What can you do to achieve investment success?

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Investing in the appropriate funds and with the right investment managers is important. But apart from a fund selection decision, as an investor, what else can you do to ensure your investment success?

In this article Madalet Sessions, head of multi-asset investing and co-manager of the Denker Sanlam Collective Investments (SCI) Balanced Fund and Denker Sanlam Collective Investments (SCI) Stable Fund, goes back to the basics to encourage investors to understand how to achieve the best possible outcomes. She covers the roles of different industry players within the unit trust environment, and the importance of having a well-informed plan and sticking to it.

Madalet Sessions

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Madalet started her investment career at Investec Securities as a research assistant to top-rated investment strategist Brian Kantor. In 2008 she joined Element Investment Managers as an analyst responsible for fixed income, money market and property investments. From there she moved on to Nedgroup Investments in 2010, where she was responsible for managing the Nedgroup Investments Private Wealth Bond Fund and the Nedgroup Investments Private Wealth Property Fund. She joined Denker Capital in 2016 to establish our range of multi asset class funds.

There are three main role players that play a part in investors achieving their goals.

They are investors, financial advisors and investment managers (see Table 1 at the end for a summary of the core responsibilities and duties of each).

1. An investment manager's core duty is to manage funds.

This means they actively make decisions about where and how to invest the money that they are entrusted to invest, according to a specific investment policy and objective. They perform asset allocation (how much money to invest into different asset classes or types of investments), based on extensive research, and manage the fund actively or passively (their 'active' daily decisions to buy or sell, or if they are passive investors, their buying or selling activity follows a pre-set rule or index).

All investments have some risk, so investment managers try to ensure that they generate an appropriate risk to return ratio. Over the long-term, consistent risk-managed returns at attractive fees play an important role in delivering performance.

While investment managers may have a variety of funds under their control, typically an individual portfolio manager will specialise in a certain type of, or way of investing (a specialist sub sector of shares, a specific asset class, or across all asset classes as is the case with the Denker SCI Balanced Fund and Denker SCI Stable Fund). In addition, different investment management houses apply different strategies and beliefs in their approach to managing money, and they incorporate different investment processes and tools to achieve their investment objectives.

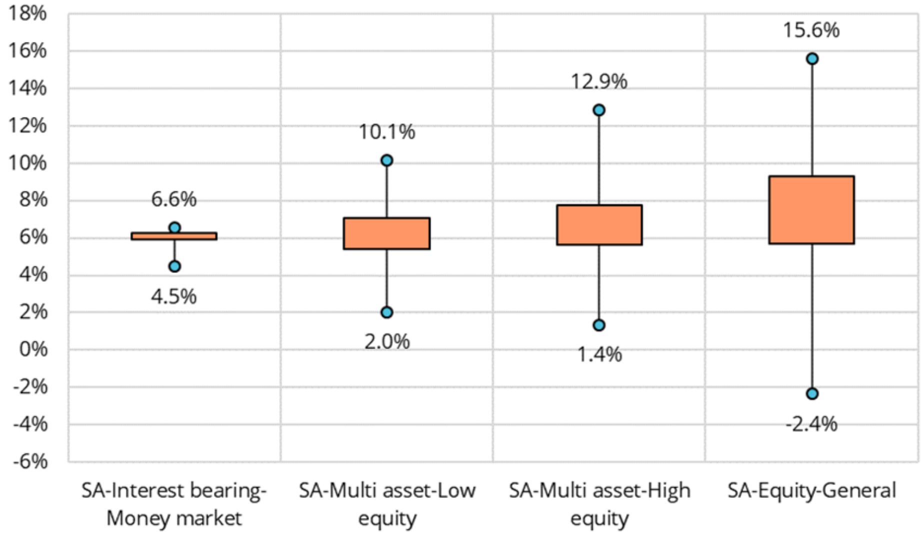
2. Financial advisors have very broad responsibilities.

