

Why finding the right financial adviser is essential

What does your financial adviser do for you?

According to Daniel Kahneman, Nobel prizewinner and economic behaviourist, noted author of *Thinking, Fast and Slow*, financial advisers are responsible for the “anticipation, diagnosis, and the management of client discomfort and regret”.

But this is just one job description; others may prefer the analogy of a zoo keeper in charge of feeding the tigers. They say because tigers have to eat – ie appropriate risk budgets to provide for long-term income and growth objectives – they, or in this instance you, end up becoming the food if unlucky.

Benjamin Graham, father of value investing, referred to the stock market as a voting machine in the short term and a weighing machine over the long term. Short-term market moves are driven by sentiment and not rational thought or value, which Kahne-

man, in his book, refers to as “thinking fast”, not slow and smart.

Unfortunately, investors are prone to the bias error of desiring immediate returns. We are not patient long-term investors. The theory of value investing is buying shares at a price below their underlying intrinsic value, which sounds simple yet is so difficult to do, because we have this short-term mindset and we feel the pain of loss twice as much as we experience the pleasure from gains.

Sticking to the analogy of “zoo keeper”, responsible for ensuring the tigers you have to feed are kept alive, even when they are behaving badly (they’re clearly risky territory), when you are most likely to be eaten.

Personal risk profiling questionnaires determine an investor’s emotional risk tolerance level, which may be totally different to the required risk budget to achieve the objectives.

Any adviser worth his/her “salt in the

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soup” will recommend an appropriate risk budget, notwithstanding a lower personal risk tolerance level (and the obvious risk of being eaten alive).

Kahneman says because investing is uncomfortable and full of emotional influences of fear and regret, finding the right adviser you trust implicitly, able to anticipate, diagnose and manage your discomfort and regret, is the key to achieving your long-term objectives.

When you find him or her try not to eat them, it’s bound to cause indigestion.

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