MONDAY MORNING FLY-HALF

JOHANNESBURG: Whilst watching rugby on TV with some friends recently, I was reminded of the similarity between investing and sport. Mistakes made by sportspeople and fund managers are always easy for outsiders to spot whilst their successes are more difficult to appreciate. Both groups operate in highly visible environments where it is difficult to hide if you are not performing. In addition, they compete with equally talented people and therefore the difference between success and failure often comes down to tiny differences. Ultimately, there are only a few greats in either field and their success is often due to a stronger mental approach than their competitors. Given these similarities, can we apply lessons from sportspeople to fund managers?

SPORT AND INVESTING: WHO WOULD HAVE THOUGHT?

On Monday mornings, sports fans around the world gather at their work places to discuss the differing fortunes of their favourite teams. It is usually blindingly obvious to these Monday Morning Gurus what their teams did wrong and how they can improve. There is often a sense of dismay that professional coaches and players could make such basic mistakes. As a committed Monday Morning Guru, I have had hundreds of these discussions over the years, especially about my beloved Stormers! The irony is that I have also participated in hundreds of similar conversations with investors about their money – usually from an insider's perspective. Most of these conversations have take place after market crashes when investors have asked me how the fund managers of their unit trusts could have been so stupid. They normally want to know why these managers did not simply sell their shares before the crash and re-invest afterwards? It took a few years but I realised that there is little difference between Monday Morning Gurus and these unit trust investors. The difference is that I have a totally different perspective of the fund management industry and therefore I am far more understanding when it comes to the "obvious mistakes".

IT IS ALWAYS EASY WHEN YOU ARE NOT IN THE FRONT LINE

Great footballers who miss penalty kicks in a shootout and cricketers who drop catches in World Cup finals make basic mistakes because of immense pressure. Professional investors feel the same type of pressure, especially in extreme market conditions i.e. during major bull markets or crashes. It is only the ability to manage this pressure that separates the great investors from the basket cases. For outsiders, judging investment managers is easy with the benefit of hindsight. This is the same as watching your team on TV, their mistakes are obvious because you are not on the field in front of 100,000 screaming fans and millions of TV viewers. To really understand money managers, you need to judge their ability to manage money *going forward* i.e. in the moment. Their track record alone is not a good enough measure to determine their ability. Someone with a great short term track record might have been lucky whilst a great manager might have had an "off" year.

There are some similarities between choosing fund managers and selecting batsmen for test cricket. When a highly talented batter like JP Duminy falls apart after a year of great success, you need to decide if his recent failures show that his initial success was a flash in the pan. This is an incredibly difficult decision because he might come right with spectacular results or he might never recover. There are many parallels with the fund management industry in this instance. As a cricket selector, you would probably have to ignore recent results and try to determine his level of mental toughness and batting technique. If you were analysing a fund manager after recent underperformance, you would need to take a similar approach by ignoring the recent past. You would need to understand the manager's investment philosophy and whether anything has changed within the fund management firm. Very often a fund manager will underperform his competitors simply because of his investment style i.e. in a bull market, value managers will lag the market. This would not be the time to sell the manager as the market will eventually turn and favour the manager's style again.

Unfortunately you cannot simply rely on great past performance when selecting a new manager. As with all great sportspeople, investment managers have a definite lifespan although they obviously last longer than rugby players! Sometimes managers who have been successful for a decade could follow up with a decade of underperformance. In South Africa this is highly likely with very large asset managers because their funds become so big that they can no longer beat the market.

TRY TO BE AN UNEMOTIONAL MANAGER OF YOUR OWN INVESTMENTS

It would seem to me that the real secret to long term success in sport is to play every minute of every game as well as possible without acknowledging the pressure of the situation. When the best footballers take penalties in finals, the have the same mental frame as if they were playing in a local club game. This type of approach applies equally well to great investors, they don't change the way they work simply because they are in a collapsing stock market. This is critical to their success because they are able to keep thinking even under tremendous pressure that crushes their competitors. If you chat to these fund managers during a crisis, you would be amazed by their sense of calm. In fact you might think they were talking about the weather or their stamp collection rather than large amounts of money. This ability to remove emotion from their decision making is what sets them apart.

CONSISTENCY IS KEY

Great golfers follow the same routine and process whether practicing or playing in a tournament. It is this consistency which helps them get into "the zone" which enables them to win. Investors are the same, it is the consistent and rigorous implementation of their investment philosophy in all market conditions that sets the greats apart from the herd. When choosing a manager, try to ensure that they have a clearly defined philosophy that is implemented with great consistency.

TAKE YOUR TIME

When making any investment decisions, even when you are selecting fund managers; take your time to make decisions. Don't feel rushed or pressurised because you will probably make judgement errors.