



## Investing

By Warren Ingram

The stock markets are going through an extended period of turbulence that is causing enormous uncertainty for investors. It is not unusual to see the stock markets falling by 3% at the start of the week only to recover by the weekend. It seems that these movements are now typical for our markets in a post Financial Crisis world. We thought it would be worth explaining how we think when we manage your money in difficult times to give you some perspective on our actions during a market drop.

### **SUCCESS IN YOUR METHOD**

There have been many successful investors in history and they have all had very different ways of managing money. However they have had one similarity – they all had a very firm conviction in their methodology. More importantly, they could implement their investment process rigorously, irrespective of current market conditions or investment fashions. This is very difficult to do on a consistent basis, especially when your investments are falling and

your investors are unhappy with you.

Sometimes it is even worse when the stock market is shooting through the roof and your investments are not showing any growth. A classic example of this is Warren Buffett who ignored IT shares in the 1990's when IT was the top performing sector in the US and was generating great returns for investors. This meant that most fund managers in the US showed fantastic returns whereas Buffett's returns were pedestrian by comparison. He avoided IT shares because he had no method for valuing them and therefore did not know what their real price was. His faith in his process was eventually vindicated when IT shares crashed in the early 2000's and his "outmoded" portfolio of shares performed brilliantly.

The lesson we have learned from Buffett and others is that you need to develop your own method of selecting investments and make sure that you stick to this method through all market conditions. It has taken us many years to develop our investment methodology and we have learned to trust our process through difficult times. We have seen the value of our process during the Financial Crisis when our clients portfolios survived without any catastrophes. Subsequently, the portfolios have recovered quite nicely although they are not immune to the recent market dips.

### **IN CHAOS THERE IS ORDER**

If you have a proper investment methodology, the current market chaos should not be a major source of stress for you. Our investment process enables us to concentrate on a few key factors before making an investment decision. This allows us to ignore hundreds of irrelevant factors that create noise when the stock markets are volatile. It is this ability to focus that enables us to navigate our way through stock market uncertainty.

### **UNUSUALY UNCERTAIN**

I have to confess to a high level of frustration with the way that financial media are portraying the current stock market conditions. There is an enormous focus on very narrow issues without an attempt to portray the broader perspective necessary to understand

these issues properly. In the context that the financial system has recently recovered from a near catastrophic collapse, it is natural that the global economy is not going to recover in a nice, predictable pattern. The economy is extremely complex and constantly changing. It is natural that the economy will move forward and retreat as it attempts to find a new equilibrium. This is normal – it is certainly not unusually uncertain as the American media like to tell us. As investors, we can use these volatile times to take advantage of other people's emotional decisions by investing correctly in difficult times. For those people who are already invested, it is imperative that you stick to your strategy in difficult times as your investments need time to provide the required growth.

### **REVIEW CONSTANTLY BUT BE SLOW TO CHANGE**

We are very reluctant to make regular changes to our overall investment methodology. You must have a high level of conviction in the way that you manage your money and constant change to your methods will not build confidence. However it is important that you review your investment process on a regular basis (preferably in the good times) to ensure that you are following the right path. Once the difficult times have passed, we review what happened to our portfolios to see what we can learn. We are very reluctant to make changes in the midst of a crises as we know that investment decisions made in times of crises are mostly incorrect. The best money managers are usually very curious to learn more about other people's methods but they are VERY slow to change their own – we have learnt from them and follow the same path with our own process. The very money managers tend to tweak their methods slightly over long periods of time but the general theme remains the same. If we can do the same with your investments, we have a good chance of being successful for you over time.

## **HEALTH**

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Being a couch potato is a serious health risk. If you don't exercise, you have a much greater chance of getting chronic illnesses such as Type 2 diabetes, cardiovascular disease and cancer. If you expend more than 1000 calories per week in exercise, you reduce your risk of dying prematurely from all illnesses by 20% - 30%. This is a remarkable statistic, it means that you can get a massive return for minimal input – something that does not happen often in life. According to studies in the US by Boston University School of Medicine and University of South Carolina, the two exercises that provide the best “returns” are swimming and running. They typically generate the same level of exertion but have different drawbacks. It is well known that running is harder on your joints but it is also better for building bone density. Swimming is more suitable to those who have problems with their joints such as arthritis but it does not help build bone density. In summary, if you have been sitting on the couch for the last few years instead of exercising, it is high time that you made a change. Even if you take a slow, 60 minute walk three times per week, you will make an enormous difference to your health and emotional well being – start now!

## **GALILEO NEWS**

### **NEW MEMBER OF THE FINANCIAL PLANNING TEAM**

We have added a new member to our financial planning team. Jacques Bakker joined us at the start of September from Old Mutual. He is going to fulfil the role of Relationship Manager in our business which is a new position that we have created. He will be responsible for speaking to all our financial planning clients on a regular basis so that we increase our contact with you. It is our aim to ensure that you have as much information about your investments as you require. Jacques will be working in conjunction with our financial planners which means you will be hearing more from Galileo Capital than ever before. Jacques is an avid tennis fan and attended the University of Johannesburg where he obtained a B.Comm Honours in Financial Planning.

## SHORT-TERM INSURANCE

### CHECKLIST

We have put together a simple checklist to help you ensure that your insurance meets your expectations and also to make you aware of what the expectations are of the insurer:

- Check your premium payments are up to date. If your banking details change, a payment can be returned by your bank. This reflects as a non-payment to your insurer and if there is no payment your policy could be cancelled.
- Increase the sum you are insured for over time. As you buy more things for your home, or make alterations or renovations, the insured amount could become inadequate. When there is a loss, you may find you are underinsured.
- Make sure your car is insured correctly along with any added accessories.
- Specify your jewellery in the **specified** all-risk section of your policy. Make sure personal effects such as spectacles and cameras are covered under the **general** all-risk section.
- If your household cover is subject to burglar proofing and security gates, it applies to every window and door in the house. If there are any doors or windows that are not secured, you must make specific mention of this to us.
- If your cover is subject to having a functioning burglar alarm, check that it is in working order and remember to activate it every time you leave the premises. Make sure your response company gets the signal when the alarm goes off.
- When applying for car insurance, tell us about anything that might influence the premium or your cover. Declare all your previous claims and make sure your insurer knows exactly what the vehicle is going to be used for, and who the regular driver will be.

- Insurance policies do not automatically cover all contingencies. Make sure you know what is and what is not covered.
- Most importantly, remember that you are entering into a legal contract. Make sure you read and understand the terms and conditions and don't misrepresent your position.

Remember as your brokers we are here to assist you with all of these points, should you require any advice or assistance please contact us immediately.



**OUR SERVICES**

**WEALTH MANAGEMENT**

We offer our clients dedicated Wealth Management and Retirement Planning services. We focus on clients who have a minimum of R1 million to invest with us either in retirement funds or in discretionary assets such as shares, unit trusts or overseas investments. We are an independent advice-based practice, which means we are not tied to a specific product supplier. This allows us to offer objective independent advice. We use world-class financial planning solutions that allow our excellent financial planning staff to provide our clients with optimal solutions.

**CORPORATE ADVISORY SERVICES**

The focus of this division is on developing and maintaining best practice in:

- Risk Management Analysis
- Balance Sheet Management
- Corporate Finance Advice

**SHORT TERM INSURANCE BROKING**

We provide full domestic and commercial short term insurance solutions as well as specialized commercial risk solutions. This means that we provide insurance broking services for companies and private individuals. We arrange insurance cover for buildings, vehicles, business risks, household contents etc.

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