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Investing for a world of change

Mistakes made, lessons learnt

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I have worked in the financial services industry for more than 30 years. During this time, I have made any number of investment mistakes, some more costly than others. In this article I will briefly highlight my worst investment decisions and the lessons learnt, in the hope that you learn from my errors and avoid making the same mistakes.

1 Not contributing sufficiently to my retirement fund

If you take nothing else from this article, remember (and teach your children) these three simple rules:

- To accumulate sufficient capital for a secure retirement, you must save 15% of your salary for 40 years.
- You must invest your monthly retirement contributions into growth assets (equity and property) to maximise your return outcomes i.e., you need to be targeting a real return (above inflation) of 6% per annum over the long term.
- When changing employers, you must preserve your accumulated retirement savings.

While I have always contributed to a retirement fund and preserved my retirement savings whenever I changed jobs, my mistake was that for a lengthy period I did not do so at the required contribution rate of 15%. Because the benefit of compounding returns only really plays out over decades, I did not immediately appreciate the financial impact of my error. Now, even though I have increased my contribution rate to above 20%, this one mistake has added years to how long I will need to work to be able to retire comfortably.

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2 Not fully appreciating the erosive effect of annual fees on total returns

When I changed jobs for the first time, I was persuaded to preserve my retirement savings in an 'old-school' retirement annuity offered by a life company. Fast forward 27 years and I suspect the additional costs associated with this product reduced my outcome by half. Costs matter. While you need to be prepared to pay a higher fee for a superior outcome, make sure that you fully understand the cost/benefit profile of the investment that you are making.

At the same time, read the small print. By the time I had worked out just how punitive the ongoing fees associated with the retirement annuity were, I was trapped. The early surrender penalties that would be payable would be impossible to recover in the time remaining.

3 Chasing the rand

In the early 2000s, the rand blew out from around R6 to the dollar to over R12. Investor sentiment was terribly negative, and friends and family were talking the rand 'to the moon'! Sound familiar? What do they say about history rhyming? At the time, the authorities were gradually allowing South Africans to invest increasing amounts offshore, subject to approval from the South African Reserve Bank. I jumped on the opportunity, only then to watch in dismay as the rand appreciated materially. It took many years before the rand saw R12 to the dollar again!

The lesson I learnt is that while the rand has depreciated by roughly 6% per annum over time, it is not a one-way bet. We have been learning this lesson again of late. The rand goes through lengthy periods of being relatively cheap or expensive, and importantly, is subject to both South African and global forces, which determine its relative value.

This lesson is true not just for the rand, but for most things. Don't go chasing equities, short-term performance, Bitcoin, specific stocks, in fact anything where the payoff appears too good to be true. In short, and to quote the philosopher American girl group, TLC, "Don't go chasing waterfalls," which is a 'metaphorical warning against pursuing self-destructive behaviour. Waterfalls appear beautiful and mesmerising, but their currents run strong and lead to extreme and violent ends.'

4 Not looking past short-term underperformance

There have been times when my investments underperformed their benchmarks and peers over the short and medium term. And the longer the underperformance continued, the more anxious I became. During these tough times I started to think that doing something, anything, was better than doing nothing. The little voice in my head telling me to act immediately and cauterise the discomfort was often echoed by family and friends. The few times I did act, I lived to regret it, as invariably it felt like my disinvestment initiated the recovery! The most difficult (and rewarding) thing to do is often exactly that: nothing.

The lesson is that you should not alter your investment strategy or its execution unless it was incorrect at the outset, or your personal or financial circumstances changed. At crucial points, such as when you get married, have children, get retrenched or retire, it is advisable to consult again with a qualified financial advisor and revisit your financial plan and your journey to financial security. Absent such change, the basic rule is, “Do not let shorter-term market fluctuations and negative market commentary sway your commitment to your long-term financial goals.”

5 Holding on too long

Having just told you to do nothing, I am now going to give you an example of when I was simply too lazy to act. Years ago, I invested directly into an offshore unit trust fund and over the years its performance was, well meh – nothing to write home about, but also not cause for real concern. So, there was no driving anxiety to act immediately, but there was always a nagging doubt that I should be doing something. However, just the thought of the administration challenges of disinvesting and having the proceeds paid into another offshore investment caused my blood pressure to spike. And therefore, I did nothing.

I estimate that this lack of action on my part has cost me 3–4% per annum over the past 10 years. Another significant opportunity cost. Another lesson learnt. Sometimes you simply should not put off until tomorrow.

6

Falling for the allure of private markets

In the late 1990s I was presented with a unique opportunity to invest in a private equity fund that was targeting outsized returns. The manager was targeting these returns through a single investment opportunity to which it had access. In addition to no liquidity for the term of the investment, the manager was charging an eye-watering annual management fee. I was convinced to invest due to the manager's previous success. In hindsight, I suspect their prior success was due more to luck than skill – they had benefited from the JSE's small-cap boom in the late 1990s.

To date this has been the only investment I have made that went to zero. A humbling and expensive experience. Lesson learnt. Diversification is key to mitigating risk.

In conclusion

I have learnt the hard way that there are no short cuts to building wealth. Every time I have tried, I have lost. In the process I have learnt that there are three ways to build wealth. One, inherit it. Two, steal it. Three, work really, really hard, and then, most importantly, invest this money to work really, really hard for you.

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