Four investment myths, busted

18 July 2019: There are many commonly held beliefs when it comes to investing. Not all of them are true.

This is according to Tamryn Lamb, Allan Gray's head of retail distribution, who will be speaking at the upcoming Allan Gray Investment Summit in July.

One of the agenda items at this year's Summit will see three seasoned investment professionals guiding attendees on how to become better investors by avoiding some of these common mistakes and seeing through the myths. Below Lamb busts what she believes are the some of the most common investment myths.

Myth #1: If it is too simple, it won't work
"One of the most common mistakes that investors make is underestimating the power of simplicity. Simple methods, rules and techniques go a long way in enabling investors to reach their goals. Yet, many investors think that if something is too simple, it surely can't work as everyone would be doing it. But, this isn't true, especially when investing," says Lamb.

She adds that the secret to becoming wealthy over the long term is not complicated. This doesn't mean it is easy, as it often requires patience, discipline and staying rational when others are panicking.

"The most successful investors are those that over time, consistently spend less money than they make, save the difference, invest in undervalued assets, and are patient. Yet this sounds too boring to be true, which makes investors susceptible to getting distracted or falling for things that seem to promise faster or greater growth, taking them off the right path."

Myth #2: Economic forecasts will help me find the next best thing
Investors looking for the next opportunity often turn to macroeconomic factors to determine whether markets will or won't deliver strong returns. Lamb says that there are two problems with this.

"Firstly, the problem with forecasting is that no one has a crystal ball. Yet, we constantly overestimate our ability to predict the future. This is true for many things, and particularly so for a field as complex as economics which is driven by multiple underlying variables and factors."

And even if we could reliably predict, research suggests that there is no correlation between economic growth and share returns.

"Sometimes, strong, growing economies attract lots of competition, which lower price levels. This may be good for consumers, but not necessarily for the value of companies operating in that space."

Lamb says it is a far safer strategy to invest based on fact rather than guess work.

"What determines the success of your investment is the price that you pay for an asset, and how much you ultimately sell it for. Consider working with a reputable investment manager to help you identify the right opportunities, and do not pay undue attention to predictions," says Lamb.

Myth #3: Rely on your gut when you invest

Lamb says that one of the biggest culprits in making poor decisions is our emotions. When performance dips, investors often throw out their carefully considered investment strategies and change tack. Alternatively, they hold back on making investment decisions until there is enough positive movement to reassure them of not getting hurt. But basing investment decisions on emotions often leads to taking action that will permanently lock in losses, or missing the best time to invest.

"The most appropriate time to make changes to your portfolio is if your investment goal or risk appetite changes, or there has been a change in your circumstance. Tune out the noise, listen to your head not your heart and stick to your plan, to achieve long-term success."

Myth 4: Quick wins will make me wealthy
Another mistake investors make is not being committed to the long term.

When you invest, time allows your invested money to grow and compounding makes your money work harder for you. Given a long enough period to work, compounding can dramatically multiply the value of your investment so that less of your total investment will be from your contributions and more from growth.

"The key to successful investing is staying invested for long enough to reap the benefits from the potential returns, ride out the inevitable short-term ups and downs and allow the power of compound interest to increase the value of your money.
"Don't judge the daily performance of your investments. Successful investors have the patience to stick it out," concludes Lamb.

This topic, "The truth behind the myths", will be an agenda highlight at this year's Allan Gray Investment Summit in Johannesburg and Cape Town in July 2019. For more, visit www.investmentsummit.co.za

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