



# BUILDING INFORMED SOLUTIONS

## SOME THINGS ARE WORTH REPEATING

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### ABOUT THE AUTHOR

Graham is responsible for a range of balanced funds. He is also a quantitative strategist, risk manager and a member of the asset allocation team.

2018 was a difficult year for investors, especially those in equities and listed property. This is particularly evident when comparing the asset class returns in 2017 to those of 2018 – SA Equity and SA Property went from the top of the performance rankings to being the two worst performing asset classes.

While increased volatility is unsettling for investors, it is the very motivation behind us developing the LONG-TERM PERSPECTIVES yearbook. The 89 years of data that informs the content of the yearbook shows the muted impact short-term returns have when viewed through a long-term lens. In scrutinising the long-term performance and behaviour of a range of the asset classes, we developed a set of key lessons that informs our investment process and the way we build our solutions. While you may well be familiar with most of these lessons, the profound impact they can have on an investment portfolio is worth reconsidering.

### LESSON 1

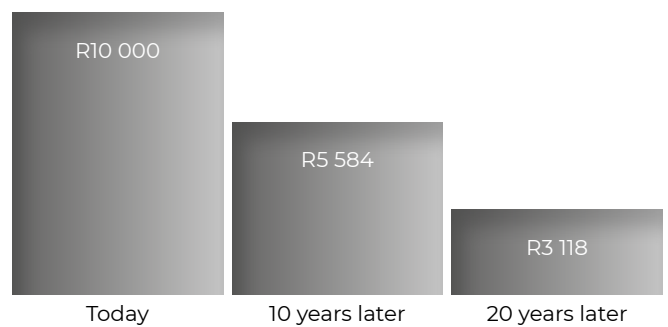
#### INFLATION IS YOUR ENEMY

**REALITY:** Many investors suffer from “inflation illusion” as they don’t notice how destructive inflation can be over time.

**LESSON:** We need to look at long-term investment returns in “real” terms, stripping out the impact of inflation.

#### INFLATION ERODES SPENDING POWER

Take a look at what a 6% inflation rate effectively does to your money.





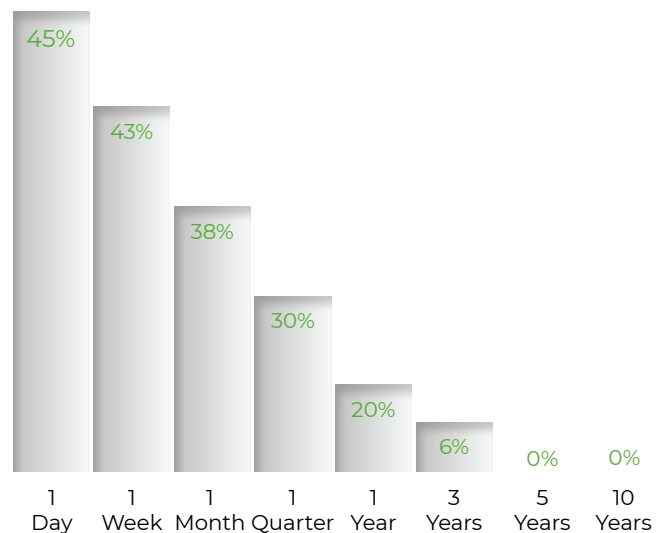
## LESSON 2

### TIME IS YOUR FRIEND

**REALITY:** The main reason why investors prefer cash to equities is the fear of losing money.

**LESSON:** The best way to manage the risk of losing money is to remain invested in equities for longer. As soon as you extend your holding period for more than three years, past performance of SA equities shows that the chance of losing money becomes negligible.

### PROBABILITY OF NEGATIVE RETURNS OVER DIFFERENT TIME PERIODS



1 day and 1 week: Rolling total returns for SA equity, June 1995 – December 2018  
 1 month to 10 years: Rolling returns for SA equity, January 1960 – December 2018

## LESSON 3

### YOU NEED EQUITIES

**REALITY:** Many investors will not retire with enough money.

**LESSON:** We need the higher long-term returns from equities to grow our wealth. This is particularly important in a world where people are living longer.

### PERFORMANCE OVER 89 YEARS

(Nominal Returns from December 1929 to December 2018)



## LESSON 4

### CASH IS TRASH

**REALITY:** A bank deposit exposes you to minimal risk, but there's a price to be paid for that security.

**LESSON:** Cash does not significantly increase your real wealth over time. Over 94 years, cash has an after-inflation return of just 1% a year. It is better to own shares in the bank than to leave your money there.

