# Last year, this year and next year

Money Matters

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The problem with having written this column for over 18 years is that you eventually start sounding like a broken record; for millennial readers, that is those vinyl black things in a cardboard box in the garage.

The thing about successful investing is that it is about the basic principles, which do not change. So, at the risk of repeating myself, this week's article will address what is referred to as short-termism, which I reckon is the biggest hurdle to successful investing.

Definition of **short-termism:** Short-termism refers to an excessive focus on short-term results at the expense of long-term interests.

Karl Leinberger, chief investment officer of Coronation Asset Managers, believes investors have a three-year time horizon – last year, this year and next year. "I got 20% last year, but only 10% this year, what about next year?"

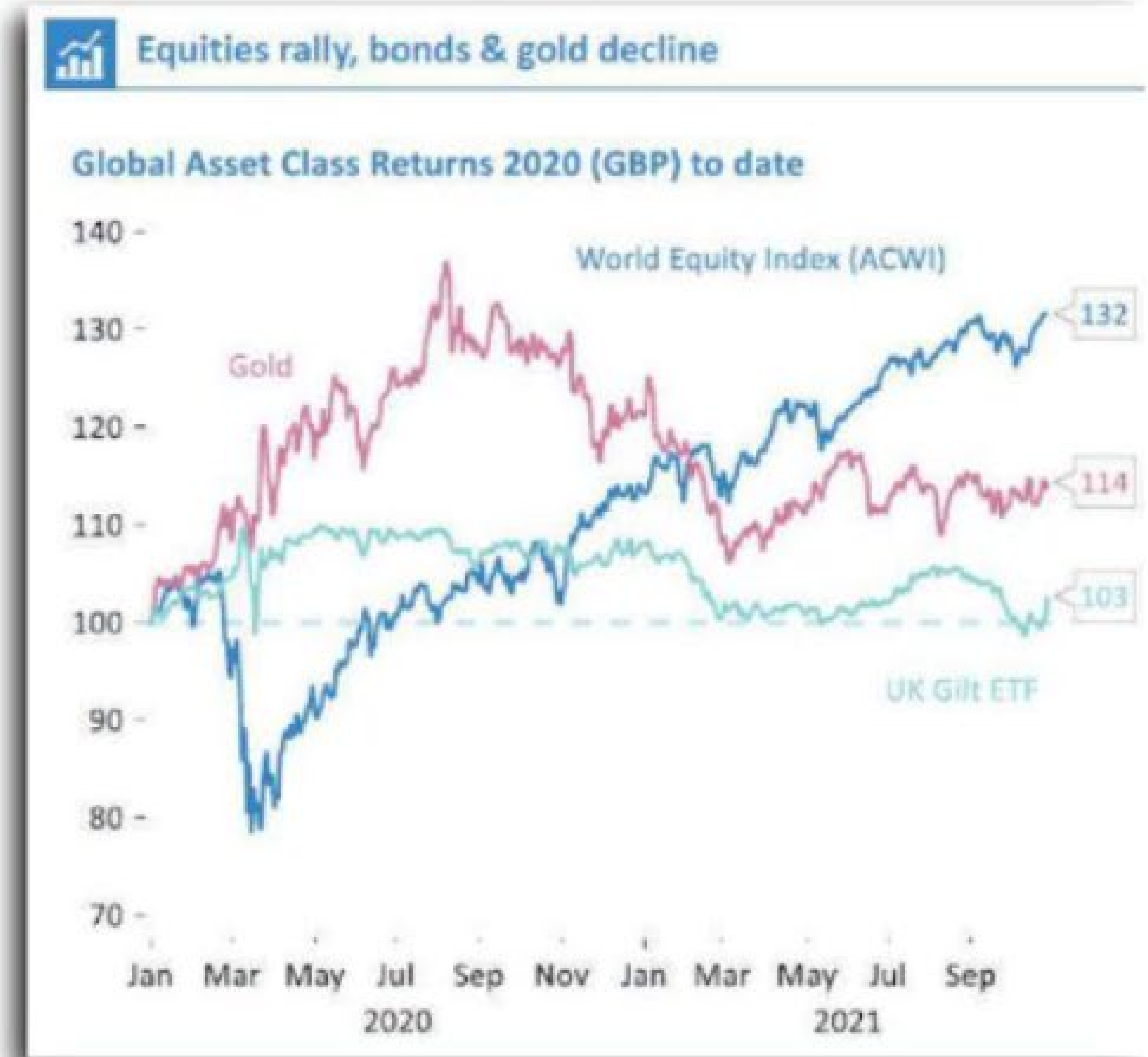
Short-termism played out in the extreme last year with global equity markets falling the sharpest on record at the prospect of a Covid-19 pandemic led global economic meltdown, only to bounce back in record-breaking time and now reaching all-time highs.

Completely irrational behaviour driven by a herd mentality. Sell. Why? Because everyone else is selling!

Behavioural finance books are full of lessons, but we fail to learn from past behaviour, and it is not just retail investors who are prone to an emotional herd-based mentality. Professional fund managers are sometimes guilty of blindly following the herd for other reasons.

As a professional fund manager, it is okay to be wrong if everyone else is also wrong; you are not likely to lose clients, but heaven forbid if you are wrong and everyone else is right. There goes your client, your bonus and your job.

The risk of being different and wrong is why most managers tend to stick to what everyone else is doing. The industry refers to these managers as quasi-benchmark trackers – managers who are paid to take active risks, but who simply track the market for fear of being different and wrong. The problem with tracking the market and following the herd is that you end-up overpaying for the same shares everyone else is buying.




Successful managers are not scared to be different, they take active bets, which may look quite different to the market and may make them look very stupid over the short-term.

Buying what others are selling and selling what others are buying is not for the faint-hearted, but rewards the patient investor handsomely.

Unfortunately, most investors prone to short-termism never get to enjoy the returns, because they have already fired the manager.

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