A financial advisor's role is broad, as Table 1 indicates. From an investment point of view, a financial advisor typically matches investor goals and objectives to a fund and investment vehicle they believe will deliver what the investor needs to achieve and at the risk level that is appropriate for the investor's specific investment allocation. This requires them to understand the wide range of funds and solutions available, and to select which of these is most appropriate for each of their client's needs.

There are lots of funds available in South Africa and the range of returns they offer is wide, which emphasises the importance of making informed investment decisions and the responsibility that advisors have. These funds are split into different ASISA (Association for Savings and Investments SA) categories based on the assets they invest in.

Figure 1 illustrates the range of returns available within four of the ASISA categories for the five years to 30 June 2022: The orange boxes represent the range of returns delivered by all the funds in the second and third quartiles per category and the lines extending upwards and downwards represent the range of returns produced by the top and bottom funds. This shows the importance of investing in the right funds. While the range of returns offered by funds in the second and third quartiles of a specific fund category is quite narrow, the range of upside (gain) and downside (loss) is wide. You can also see from the different fund categories that investors are earning higher returns for the higher risks of having more equity exposure. Money market returns are lower than high equity returns, and general equity exposure provides the optimal outcome over the longer term. From this you can see that the theory (to earn a higher return, you do need to take on more risk) is indeed the reality that most investors experience. However, the investors in the bottom quartiles of their respective categories have not necessarily been rewarded for the greater risks they have been exposed to.

Figure 1: Annualised fund performance over five years to 30 June 2022 by ASISA category



Source: Morningstar and Denker Capital, 30 June 2020

3. An investor's responsibility is to be disciplined about saving and to get advice from an expert to fill any knowledge gaps they may have.

The first thing to know about investing is that you have to be clear about how much money you can set aside to invest. This means you need to forego spending today to save and invest for your tomorrow. Some investors choose to go it alone when it comes to making investment choices and prioritising financial goals, but it can be very complicated with so many options.

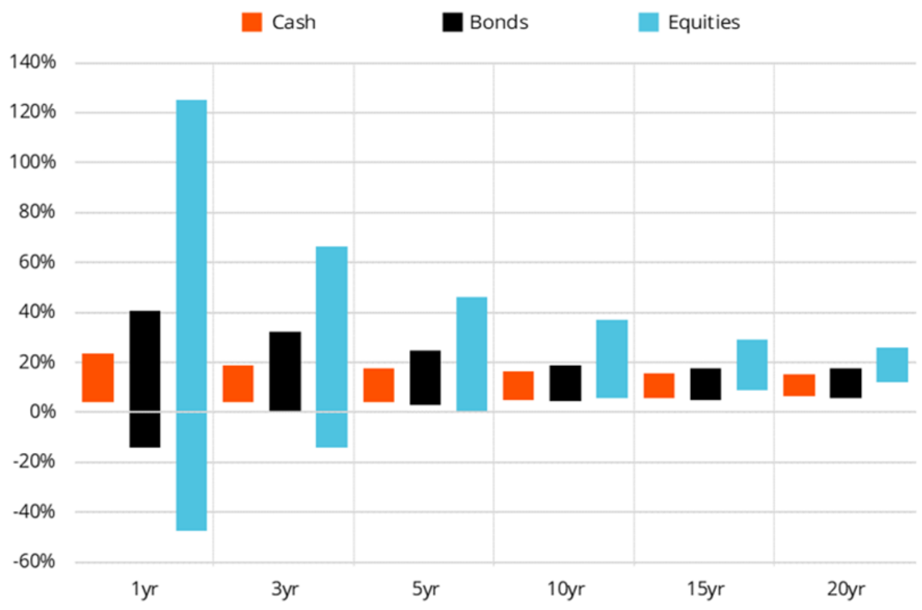
You also need to structure your financial matters to protect yourself, your loved ones and their future. If you do get financial advice, you need to be honest and transparent with your advisor so they can judge and recommend the appropriate course of action (or inaction) when it comes to changing your investments. You also need to understand the plan that they propose and stick to this.

