

Always do your homework



Money Matters

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Last Friday was not just any Friday; it was “Black Friday”, the day every self-respecting shopper looks forward to when just about everything goes on sale with knock-down price bargains to be had.

The frenzy is palatable with a finite amount of cash the only stumbling block and even this can be overcome with a “buy now, pay later” strategy.

The only “black day” we associate with investing is Black Monday, which was first used to describe the stock market crash of October 1929 and then again the same in October 1987.

The secret to a good Black Friday shop is to do your homework before-hand, decide on what you want to buy and know your prices, but I don’t need to tell you this. We are natural born shoppers; it is in our DNA. We all like a good deal, which we are quick to spot and exploit in a very rational way... Unless we are talking about investing when our rational

brain disengages and we revert to our primal flight, fight or freeze response.

The psychology behind our behaviour when it comes to investing has been well-researched and documented in a study known as behavioural finance. It identifies several behavioural biases responsible for our irrational investment decision making.

Nevertheless we fail to learn from the research and our past mistakes, which we are thus doomed to repeat time and time again – and this past Friday was a case in point.

Not to be outdone by Black Friday specials, the JSE joined the party falling 2,75% in following global markets down on Covid-19 variant news.

Some individual quality shares like Standard Bank fell over 7% on the day, providing investors with a wonderful buying opportunity, which went a-begging with sellers outweighing buyers in a typical irrational sell-off. They disregarded the underlying fundamental value in the market as illustrated by the chart, which shows an expected 50% upside for a basket of shares held by Coronation, which happens to include Standard Bank.

Just like smart shoppers, smart investors must do their homework on what to buy and at what price, and then have the patience to wait for the next Black Friday or Cyber Monday to buy a bargain or two ... – www.mwwealth.co.za

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