

## Client Newsletter: October 2022

Investment markets for the year-to-date 30 September have been weak, volatile and unpleasant for the most part. This has been driven by several factors: the ongoing fallout from COVID, tight global supply chains, the bizarre Chinese response to COVID outbreaks, rapidly rising inflation (and interest rates) around the world, a prolonged war in Ukraine, an energy crisis in Europe, and markets that were expensive going into these various crises. The JSE ALSI has delivered -10.06% since 1 January 2022. Bonds and cash were the best performing asset classes delivering -1.34% and 3.3% respectively. Listed property has been hit hard by the economic slowdown and rising interest rates delivered -15.78%. Global markets fared as poorly with the MSCI World Equity index returning -24.97% in US\$ and -15.5%

The big concern in the market are the rumours that a large European bank (or two) may be on the brink of collapse. The fallout from this will be huge in the context of the global economic environment described above. The global financial crisis of 2008 was driven by tight economic conditions that lead to the collapse of Bear Stearns and Lehman Brothers in the US. The knock-on impact to other financial institutions was immense and markets collapsed by 40% in US\$ in the six months after that.

It is very difficult to be an investor in South Africa. Returns have been low for seven years now. The JSE has delivered around 6.90% p.a. over that period which is slightly ahead of inflation (5.10% p.a.) over the same period. The JSE remains the main investment asset class for investors seeking long term capital growth. Many investors are becoming very uncomfortable at the extended period of low returns.

### The discomfort of (investment) success

Achieving success in investments, business, and life in general, is a largely uncomfortable process. From years of intense studying to acquire a skill or master a profession, to the significant sacrifices needed to start and grow a sustainable business, to the boredom of reaching the very top level in any chosen sport. It is the reason that real success is fairly rare. Not many people can handle the discomfort over extended periods of time.

When it comes to investing, there is the added complication of money being a highly emotive issue. Research has shown emotions time and again to be a key reason that many investors underperform over the years. A long-term investment strategy is often tripped up by short-term emotions and feelings of intense discomfort. Discomfort in the investment scenario takes the form of short-term capital losses, relative underperformance, high volatility or low returns. It means investing in a fund that everyone seems to be selling out of, it means diversifying into an asset class that is not exciting or has few prospects for short term return.

This discomfort is increased in South Africa as we deal with the ongoing fallout from state capture; rolling blackouts, decaying cities and suburbs, potholes, a weak currency, high inflation, crime, ineffective government and unemployment. Our daily lived experiences do not engender the confidence needed to maintain a positive or optimistic outlook. Many skilled taxpayers are opting to take their skills to other countries, thereby creating a negative feedback loop that will only become apparent to political leaders when it is too late. It is all very uncomfortable.

### Pushing through the discomfort

So how does one manage this discomfort? The video of Angela Lee Duckworth's presentation at TED Talks in April 2013 entitled The Key to Success: Grit was a global sensation with over 10 million views. (See: [http://www.ted.com/talks/angela\\_lee\\_duckworth\\_the\\_key\\_to\\_success\\_grit?language=en](http://www.ted.com/talks/angela_lee_duckworth_the_key_to_success_grit?language=en)). It is certainly highly recommended viewing on the issue of success. Wikipedia describes grit as "Grit in psychology is a positive, non-cognitive trait based on an individual's passion for a particular long-term goal or end state coupled with a powerful motivation to achieve their respective objective. This perseverance of effort promotes the overcoming of obstacles or challenges that lie within a gritty individual's path to accomplishment and serves as a driving force in achievement realization..."

Grit is that thing that causes one to push through the elevated levels of discomfort, and ultimately towards success. But very often it is that discomfort that causes one to give up, or not to start in the first place.

