

Eoghan Gavigan

Secret of good investing is different for each individual



The rep for one of the companies I deal with recently invited me to a high-performance coaching session. It was full of mental toughness and resilience, with some sporting analogies and a bit of bad language thrown in for extra grit. I have often

thought that some extreme feats display not only mental toughness, but perhaps a little bit of madness. I didn't get much out of it and, to be honest, if he knew me better I think the rep would have invited me to a session on how to relax, rather than how to perform. Anyway, his intentions were good.

The world optimises for performance. We were built this way, as it spurs on evolution. It may not be universally the case but I think that most of the people we meet, at least those who get up early in the morning, are striving to perform. I think that individuals should optimise for happiness, though.

It's especially relevant when planning one's finances. The life objectives we are

funding – education, housing, family, lifestyle and retirement – depend in whole or in part on selling our time in exchange for money, which we accumulate not to make us happy, but to give us the freedom, or time, to be able to do what will make us happy. There's an obvious paradox here.

People want to know the right way to manage their money, and indeed there are some advisers who believe that everyone should invest the same way and then do nothing. Until recently the recommendation might have been to allocate to the S&P 500. Concentration risk in that index means that many now favour a diversified basket of global equities, the majority of which would at any rate be allocated to US equities.

If an investor invested in the S&P 500 at any point in the last, say, 30 to 50 years, and did nothing since, they would have achieved an average annual return of 10 to 12 per cent before inflation. But when was the last time you heard someone claim to have achieved that

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return consistently? Probably never. The reason for this is that history has shown that investors aren't robots; they don't “do nothing”, as attested to by the fact that investors achieve an average annual return of nearer to 4 per cent a year.

According to Carl Richards, the financial planner and New York Times columnist, the difference between investment returns and investors'

returns is referred to as the “behaviour gap”. A large part of an adviser's job is to close that gap – essentially to keep people in their seat. Within the last half-century there have been extended periods of volatility. You got the desired return only if you stayed in your seat. Most didn't, quite simply because it is not as easy as it seems.

Morgan Housel, a financial influencer, posits that there is no right way to manage your money, simply because everyone is playing a different money game. For one person, buying a car that costs as much as a small house might be their optimal result. Personally, I am happy with my five-year-old Volvo and an extra holiday each year. Some people give careful consideration to how they spend their money and others are like a child in a fairground, and that's OK, because we each ultimately carry the can. If you want candy floss every day, have at it. Whatever makes you happy.

In a similar vein, all investors are not the same. Some have a natural ability to

endure volatility and some don't. Some people have enough risk in their personal lives already and don't need to layer financial risk on top of that. Coupled with this is the fact that we live in a different time to the investor of 50 years ago. Recent world events which seemed unthinkable only a short time ago, alongside an American stock market that looks frothy and concentrated, give pause for thought.

It will be interesting to see how investors behave when investment markets correct, as they must surely do at some point. Think about that behaviour gap and, if you don't think you're able to see out the ride, now might be the time to adjust your portfolio. Strap in, because once the rollercoaster starts to move, the only way to be safe will be to stay in your seat.

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