How to be a financially resilient investor

01 October 2020: Resilience is the key ingredient that will help investors get through the current COVID-19 pandemic and become successful in the long run.

This is the view of Marise Bester, a specialist in the retail distribution team at Allan Gray, who says that anyone can become financially resilient by developing the right habits and taking a holistic approach.

“Financial resilience is the ability to bounce back after life throws you a curveball that impacts your income, your assets or both; and it is one of the main factors that separates successful investors from those who are not,” says Bester. “Achieving financial resilience is not a once-off project; it requires ongoing diligence. It is also not reserved for wealthy people.”

She explains that resilient investors can recognise their emotions when things are painful, but do not react to them.

“Markets are very much driven by emotion. One theory suggests that the pain we experience from a loss is far greater than the pleasure we feel from a gain, which may explain why some investors react when markets go through inevitable down periods. But resilient investors understand that their behaviour influences their returns, and do what they can to guard against reacting, including filtering out the noise and focusing on what is within their control.”

To get the most out of an investment, and to improve investment outcomes, especially during difficult periods such as the one we are in, Bester gives five tips below.

Tip 1: When times get tough, remember what you are saving towards

When times get tough, remember what you are saving towards and have a plan in place to help you stay on the path. This will also help you avoid making emotional decisions and following the crowd.

As part of this, you will need to ensure you choose an appropriate unit trust to help you achieve your goals. If you are likely to need to access your money within a year or have a very short-term goal like saving for a holiday, a money market fund may be your best bet. Money market fund generally provide stable returns, take on minimal risk, and are therefore a good parking bay for your money.

A long-term goal, such as saving for retirement, requires growth over a much longer timeframe. History has shown that this requires a good amount of equity exposure.

Equity markets are volatile, which means they move up and down a lot. This makes them risky for short-term investments, as if you need to access your cash, and the market is in a downturn, you may end up losing money. This volatility smooths out over time. Balanced funds, which are approved investments for retirement funds, can have up to 75% exposure to equities.

Tip 2: Aim for above-inflation returns

At the end of the day, you want your investment to give you a higher return than inflation, otherwise the value of your money will be eroded over time, and this will decrease your purchasing power.

Tip 3: Have a disciplined investment process

Becoming a successful investor requires discipline. There are a few tricks you can implement to help you become more disciplined. You could automate your savings through a monthly debit order, add an annual escalation to your debit order which will help you keep up with inflation, and lastly, resist switching unless your goals change.

Tip 4: Focus on the long-term rewards of saving

You need to take a long-term view to benefit from compounding. As an example, would you rather receive R20 000 today, or receive 1c on the first day of the month and double it every day for the rest of the month? If you opt for the latter, you would end up with R10 737 418 on the 31st of the month. This is the beauty of compounding, and it only works if you leave your money alone, and don't dip into it when the urge arises.

Tip 5: Get advice from a good, independent financial adviser

A good, independent financial adviser can help you articulate your goals and objectives and assist you in picking investments that are appropriate for your needs and circumstances. He or she can also help you stick to your goals when short-term volatility, like we are currently experiencing, threatens to get the better of you.

"Your ability to make the most of your investment depends on whether you are able to remain committed for long enough to benefit from the potential returns; ride out the inevitable ups and downs and, allow the power of compounding to increase the value of your money," concludes Bester.

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