ALWAYS HOLD SHARES

JOHANNESBURG: March is the month when most unit trust companies give presentations to financial advisors about the markets and their funds. I try to attend a few of them to get an idea of the investment themes for the year ahead and to laugh at some of their prophecies (what they call forecasts). If you attend enough of these presentations in a short period of time, you start to realise that all these managers are equally clueless about the future. On a positive note, our local fund managers are much more sophisticated in their approach than the UK-based fund managers who like to present in SA.

ASSET MANGEMENT PRESENTATIONS ARE USELESS FORECASTING EVENTS

In one day during March, I attended two different asset management presentations. I heard two completely opposing views about the prospects for the markets for 2010. Both companies are well known and highly respected in the industry. Both contained very impressive graphs and statistics to justify their views on the future. If I were relying on them to form a view for the remainder of this year, I would have had a difficult time. Fortunately I have realised that they don't know what is going to happen so I don't rely on them for forecasts. Their presentations are interesting because they provide information about the actual state of the local and international economies. In addition, one can get an idea of the themes that they follow i.e. do they still track the China story, are they really worried about Europe etc. Some of the more intelligent unit trust companies have stopped their fund managers from forecasting in presentations. As an example, Nedgroup got Piet Viljoen and Dave Foord to give their insights about investing. Dave Foord has been doing this professionally for 30 years and he was really interesting – I wish Nedgroup would record his talk and send it to all the Universities that offer Investment Management lectures.

INTERNATIONAL COMPANIES ARE THE WORST

Over the years, I have often noticed how the international asset management firms have often given the weakest presentations. They are light on content and overweight on marketing talk. This was again true when I attended a presentation by a multi-manager from one of the biggest firms in Europe (owned by one of SA's biggest assurance companies). One gets the feeling that these managers are either very lightweight in calibre (that means their bosses dispatch the juniors to Africa) or they think South African investors are thick! Either way, I believe we have some of the best investment brains in the Globe which is why many of the SA-based international funds are so competitive. As an aside, I would urge local product providers who bring these international fund managers to SA to screen them more carefully. High level marketing talks are not good substitutes for proper investment presentations.

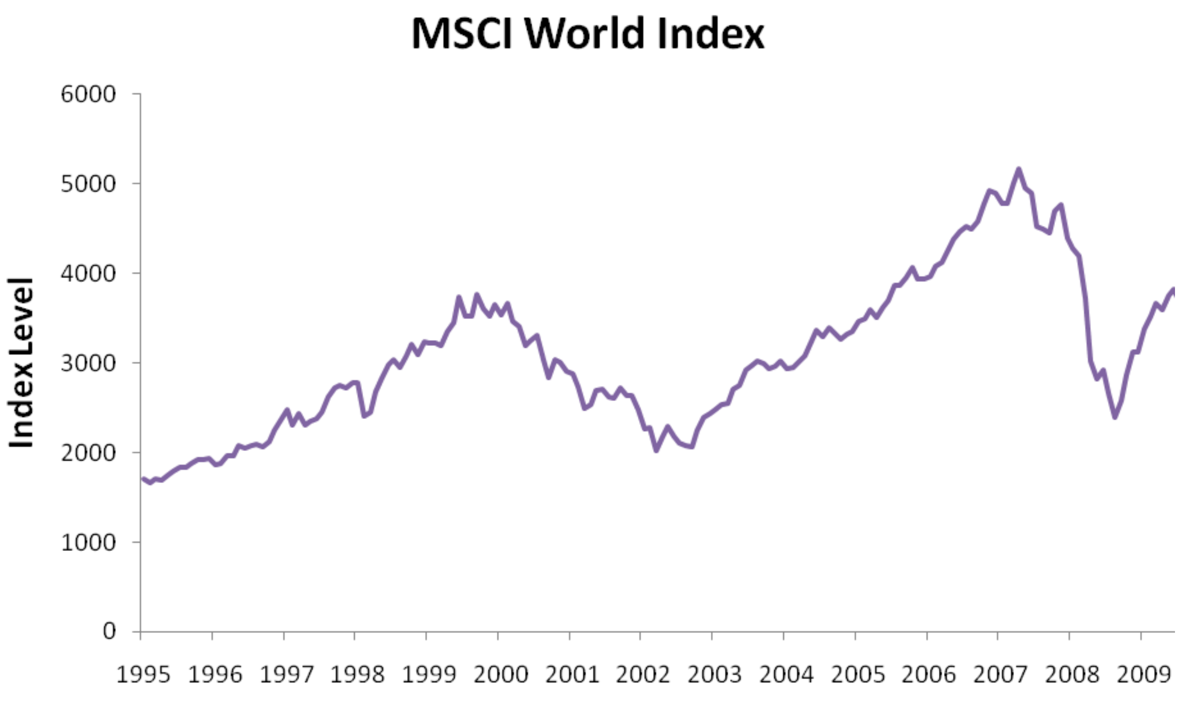
SHILLER vs. SIEGEL- EVEN THE BRIGHTEST CAN'T AGREE

Two of the world's great thinkers about economics and investments have completely opposite views about the prospects for the global economy and stock markets. Prof Robert Shiller wrote the book "Irrational Exuberance" that warned of a potential a stock market crash as a result of the IT boom. He was proved right when the tech bubble burst in 2000. Prof Jeremy Siegel wrote "Stocks for the Long Run" which is one of the books most recommended for people wanting to understand equity investing. Both are well respected academics at Yale University and Wharton School respectively. However they have fundamentally opposing views about the direction of global stock markets from here onwards. Siegel says the market is cheap and Shiller says it is about 26% overpriced. The difficulty for the rest of us mortals is we have no idea who will be right. You can read more about their views in the Wall Street Journal from 10 March 2010 which has a great article about their views.

WHAT TO DO

If asset managers and great investment thinkers do not agree on the future direction of the market, it follows that you cannot have any certainty when it comes to investing. If you want to invest for the long term to beat inflation, you need to understand that uncertainty is your only constant. That means you should not have an investment strategy that is based on predictions – we already know that these will be wrong. As it stands, either Shiller or Siegel are going to be wrong and I would hate to bet against either of them. You should rather develop a strategy that is not reliant on predictions. If you want to beat inflation, you need to invest in shares. If you don't have any share exposure now, start buying – are you buying at a good time or not? The answer is simple, no one knows! So don't worry about it. Rather ensure that you can hold the shares irrespective of what the market will do in the next five years.

Many of the hacks who comment on investment articles on this site like to point out that investors in the international market for the last 10 years have not made any money. They are correct but what they fail to observe is that those who invested 1 year earlier or later ***have*** made money over the period. In other words, those who have bought shares and held them for the long term have made money unless they bought them at the very peak of the market. As the graph below shows, it is likely that even the unlucky ones will make money if they remain invested and they keep re-investing their dividends. So, if you need to beat inflation, you need to own shares and if you don't own any now start buying. You need to plan to hold these shares for the next 5 to 7 years and you need to reinvest the dividends to maximise your growth. It is rather simple in theory but hard to do when markets are falling!



Source: Nedgroup Investment Advisors, I-Net