# YOUR OWN WORST ENEMY?

The rocky stock market combined with a falling rand and poor economic outlook is a real cause for concern. You currently have many good reasons to review your portfolio. However you should think carefully before making wholesale changes, especially if you are considering “all-in” decisions i.e. sell everything and move to cash or send it all overseas. History proves that volatile investment conditions are often good times to move slowly and sometimes your best course of action is to do nothing.

**HOW WE HURT OUR INVESTMENT PERFORMANCE**

The study of human behaviour and how we often compromise our investment performance though irrational decision-making, is now quite advanced. The Americans tend to lead the field and we can learn a lot from their research. The best study that I have seen to show how we can damage our investment growth comes from Dalbar Inc. They run an ongoing study called Quantitative Analysis of Investor Behaviour that was last updated in March 2015. It shows how investors earn approximately half the return that they could be earning simply because of their self-destructive investment behaviour. The study has been running for 20 years which is long enough to compensate for all stock market cycles.

If we assume that investors in South Africa behave in the same way, it means that over the last 10 years, the average general equity unit trust fund has delivered 15.43% per year (after costs) while investors have only received 8.82% per year. Typically, investors have reduced their potential performance by: trying to time the market, chasing top performing funds and selling funds that have had short periods of under-performance. The average “loss” of performance is more than the inflation rate over the same time.

Anyone who is drawing an income from their investments would have a dramatically different retirement if they achieve the average return of 15% rather than 8%. The difference can be life-changing. If you can find ways to stop the “bad” investment behaviour, you will actually be able to retire with significantly less capital – it is difficult to overstate how much we need to focus on controlling our investment decisions.

**WHAT TO DO?**

The best way to ensure that you consistently make smart investment decisions over long periods of time is to ensure that you have a proper investment plan. It does not need to be really complicated but you need to ensure that your plan covers a few key points.

1. How much you need to invest in shares and listed property.

This is your asset allocation and it is probably your most important decision. Normal shares and listed properties are your primary growth assets and you need these investments so that you can beat inflation. You can obtain this exposure via retirement funds, unit trusts, ETF’s or direct portfolios.

2. Investment time horizon

How long do you need to invest your money for? If you have a goal to invest the money for a short time only i.e. three years or less then you really cannot take risk with your money i.e. limited allocation to shares. If you have a 10 year horizon, you can invest a large chunk in shares. In that instance a short term market crash won’t really be a concern.

3. Do you need income from your capital?

If you need income from your investments, you cannot simply invest in shares or cash, you need a diversified range of investments so that you can generate income and ensure growth to beat inflation.

A great plan might cover more factors but these are three of the most important ones and no plan is complete without them.