

Facts versus Opinions

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Seek facts not opinions...

An independent thinker and student of the financial markets said: "Seek the facts and not opinions". It is not surprising that Dave Foord has one of the longest and most successful investment track records in South Africa.

In our previous newsletter we tried to highlight several biases as well as our human tendency to inevitably make poor decisions when our emotions take over (see the insert). Fear is equally destructive as greed.



"Careful pal, you're talking about the stocks I love."

Source: *The New Yorker*, Bernard Schoenbaum.

In our Internet world we are overwhelmed with vast amounts of data and information. Statisticians claim that we are bombarded with more information per day, than what was produced annually during the 19th century. So how are we making sense of all the market information? Is it possible to digest? Psychologists have conducted some experiments and have come to astonishing conclusions. Our brain (when faced with huge amounts of information) unconsciously tends to come up with short-cuts during complex decision-making processes. This holds in dangers which we need to be aware of; and stresses the importance of a refined and selective process when we make investment decisions. Napoleon once said: "Good intelligence is 9/10's of any battle".

For the abovementioned reasons we stick with a thorough plan and a simple, but proven investment philosophy (remember that **simple should never be confused with easy**). For example Albert Einstein's relativity theory has been captured in a "simple" formula $E = mc^2$. Think about it! In the modern era with complex systems and abundant choices, simplicity has become essential.

Our investment strategies have proven that with a repeatable model we have been able to produce consistent results over the long, and short-term. Plus, the wealth of patience should never be underestimated. All investors are faced with periods of under- or mediocre performance; however, consistency is vital.

Most investors tend to forget that a 50% loss requires a 100% return to cover the loss, i.e. just to break-even.

Thus coming off high peaks can be devastating for any investor. Instead of increasing our odds, we tend to invest with a probability of lesser success, but hopefully at a higher potential rate of return. This is usually where we all go wrong. On Wall Street the saying goes: "Are you going to sleep well, or eat well?"

What should we then take note of?

Unintentionally the layman lacks the knowledge as well as thorough understanding of their own affairs. More than often they place all their trust in a particular financial advisor, or broker. This we believe is fundamentally wrong. At Afrafin we would like to spend quality time with our clients on a regular basis and we prefer that our clients understand the planning model and underlying investment strategies we use. We also encourage clients to get involved with their own personal financial planning and investment process.

Here are a few rough guidelines when seeking advice:

- **Select an investment philosophy opposed to a team, or individual.** Obviously the advisor needs the appropriate registration, qualifications and skills; but too often individuals attach themselves to an advisor and not to a proven methodology
- **Establish investment objectives and review them.** This is one of our primary goals. Early on during the planning phase we determine the lifestyle that our clients want and regularly revisit our projections. This ultimately dictates the cash flow withdrawals, or savings potential a person can "afford" – keep in mind that savings is in fact deferred spending
- **Verify the odds of any investment** and talk about the possibility of future regret; do remember that we tend to hate losses more than we love any gains
- **Ensure diversification** and be aware of the uncertainty within any decision. Diversification is the cornerstone of our Finsolnet strategies. Not only do we diversify across asset classes (cash, bonds, property and equities), but also across different fund management styles applied by the reputable institutions in South Africa such as Allan Gray, Investec, Coronation and Nedgroup Investments
- **Adopt a different approach to risk for large and small decisions.** We need to be mindful of the propensity to be overconfident
- **Trust your instincts.** Too often individuals are swayed by fantastic offerings and brilliant marketing tactics by suave individuals. Remain resolute in your quest for sound investment principles. Most certainly unrealistic promises are unattainable over the long-term. Recently investors in property schemes have learnt these hard lessons all over again

Looking forward

I would like to close with: Currently the media and economists claim that we are in the midst of "very unsure times". Has there been any time period in history where people have been sure of the future? It is partly our job to manage this uncertainty.