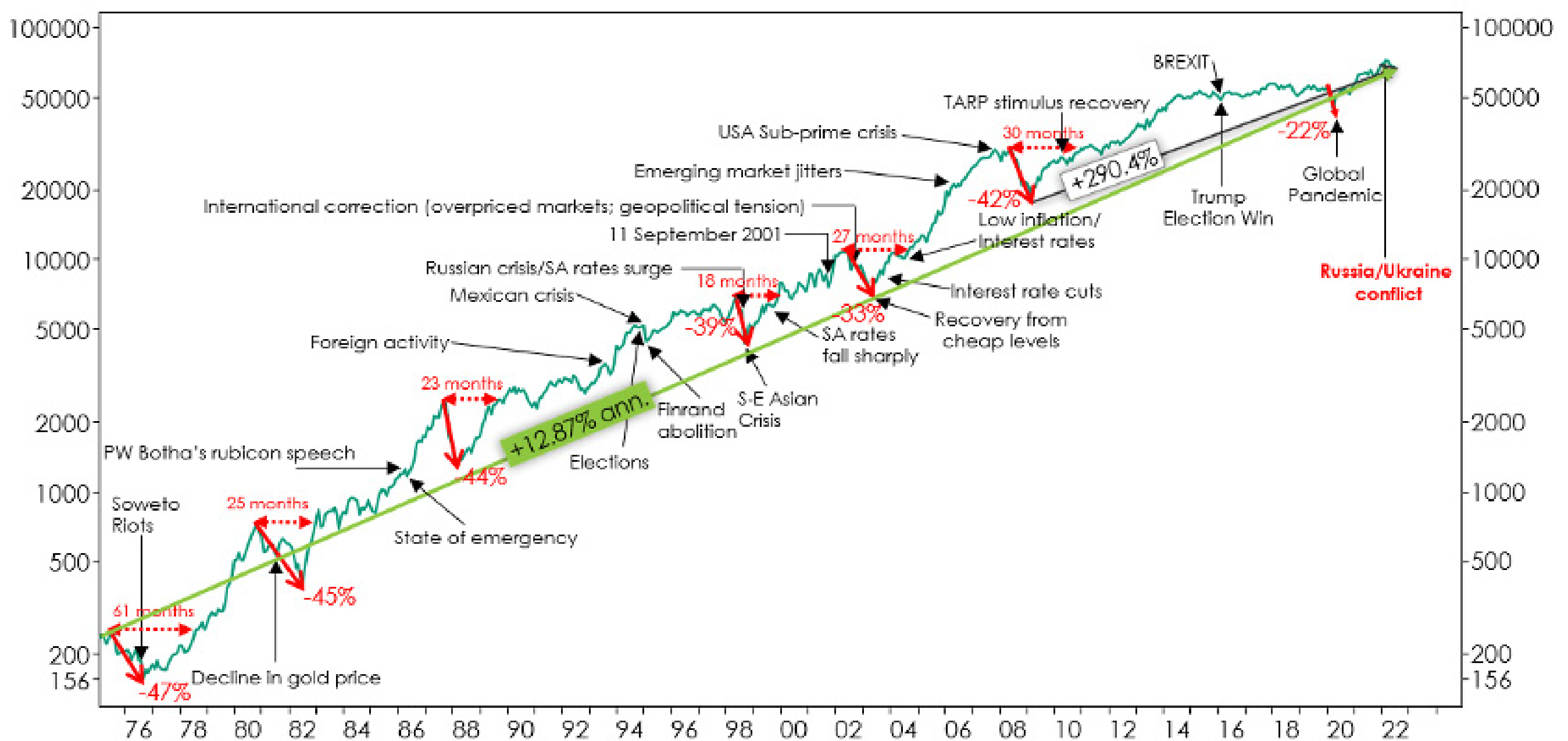
### Developing investor grit

A reminder of Wikipedia's description of grit "Grit in psychology is a positive, non-cognitive trait based on an individual's passion for a particular long-term goal or end state..." The old adage of taking a long-term view persists as a key requirement for investment success. It was Harvard's Professor Banfield who found in the 1960's that the main reason some middle-class American families achieved financial independence during their lifetimes was because they took a long time perspective when making decisions. He went on to explain that taking a long-time perspective meant how far you project into the future when making decisions today.

Making a decision to remain invested in an underperforming fund, a volatile asset class or a risky domicile is a decision. The decision to "do nothing" is often a difficult and uncomfortable one, but a decision no less. The urge to "do something" when driven by minimising discomfort is proven to be damaging to long term investor return outcomes.

Taking a long-term view has long been the standard message from financial product and service providers. It seems that we need Duckworth's grit to accompany Banfield's long term view in order for investors to experience investment success on a sustainable basis, however uncomfortable that may be.

From experience we do not only believe in the academic "evidence" but know that "investment grit matters." The below chart is evidence of the long-term trajectory punctuated by periods of short-term weakness and volatility.



Source: Old Mutual Investment Group, I-Net | Updated: 03.06.2022 | Data ending 31.05.2022 | FTSE/JSE AllShare Price Index

The focus at GMI will be to continue to focus on the quality of our advice as this remains in our control. We will continue to investigate new opportunities to bring to clients to enhance the robustness of the portfolios we put together for clients.

**Please contact your adviser if you wish to discuss your investment or any other financial planning requirements.**