WHAT TO DO WHEN YOU DON'T KNOW WHAT TO DO

Do you have that sinking feeling in your stomach that the markets, the economy and the rand are on a slippery slope to nowhere? It would be perfectly natural to feel that way, especially if you believe the more extreme commentary from some of the "experts" quoted in the media. However, your job as an investor is to protect yourself from many risks not just market and currency volatility. You also have to ensure that you are making the most rational long term decisions that will suit your financial objectives in the long run.

History shows that people are generally not good at making rational long-term financial decisions in times of duress. According to studies by Dalbar, "Quantitative Analysis of Investor Behaviour 2015" investors lose as much as **66%** of their potential returns over long periods of time due to poor investor decision-making. This means that if you invest R100,000 over 30 years, you could end with R2,326,645 if you achieve the normal, average returns. However most investors actually only receive R305,257! The difference is NOT explained by fees because the normal average returns INCLUDE fees. Therefore it can only be explained by investors selling quality investments at the wrong time (when they are losing money) and buying them when they are already too expensive.

WHAT IS HAPPENING NOW?

It is true and obvious that we as South Africans have a lot to be concerned about both in the short term and the longer term.

- Stock markets are more volatile than a Springbok rugby supporter.
- The rand is dropping sharply and then recovering in a continuous cycle.
- Economic policy blunders by the SA Government are serious and there seems no let-up. The new visa regulations and the questionable appointment of the new Minerals Minister when the mining industry is bleeding are some obvious examples.
- Finally, there is a general blow-out in emerging markets that is making life very uncomfortable for SA residents and investors.

HOW DO YOU MAKE SENSIBLE FINANCIAL DECISIONS IN THESE CONDITIONS?

Firstly, you have to resist the temptation to think in snapshots. The markets always move in long cycles and it would be a mistake to believe that a trend that started in 2011 will continue forever. In this instance, the commodity cycle started its decline in 2011 and this caused Emerging Market currencies to decline along this path. It is important to remember that every month the downturn continues is also a step closer to the end of the cycle. Towards the end of any cycle, the markets become increasingly irrational and this often scares the investors who had been holding on. One could argue that the massive moves in Glencore's share price is a sign that markets are becoming irrational. It is always worth remembering that markets can be irrational for longer than you think, don't be rattled if commodity prices and emerging markets suffer a few more big blows.

As an investor who is part of this cycle, you have to remember that the cycle will eventually turn. All the predictions that we are seeing from "experts" about "obvious" events often won't happen or they take longer to materialise than you think. Do you remember how inflation was going to be out of control in the US because of QE? This "obvious" event still has not materialised after nearly 7 years!

WHAT ACTIONS DO YOU TAKE?

Try to avoid "all or nothing" decisions. If you think the stock markets are going to crash, don't invest all your money in cash – what happens if you are wrong? Rather keep a portion of your money invested in shares so that you can still benefit if you are incorrect in your view. Great money managers realise that they are going to be wrong at least 40% of the time.

Try to avoid big investment decisions that are based on a prediction. This is usually the cause of serious financial losses for investors. After all how many times have people predicted the end of the world? The best way to hedge your bets when the world is so uncertain? Diversify your portfolio of investments across a range of asset types, time and countries. Proper diversification will ensure that you are probably never going to be the top performer in a short-term performance ranking. However you will also be unlikely to be at the bottom of any rankings nor are you likely to lose so much money that you will never recover.

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