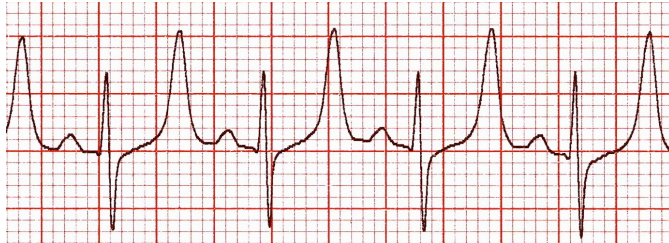


## Do you skip a heartbeat?

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Part of a recent medical check-up was an EKG, or electrocardiogram. For those of us who don't know what an EKG is, it is a way to measure the electrical activity of your heart over a defined period of time. It picks up electrical impulses generated by the polarization and depolarization of cardiac tissue and translates into a visual waveform. The waveform is then used to measure the rate and regularity of heartbeats, or the presence of any damage to the heart.



Not so much of an epiphany, but what struck me about our heart rate is the waveform; a regular up and down movement, that implies life. Change implies movement whether up, down left or right. Ironically humans don't deal very well with change. In the financial world central banks try to keep inflation intact, currencies stable and financial markets from collapse. This does not mean life, because if your heart rate flat lines, you are dead. As the JSE and the Dow Jones indexes make new record highs, the inevitable becomes more probable and that is that financial markets (as with our heart rate) have to also come down; with the caveat that the trend over the long-term remains up. We don't know when, but it will happen. This is life, which creates new opportunities and possibilities. We can only prepare and plan accordingly, but most importantly we need to embrace the up and down movement. Contrary to common believe, volatility (the up and down movements) should be our friend, but is often mistaken as "risk". Apart from many types of risks such as the long-term affect of inflation (eroding your purchasing power over time) or not diversifying appropriately, risk could also be interpreted as a permanent loss of capital. The question is really how do we manage our behaviour in volatile times and how do we capitalise on the opportunities?

#### Skill versus luck

Assuming you had no prior awareness of the extent, or duration of the recent rally in financial markers since 2008/9, what would be your instinctive reaction? Would you choose to put your money in the bank, realise your investments or invest more? It is conventional to assume that the former response is a reflection of fear, while the driving force behind the latter is greed.

However, from a psychological perspective, greed could be defined as the fear of missing out. If you think about it, isn't money the target of our primal fears about survival? So can we hedge human behaviour to prevent poor decisions? Therefore, it becomes important to distinguish skill from luck. Our industry is pre-occupied with performance and is seldom an effective measure of skill. Skill based activities lies with coaching and the regular review of a plan and strategy. Continuous coaching may enhance skills in order to avoid duplicating mistakes. The purpose of coaching and

feedback is to promote self-awareness and learning. Even top performers in sport emphasize this training regiment in order to enhance their strengths and eliminate mistakes. As one great golfer once said: "The more I practice the luckier I get".

For this very same reason we make sure to regularly review our investment strategies. Our plan forms the basis to review the financial goals of clients. Furthermore we need to be aware of our own biases in order to eliminate potential traps.

#### What does independent mean to you?

There are a few concepts, which are often misused or quoted in our industry. They could be innocuous words such as guarantees, financial peace of mind and independence. More than often intermediaries or advisors will call themselves independent, but what does it really mean? Oscar Wilde once said: "We know the price of everything and the value of nothing."

Do we have our own understanding of what independence should look like and what value do we attach to it? Below we tried to capture the essence of what we believe the definition should entail. This is certainly not an exhaustive list, but a mere attempt to draw up a framework whereby we/ you can judge the term. For the lack of a better word, let's refer to the opposite as an agent.

	Independent	Agent
1.	Privately owned	Ownership is via share-holding, often publicly held
2.	Profit share with clients	Profits go to shareholders
3.	Typically no advertising. A practice which could grow via referrals	Involves marketing budgets which increase operating expenses
4.	Continuity in terms of service and relationships	Often higher personnel turnover due to personal needs and aspirations
5.	A wider range of products and services. Could be more tailor made	Often choices are limited to what the financial institution prescribes or benefits from
6.	Flexible and negotiable; however, still compliant	May have stricter terms and policies which may not suit the client
7.	Could be more nimble and responsive	Sometime bogged down by internal processes and red tape
8.	Client information is completely private and ring-fenced	Personal information is part of the company domain

The announcement of two prominent financial and advisory institutions to list on the JSE, made me ponder whether the benefits go to clients, or the shareholders? I don't have an answer, but certainly worth thinking about.

#### What is a CFP®?

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The postgraduate accreditation is also an attempt to improve the quality and appropriateness of advice. The Financial Planning Institute of South Africa (FPI) is the licensing body and administers the CFP® accreditation and membership.