INVESTMENT PHILOSOPHY

Markets Work

Some of us may have heard the saying “time in the market, not timing the market”.

Simply put this means that over time, financial and investment markets work to reward investors who stay disciplined and take a longer-term view. Sure, over time there will be ups and downs in the markets, because that is their nature.

Price fluctuations occur on a daily basis because every day there are millions of people forming a view as to the value of the individual investments (shares or securities) being traded in any particular time.

We know that when investors try and time their investments, that is to say, “sell high” and “buy low”, that at least two things occur;

a. They almost always miss out on the return generated by the market. There have been numerous studies looking at the behaviour of investors which overwhelmingly support the case that missing out on even a few days in the market can significantly damage your long-term reurn.

b. There is a very real chance of permanent capital loss. Again study support the notion that investors are very poor at recognising the right time to time investments and more often than not do the complete opposite, that is to instead “sell low” and “buy high”.

This is a proven way to reduce your investment capital over time.

We believe in taking a long-term view as a proven means to grow or preserve wealth

Risk and Return are Related

Most people would understand the relationship between risk and return.

It is commonly accepted that the more risk an investor takes with their capital, the greater the return they would want to achieve on their investment. In other words, there is no point in taking a risk with your money when there is no reasonable expectation that you would be rewarded for doing so.

It is commonly accepted then that cash (money in the bank, or term deposits) are considered the safest investments, but the trade-off for safety is a low return.

At the other end of the risk spectrum are investments in shares, which when measured over the long-term offer investors a far superior rate of return than cash.

It is also worth noting that safe investments also carry risk, in that an investor who invest all their money in cash to keep it safe, will in all likelihood not achieve the return they may require over time.

We believe that investing in higher risk assets with part of your portfolio makes sense

Understand your Risk Tolerance

Understand your risk profile, and therefore your tolerance to emotionally cope with a downturn in financial markets.

In this regard we are not particularly concerned with the day-to-day volatility of financial markets, but moreover the effects of continued underperformance. We find that where investors are mismatched to the risk profile, they have a tendency to undermine themselves and seek to opt out of risky assets at precisely the wrong time.

Conversely, where portfolios are matched to the investors risk profile, they (the investor) will generally maintain the long-term strategic position of the portfolio, and in doing so maximise the available returns from financial markets (in the proportions held within the portfolio).

This helps you manage your emotions when investing and you are more likely to stay on track.

We believe it is important to understand your emotional state with money

Practice Diversification

Time and time again history has shown that when investors concentrate their investments, they put their money at risk.

Undoubtedly the best way to protect your capital is to diversify.

Diversification is simply investing your money across a wide number of investments, and across the risk spectrum. This means your money is protected should any single investment fail.

Diversification also helps investors capture the broad market return whilst reducing risk.

On the other hand, a concentration on portfolio increases risk without necessarily increasing the return and can in many cases actually lower the return.

We believe in spreading your investments to increase your returns

Invest Don't Speculate

There is a saying "A fool and his money are soon parted".

It is difficult to beat the market and it's a risk to try and do so. Overtime only a small fraction of managers beat the market after fees, and it is very difficult to identify them in advance.

The promise of high returns, or the quick buck have lured investors since time began.

Today it's no different, as many "active" funds managers make the promise of above average returns only to (more often than not) achieve lower than index returns. So investors end up paying managers high fees for promising to do something that most cannot. In all likelihood they end up wasting money, and paying for nothing.

There is also another saying, "If it sounds too good to be true, it probably is".

We believe speculation and chasing the promise of high returns is for fools

Consider the Drivers of Returns

Many people either ignore the drivers of returns or don't understand them, when it comes to investing.

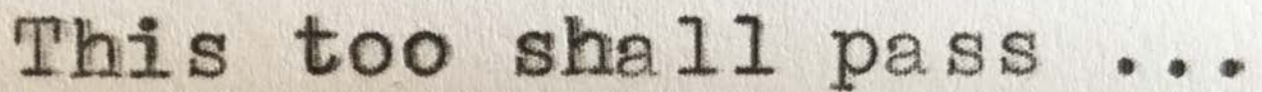
There certain characteristics which are evident over time's characteristics which are measurable, pervasive, persistence and robust, and which can be pursued in low cost portfolios.

What we mean is academic research shows for example that;

- Shares perform better than bonds
- Small companies do better than large companies
- Value stocks do better than growth stocks
- Highly profitable companies do better than low profit ones
- Companies that achieve a high return on equity do better than ones that don't
- Long-term bonds do better than short term
- High quality debt is better than low quality

And so on…

We believe it is important to understand the drivers of long-term return



Look Beyond the Headlines

The media thrives on bad news and scare tactics, and this is never more true than when they report on money.

If nothing else can grab the headlines and make people take notice, then reporting on the loss of money will.

We are bombarded daily on booms and busts, and more often than not the reporting is misleading. It causes people to make bad decisions, often through baseless information.

Such is the short-term nature of the news cycle, that headlines need to be sensationalist, to grab attention, which in all reality, are meaningless when investing for the long-term.

Headlines, whether of doom and gloom, or of exaggerated and unfounded claims, can challenge your investment discipline.

We believe in staying focused and tuning out the noise

Keep Costs Low

Controlling costs is money in your pocket.

Over long periods, high costs drag down performance in a portfolio. As we have already stated, investing in active fund managers means you are paying out money to the managers, for almost no benefit.

For example, it is not unusual to see active funds managers charging anywhere from 1.30% through to 2.65% per annum. Whereas the typical index fund management fee is 0.25%, or lower.

This means active fund managers must beat the (relative) index by anywhere from 1% per annum to 1.3% per annum (sometimes higher) in order to outperform the index; and they must do this each and every year.

We think this is just too difficult.

We also know it is important to maintain your position over time, and adjusting your portfolio slowly over time, say every 12 to 18 months, or as your cash needs dictate. Turnover increases costs, and can cause you to pay tax unnecessarily, which is really a waste of money.

We believe in low fee, low turnover investing

Focus on What You Can Control

Finally, it is important to focus on what you can control.

We know that "Capital Markets" work to the advantage of investors who maintain discipline and focus over the long term. We know that investors are rewarded for minimising transactions, practicing diversification, and resist chasing the next best thing, and turn a deaf ear to the media.

Just as you cannot out exercise a poor diet, you cannot out invest poor money management.

Recognise that you cannot control or time markets, and finding the one investment that leads to riches is a myth. However, the one thing that remains firmly within your control is your spending habits. Know what you can afford, and get advice.

A financial adviser who understands and practices all of the above points can help you with strategic advice, and a management plan to help you with a better investment experience. We know what you don't.

We believe in knowing what you can and can't control

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