Just thinking long term is not enough

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Along with many others, we often emphasise the importance of not giving in to your emotions and avoiding making rash, short-term decisions. Yet despite this, plenty of investors still fall prey to their emotions. So, what is the secret that sets successful investors apart from the rest? Investors are often told to take a long-term view, which can imply a rather passive approach. Interestingly, simply *thinking* long-term is not enough.

Investing long-term does not mean simply leaving your money invested for a long time

If you left your money invested in the wrong things for a really long time, it would soon be worthless. Think about how quickly some technologies become obsolete and are replaced by something else. Consider how publishing houses (that have in the past helped some individuals amass incredible private fortunes) have been superseded by social and digital media. Or how fast valuations change driven by sentiment, providing opportunity to lock in some gains and pick up bargains.

Companies and industries change over time

Even if you had invested in a good company at the time, you would need to consider how the prospects of an investment change over time. These changes can be because of internal factors (maybe their management team makes a poor acquisition or they gear up at the wrong time), or due to external ones like their competitive advantage eroding because of technological changes, societal shifts or other macro changes in specific industries (e.g. the oil industry). If 2020 has highlighted one important factor, it's that things can change a great deal in a very short space of time, sometimes for microscopic reasons! Industries are born and die. Some of today's giants like Facebook have not even been listed for ten years.

Market movements move your investments too

Your portfolio may become more concentrated if one share or sector outperforms over time. This effect can be amplified because people often become attached to past winners, and may become reluctant to sell them because "they have done so well" and perhaps also because they don't want to miss out on "even more" growth, or pay tax. But portfolios need to be rebalanced from time to time and brought back in line with your risk profile. Rebalancing is an art, which lets winners run, but not indefinitely, and facilitates rotation into undervalued areas.

Long-term investing means continually rethinking the long term

One of the cornerstones of a solid investment process is continually assessing the strength of a company's *moat*, or business model. Strong moats are hugely valuable but can be weakened by external factors and competition. A good example of this has been the acceleration of the pressures on physical retailers. An already threatened industry, whose moat included their prime locations, saw 2020 crush their moats, with share prices following suit, unless they already had a strong digital model. Of course, the pendulum of share price reaction often swings too far, and there were exceptional buying opportunities in these beleaguered sectors this year. For instance, the US Retail ETF has done better than the Nasdaq over the past six months, with shares such as Pandora and L Brands showing spectacular recoveries and far outpacing the Nasdaq even over the past year, albeit from a depressed base. It is the combination of understanding long-term shifts in industry dynamics combined with a rational assessment of long-term fair value that leads to successful investing.

A robust portfolio is constructed of investments that complement each other to deliver the desired investment experience over time. It is important to adjust portfolios to manage risks

as they emerge and include future growth drivers. Long-term investing is, at its best, an activity that is constantly undertaken.

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