. As Howard Marks once wrote, we may run from one bus stop to the other, trying to catch a ride not knowing that we have missed it. We need to be patient and able to wait for cycles and investment strategies to play out;
6. There is no single investment decision (or style) that will always produce the desired or expected results. A pure "value" strategy struggled. We prefer a balanced instead of a dogmatic approach and blend various approaches. It is prudent and sensible;
7. Specific investment themes around healthcare, bio- or battery technology does hold inherent risks which is not always that obvious;
8. Investors may require different approaches over various business cycles, while keeping their own cash flow requirements in mind. Diversification between various asset classes (and perhaps alternative instruments), fund managers, as well as management companies, ensure our independence while exceptional ideas are blended together;
9. There is such a thing as reputable institutions; i.e., people and organisations that have a long track record. Warren Buffett famously said: "*Honesty is a very rare gift. Do not expect it from cheap people*".
10. Our Rand (ZAR) will lose ground to the stronger economies and currencies. Any local portfolio should be positioned for that continual weakening. In addition, it [ZAR] remains a volatile currency. It is a highly liquid and traded currency – wild swings in the future are inevitable;
11. Compound returns is what makes investing over long periods incredible. No wonder Einstein once said: "*Compound interest is the eighth wonder of the world*". It is well known that Warren Buffett accumulated the bulk of his wealth after his 60th birthday. Over time, compound interest will contribute far more to your investments, than you ever could. Most of us would probably be surprised when we study a compound interest table. The results don't seem intuitive. If you calculate 8+8+8+8+8+8+8+8+8, you can do it in a few seconds (72). If you calculate 8x8x8x8x8x8x8x8x8, your mind will explode (134,217,728);
12. **Investing has less to do with mathematics or numbers (although vital), but a tremendous amount more to do with psychology and our temperament;**
13. The solution to most financial problems is to "save more money." It means spending less than you earn. It is as spending what is left over after first saving. Mr Buffett said: "*If you buy things you don't need, soon you will have to sell things you need*";
14. Avoiding mistakes has a meaningful impact and is more important than picking the outright "winners".
15. 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;
16. **Everyone needs a financial plan, but the most important part of the plan is planning on the plan not going according to plan;**
17. Investment portfolios require continual review and attention, but trying to "time the market" could be expensive (investors that sold out during March 2020 locked in huge losses).

What do behavioural statistics reveal?

Investors should have a fire-drill plan. Anticipating your own behaviour is an important part of what makes us successful investors.

In the US, a study by Vanguard of 58,000 of their account holders from 2008 to 2012 found that those who reacted more frequently (by making investment changes) had significantly worse performance than those who kept with a plan. When you consider that a reasonable rate of return for global financial markets is roughly 4% above inflation, that could mean sacrificing almost 1/5 of your expected return. The bottom line is:

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

Below is an outcome of a so-called *steady* versus *reactive* investor (with reference to the graph below). Again, emotions are at play and the fear of losses tend to dominate our thinking. Trying to time the markets have been proven a dangerous game. As the saying goes, it is time in the market and not market timing that is important. Here is another relevant article.

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