### TIME NEEDED TO DOUBLE YOUR MONEY

Using each asset class's long-term average returns, this is how long it will take to double your REAL investment value.



## LESSON 5

### COMPOUNDING IS A POWERFUL WEALTH GENERATOR

**REALITY:** Money needs time to benefit from the full potential of compounding growth.

**LESSON:** Start saving as soon as you can, leave it for as long as you can, and let compounding do the work for you. And tick the dividend reinvest box on your investment application form to maximise your growth.

### GROWING YOUR WEALTH OVER TIME

Using the long-term nominal average return of 13.8% a year, look at what happens when a lump sum is invested in SA equities over time.



## LESSON 6

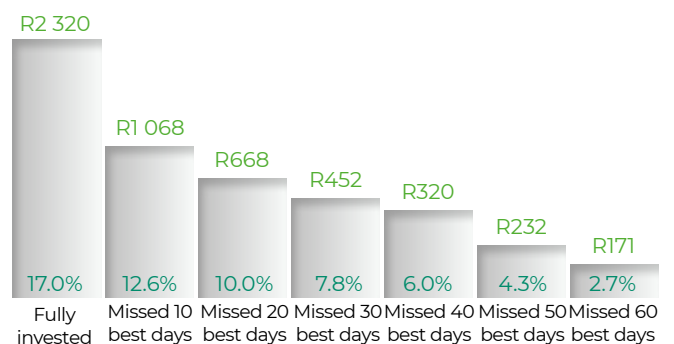
### HIGH PRICE OF MISSING OUT

**REALITY:** Short-term volatility can often lead to investors selling their investments at the worst time – as almost all of the 10 best days on the JSE occurred after bad news or during uncertain times.

**LESSON:** Sitting on the sidelines and missing those good days can be detrimental to your savings. The only thing you can control is to have a well-considered plan and to stick to that plan. It is the best way of ensuring you have a secure retirement.

### THE HIGH PRICE OF MISSING OUT

The performance of R100 invested in the FTSE/JSE All Share Index (June 1997 to December 2018)



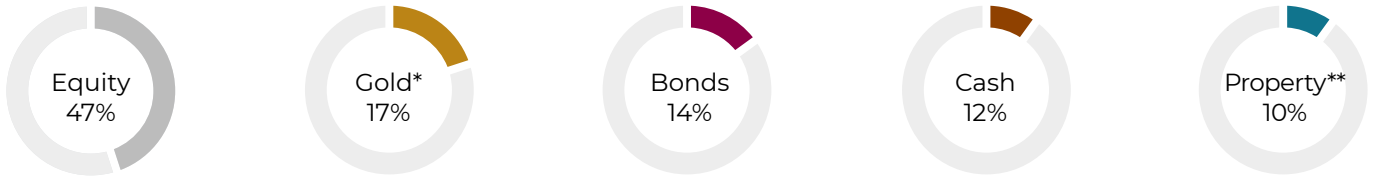
## LESSON 7

### DON'T PUT ALL YOUR EGGS IN ONE BASKET

**REALITY:** Equities may have been the best performing asset class since 1929, but cash was the best performer for 11 of those 89 years and listed property for 9 years...

**LESSON:** Diversification is the one free lunch in investments; use it. That is because it pays to invest across different asset classes.

PERCENTAGE OF TIME AS THE YEAR'S BEST PERFORMING LOCAL ASSET CLASS (1930 – 2018)



\* since 1967 \*\* since 1980

## LESSON 8

### ACTIVE ALLOCATION ADDS VALUE

**REALITY:** Asset classes have distinct secular or long-term periods of under- and outperformance.

**LESSON:** Active asset allocation is a vital tool in delivering superior returns.

UNDERSTAND THAT MARKETS MOVE IN CYCLES



LISTED PROPERTY went nowhere for 15 years, before becoming the best performing asset class for the next 20.



SA BONDS delivered a negative real return for 40 years, before delivering a great return over the last 30 years.

The analysis that informs these lessons and shapes the principles that have contributed to the success of our multi-asset class funds, is explained in more detail in our Long-Term Perspectives 2019 yearbook. This yearbook, now in its sixth edition, is available at [www.oldmutualinvest.com](http://www.oldmutualinvest.com).

