FOMO and FAANG Stocks
Beware of emotional drivers when it comes to investing

Morningstar Investment Management South Africa
September 2020

Victoria Reuvers
Managing Director
Morningstar Investment Management South Africa

For Financial Advisors and their Clients

Fear of missing out, or rather "FOMO" isn't just a concept that applies to missing out on socials or fun activities. In the world of finance, when certain areas of the market perform well, investors often want to sell out of their current investments and buy into the sector of the market that is performing well due to the fear of missing out on positive returns.

We are repeatedly told, "stay the course", "don't disinvest", "buy low, sell high" and "skate to where the puck is going to be". However, now more than ever, it is very difficult to avoid the emotions that fill your mind when you see the eye-watering returns from the US FAANG stocks – and even worse when you convert them into Rand returns. (FAANG refers to the family of tech stocks that include Facebook, Apple, Amazon, Netflix and Google. On the other hand, you also get the TANDs: Tesla, Activision, Nvidia and Disney.)

As much as we know what we need to do, we are often influenced by how strongly we feel about a situation. And right now, emotions are heightened.

As South African investors our investing emotions can be split into two distinct camps at the moment:

1. The fear of missing out – Should I invest all my money in and/or should I hold more FAANG stocks?
2. The fear of being in - why am I invested in South Africa?

It almost seems as though we have a chicken and egg dilemma on our hands, and it is hard to say which is more dominant at the moment – is the fear of being invested in South Africa feeding the FOMO on US tech stocks, or vice versa.

The FOMO caused by US tech stocks are real with new highs, new record market caps and share performance levels being set almost daily. Year to date[1], these stocks are up 28% in USD and 48% in Rands. This comes amid the US experiencing the greatest GDP contraction in history and the world is still reeling from the impact of COVID-19.

What to do if you have FOMO?

Not to worry, this is not an uncommon feeling. However, investors need to be mindful that it is quite late in the cycle to be investing in FAANG stocks as you would be investing at very elevated prices. Then there is also the lack of diversification. Exposing yourself to one single area of the market is risky.

[1] Year to date as at 31 August 2020

Take a step back and look at what global exposure you do have.

Remember, most South African pre-retirement investment vehicles already have a healthy allocation to global asset classes (regulation allows a maximum of 30%). In addition, the JSE Top 40 provides a decent exposure to offshore markets, since more than 70% of the earnings generated by the companies listed in the Top 40 come from outside of South Africa.

Although investors might regret not being one of the first to invest in Tesla or the FAANG stocks, their portfolio might still give them exposure to these stocks, even if not in the concentrated proportion that is often quoted now. So, instead of thinking about what they do not own, investors should look at what they do own and perhaps they are investing at the beginning of the next return cycle.

Taking a look at Morningstar Global Growth Portfolio, the holdings of this portfolio in UK and European equities, US energy and financials and select emerging markets that are included in this portfolio, are well-positioned for the long term. These are assets that are currently out of favour and priced as though there will be a continuation (in perpetuity) of all the tough times and headwinds they have experienced lately. When all the negativity is in the price and investors have given up, that is normally a good time invest. This portfolio generated a 6.3% USD return over the last 12 months.

What about investor's fear of being invested in South Africa?

It has not been as bad as all the news headlines and twitter threads make out to be. Let's consider the Morningstar Balanced Portfolio.

This portfolio has generated a return of 7.6% over the past 12 months - which is a real return of 4.4% - and well ahead of the market return of 1.6%. Within this portfolio, investors have had exposure to star performers such as Fairtree Equity (up 22% over the past 12 months) and Ninety One Global Franchise (up 33% over the past 12 months). The portfolio also has exposure to some shares in areas of the market that are unloved and completely out of favour, expressed in managers such as PSG Equity and Nedgroup Core Bond Fund. But considering the next 12 - 36 months, these are also the holdings of the portfolio we are excited about.

Hindsight is a wonderful and painful concept. It serves to show that a specific path worked – not all the other paths available to you at the time of investing and not all the other outcomes you could have experienced. Where the current tech trajectory will end, only time will tell.

In conclusion

To quote the legendary Warren Buffett, 'the investor of today does not profit from yesterday's growth'. As much as we are warned that past performance is no guide to the future results, many investors still switch to the latest hot offerings.

Investors should remember that returns don't happen in straight lines and it seldom occurs when one expects it to. It's vital to separate emotion/sentiment from an investment portfolio. Often

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the most beleaguered investments turn out to be a great opportunity for future returns, as investors can access these investments at a good price. Volatility creates opportunity and short-term underperformance can translate into a solid, longer-term upside.

Trying to chase performance can be extremely harmful to an investor's returns over the long-term. It's rare for even professionals to consistently time investment in to and out of the market over time. Besides, one needs to consider the costs of trading funds, which is likely to only make matters worse.

A well-diversified portfolio that is designed to meet your investment goals whilst remaining within your risk tolerance is a far better solution, and much likelier to result in long-term investment success than trying to buy yesterday's winners.

The Bottom line: investing is a marathon and not a sprint. If you have a five-year investment horizon, remember to keep a long-term view - don't worry too much about your returns for the first three to five years. When it comes to investing, patience is rewarded. M

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+ t: (0)21 201 4645 + e: MIMSouthAfrica@morningstar.com + 5th Floor, 20 Vineyard Road, Claremont, 7708.

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