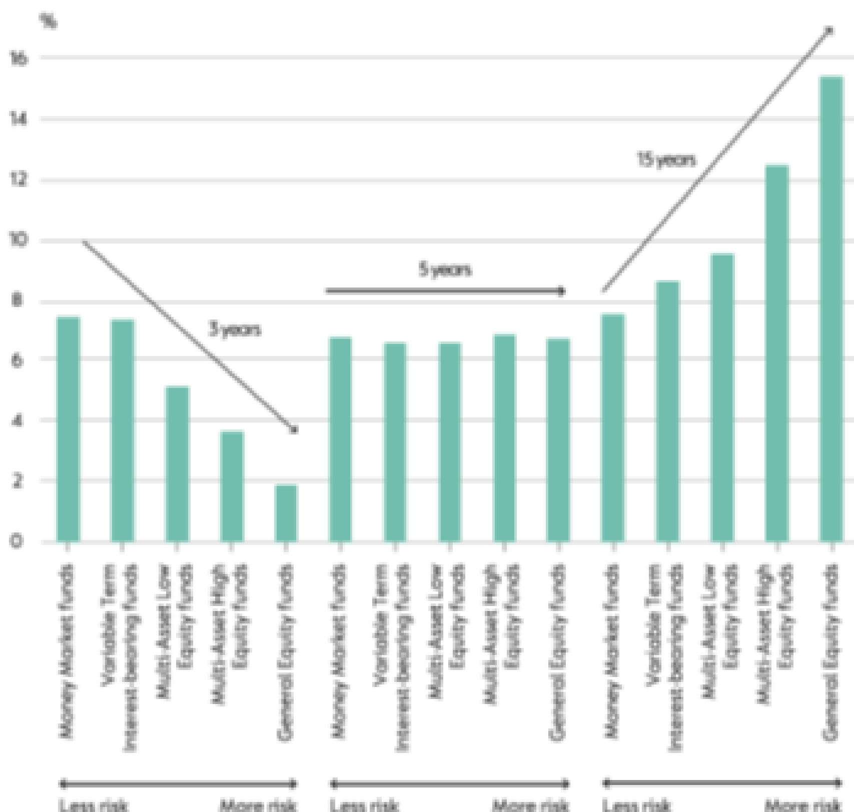
Patience will secure you desired long-term returns

I would like to start this article with a fact that is not a Trump falsehood; <u>the share market will provide investors with the best return given time</u>. Why then does investing in the share market currently feel like a "mugs game", which for those who do not know the term, is defined as a profitless or futile activity. Well exactly because it has been a profitless or futile activity for the past 5 years.

GROWTH ASSETS' RISK-RETURN RATIO OUT OF KILTER



Source: Association for Savings and Investment South Africa (ASISA)

Over the last 5 years investors have not been rewarded for taking on more risk i.e. more exposure to shares. It didn't matter if you were invested in money market, variable interest, low / high equity or general equity funds, you earned the similar return. Investors are smart, if they can generate the same return from cash without the risk or uncertainty that comes with investing in shares then why invest in shares. It's no wonder I spend my days like a snake oil salesman trying to convince my clients to stay invested in the share market.

I vividly recall the similar feeling when I started my career way back in 1995. As a newly qualified financial adviser I was taught that the share market provided for the best returns, which I advised my clients on and then had to endure 8 years of disappointing returns before the market took off in 2003 rewarding those who had the patience to sit it out.

A few key take-aways; 5 years may seem like lifetime, especially when you are 5 years old, but when it comes to investing 5 years is short term and very importantly when you are retiring at 65 your investment horizon is not short, but 20-25 years long.

Longevity and inflation remain the biggest threat for retirees and can only be addressed by investing in growth assets (shares). Only if you have a lot of money can you afford the luxury of investing in cash. Why is that, well simply because once the tax man has taken his share and you have provided for inflation there is not much left for you to sustain a living.

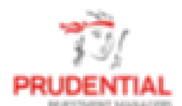
Nominal Return	8%
Less tax (assume 25%)	-2%
Less inflation	-5%
Income	1%

Way beyond the scope of this article, but in the highly unlikely event of SA going like Zimbabwe and / or Venezuela, the last thing you want to own is cash, which becomes worthless in a hyperinflation scenario.

What makes this tricky for investors is a well-documented behavioural finance error called Recency Bias. We project recent returns forward expecting more of the same when in fact the opposite is more likely. The fact that the share market has been flat for 5 years counter-intuitively means the next 5 years is likely to be very good for investors. If you apply rational thought then this makes sense, if prices have gone no-where for 5 years while earnings have been growing then the share market is offering much better value and therefore higher future returns.

PLENTY OF BUZZ ON THE JSE

1965-2017



Slide 14 *Price assuming 3% dividend yield Sources: Prudential Investment Managers; Firer at al/IAJ, 1999 and I-Net

In closing, the graph of the JSE from 1965 – 2017 illustrates a critical point of investing and that is that although we have been through crisis after crisis company earnings underpinning the JSE have grown year-in and year-out through all the trouble, which ultimately drives the return of the share market.

You simply require patience and the understanding that your time frame is a lot longer than you may think and the only proven way to provide for a secure income for life is to have exposure to the share market.

Money Matters
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