Back to basics
Principles of investing

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For Financial Advisors and their Clients

Sometimes I find it incredibly difficult to make sense of this crooked world we live in, and I often hear how perplexed investors are as well. The economy feels a little upside down, every headline seems to have a negative tone, markets are selling off, sentiment is low and there is never a dull moment when it comes to politics. It's hard to try and make sense of it all, and how this utterly confusing world is impacting your investments and life savings today.

I want to challenge you today to invert the status quo, and instead of worrying about everything that you don't know – refocus and remind yourself of things that you do know. I find great joy in reading nuggets of wisdom from some of the greatest investment minds of our time including Howard Marks, Warren Buffett and Morgan Housel and now is a great opportunity to resurface some of those basic investment principles and remind ourselves that regardless of market cycles these principles remain true.

What is a principle and why is it important?

It's a belief. It's a way of living. It's those fundamental truths that serve as the foundation of a system of belief or behaviour. Principles and beliefs are what we as human beings gravitate towards, especially when life gets messy. If you build a solid foundation of investing principles early on in life, it becomes second nature, no matter how hard it gets sometimes.

Below I've highlighted a couple of principles that are true today and that will remain true tomorrow (and in 10 years) that I often use when it comes to investing:

Simplicity trumps complexity: Complex investment solutions will always sound more intelligent, more appealing and more intriguing. It is however important to realise that simple does not mean 'easy' or that it has been done with less intent. On the contrary, simplicity actually requires more thought up front because it forces you to filter out the endless noise in the markets. Simple is often harder because people are often drawn to complexity. But complex problems don't always require complex solutions. We all want to believe that the holy grail of investment sophistication exists and if we can only find the secret sauce all of our problems will be solved. It doesn't.

More often than not, doing nothing is the best investment decision: One of the hardest things to do, especially if markets move against you and your instinct tells you that you should be doing something. If you have a plan in place, doing nothing is perfectly rational investment behaviour and a firm decision in and of itself.

Time in the market matters: Time in the market is superior to timing the markets. A long enough time horizon is the best hedge against most market risks. As Daniel Kahneman once said, "The long-term is not where life is lived." As investors, we must be prepared to live through market corrections and volatility. It's part of the game. "Long term" is made up of a range of short terms.

It's not one-size-fits-all: Every investor is unique with different financial goals, time horizons, tolerances for risk, income needs, etc. The most important thing you can do is to understand your own set of unique identifiers and invest in the right type of strategy that will provide the best path towards achieving your personal goals. Your investment journey is unique, so it doesn't really matter what other investors are up to.

Intelligence matters less than you think: Whether an individual is good or bad at investing often has little to do with intelligence. Temperament and behaviour when it comes to investing can far outweigh intellect. Unsuccessful investors often exhibit the same poor behaviour – trying to time the market, not saving diligently, overtrading, forecasting, being overconfident in their investment abilities, investing based on news headlines or political beliefs and the list goes on.

Your rate of savings is more important than your investment return: At the end of the day, money can only grow if it is saved. We all want the best-performing portfolio but the reality is that performance is only one of the components on the journey to wealth creation. While you can't control how markets will perform and/or your investments, you can control the amount you save every month. Saving and investing are the ultimate power couple.

You have to take risks to make money: Managing risk is an important component of investments and it is important to be invested in the appropriate strategy for your personal level of risk tolerance. Unfortunately, the reality is, that you can't avoid risk altogether. Ultimately you will have to invest your money in an investment vehicle – other than a bank account – to truly see your investments grow.

Headlines won't make you money: If investing was as easy as listening to the news and investing accordingly, everyone would be rich today. Filtering out the everyday noise and maintaining the right temperament and long-term mindset throughout your investment lifespan is far more rewarding than reacting based on the latest headlines. In the wise words of Warren Buffett, it is often better "to be fearful when others are greedy and to be greedy only when others are fearful".

In closing

If you find yourself confused and worried about the state of the economy, the negative headlines, your investments or politics, remind yourself to focus on the things that you do know. Your investment journey can be a very rewarding experience if you prioritise preparation over prediction.

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