It's important for investors to make informed investment decisions.

There are different asset classes available to investors, and the allocation to each depends on each investor's needs and time horizon. To illustrate the importance of making the right investment decisions, figure 2 below shows the range of returns that were earned for investors in equities, bonds and cash over a number of different investment horizons (holding periods) calculated using data between January 1960 and June 2022.

This analysis of the past shows that equity investors who required access to their capital within five years of investing would've run the risk of ending up with less capital at the end of the period. For example, within three years the range of annualised returns offered by the equity market was between -15% and 67%. However, the chart also shows that equities have the best potential to create long-term wealth. Over most 20-year periods, investors in the South African equity market earned (on average) between 18% and 20%.

Figure 2: The range of annualised returns over different investment horizons from different asset classes, using rolling returns from January 1960- June 2022



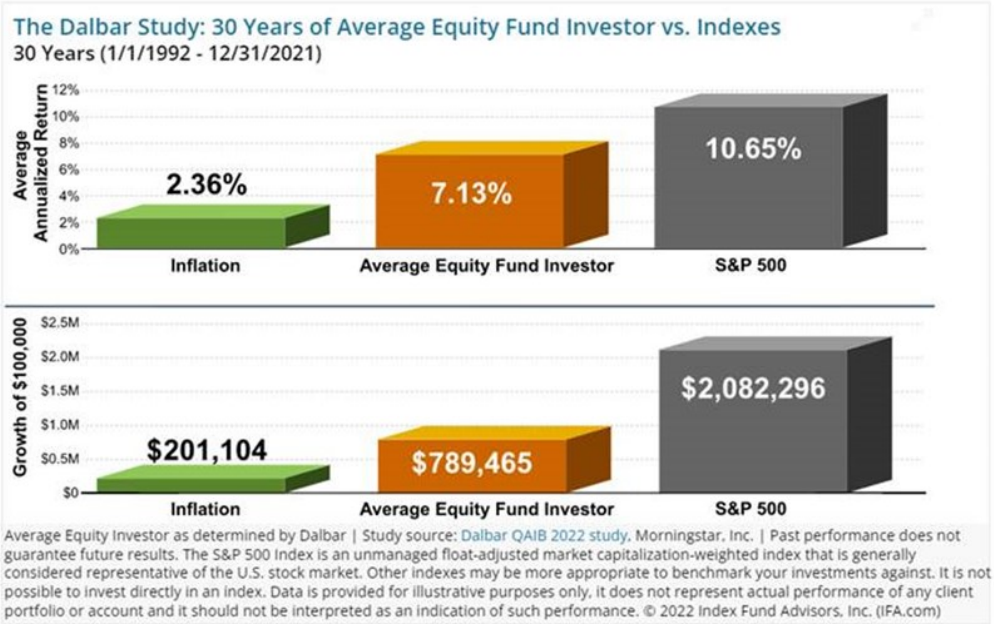
Source: I-Net, Refinitiv and Denker Capital calculations, 30 June 2022
Equity, bonds and cash are represented by the returns earned from the FTSE/JSE All Share Index, a 10-year bond and a three-month deposit, respectively.

If you are saving for the long term (like for retirement), you need to ignore short-term market fluctuations.

Research shows that investors who invest for the long term in a well-selected fund are likely to do better than those who chop and change over the short term. Figure 3, which includes some of the findings from Dalbar Inc.'s latest annual investor behaviour report highlights this. It illustrates that US investors consistently earn lower returns than the market and the funds in which they invest (although this research is US-based, there is no reason to believe that investor behaviour in the rest of the world is any different). This figure shows the difference in performance as well as the growth of $100,000 between the average equity investor and the S&P 500 Index for the past 30 years. Over this period the average equity fund investor's efforts to outguess markets has resulted in underperformance relative to the S&P 500 Index (the index which is generally considered to be a good representative of the US stock market). This gap in performance is known as the behavioural penalty.

As we enter a phase of heightened investment volatility globally, it becomes even more crucial to remain disciplined.

Figure 3: US investors consistently underperform the equity market



Source: https://www.ifa.com/articles/market-timing_more_evidence_really_doesnt_work/

The common thread across all of the industry roles is discipline.

Each role player has different responsibilities, but they all require discipline – which is especially important considering the wide range of outcomes available. Put simply:

1. Your investment manager's core role is to achieve the fund's investment objectives by investing in assets that could produce the biggest possible return without exposing investors to unnecessary risks that may result in a loss over time.
2. Your financial advisor's core role is to help you achieve your financial needs and objectives in line with your risk profile.
3. Your role as an investor is to save and if you need advice (as most of us do), consult a financial advisor and stick to the agreed plan.

While investment managers and advisors are not in the same profession, they have a common goal in that they both want to ensure that you achieve the best possible financial outcome, with the least possible risk.

What do we as an investment manager commit to being disciplined about?

We will continue to:

1. Apply our proven philosophy and process to achieve our funds' investment objectives.
2. Partner with financial advisors, so that they understand our funds and how we invest and are confident about recommending our funds.
3. Communicate regularly with you about our timeless principles so that the noise of the latest media reports doesn't distract you from saving and sitting tight.

Looking back at the last five years since the inception of the Denker SCI Balanced Fund and the Denker SCI Stable Fund, we are pleased that we have delivered on what we set out to achieve.

We have been disciplined about applying our investment approach. We have invested in developing relationships with advisors and as part of our commitment to keeping advisors and investors informed, we invite you to read an update on how well our multi-asset funds have done over the past five years. The funds are built on four key pillars, that we will remain disciplined about going forward: risk management; steady growth; low cost; and liquidity. Read this update here: https://www.denkercapital.com/denker-capital-multi-asset-funds-five-years-of-good-returns-and-low-volatility/

Table 1: Investor aid - Roles of investors, financial advisors, and investment managers

Individual investors	
Core responsibilities:	• Do save money. • Do consider getting professional financial advice. • Agree to a financial plan with your advisor. • Understand your plan and trust the plan to deliver your financial objectives over the appropriate horizon.
Actions:	• Be honest about your financial situation and current needs. • Be clear on what success means to you in future, because everyone's circumstances, priorities, goals and journeys are different. • Listen to your advisor, if you have chosen to get advice. • Keep your advisor updated about any changes in your circumstances so that they can update your plan.
Most important thing:	• Save and sit tight.
Financial advisors	
Core responsibilities:	• Do act in client's best interests to ensure their long-term overall financial wellbeing. • Do provide expert, professional and actionable financial advice. • Do understand and match appropriate solutions to meet different client needs.
Actions:	• Establish and define the relationship with you and gather information from you to understand what is important to you. • Develop a plan with you to break your big goals down into achievable smaller steps and provide you with advice about your choices, the pros and cons and costs of these, and propose what may be best to tackle first. • Evaluate funds and other solutions and match these to your needs. Implement the agreed plan. • Regularly re-evaluate how well you are doing, whether you are on track to achieve your goals. Make changes if necessary, but mostly, their job is to help stop you from making rash decisions based on media and the latest news. If you have chosen a specific fund with a specific objective, it is important to stay invested for long enough to achieve that.
Most important thing:	• Help you to achieve your financial objectives.
Investment managers	
Core responsibilities:	• Do invest according to the requirements of the fund / portfolio mandate (in terms of risk and available investments). • Don't take excessive risk. • Do follow the process and philosophy that you have said you will stick to when making investment decisions.
Actions:	• Invest money according to the fund's mandated objectives and risk parameters to achieve an objective. This is set out in each fund's mandatory Minimum Disclosure Document (or fund factsheet). • Adhere to their stated philosophy (investment belief system) and process (which is why it is important to understand both how they think about investing and what they do in practice).
Most important thing:	• Achieve a risk/return target while meeting your needs.

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