ALLAN GRAY

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How to thrive in choppy markets

This year has been characterised by increased volatility and concern about the global risks – from trade disputes to inflation. After a strong start to the year there has been reversal in sentiment towards South Africa, with the rand weakening and domestic shares selling off. The local economy has yet to benefit from the ANC leadership changes and the reality of the challenges we face as a country are front of mind.

Market fluctuations are an expected and necessary part of investing. Speaking on the sidelines of the 2018 Allan Gray Investment Summit, Andrew Lapping, chief investment officer at Allan Gray, shared his principles for riding out market fluctuations and maximising returns over the long term.

To view highlights from the Summit, click here.

What should you do as an individual?

While market volatility often presents good opportunities for value investors like Allan Gray to buy shares for less than they are worth, it can be difficult to remain calm. What can you do as an individual to make sure you are well positioned to cope with volatility – which should be an expected part of investing?

Consider these three simple points:

1. **Don't attempt to time the market**
   When markets are rising potential investors are keen to invest, but when prices fall people get nervous. People often ask: "When is the best time to invest?" or "Should I sell?" Given how difficult it is to pick the bottom, or time the market, the best strategy is simply to invest consistently over time. Starting sooner rather than later is also good.

   Once invested, you need to remain invested. This may sound simple enough, but many of us find it difficult. It is tempting to switch, selling out of a fund that is underperforming and buying into another that looks to be doing better. If your chosen investment managers each have a consistent process and philosophy it is probably better to buy into underperformers and sell the outperformers. The best strategy is to choose your manager carefully at the start and stick with your decision. Looking at your portfolio every day is not going to help it go up; it will only make you stressed. Remember you own indirect stakes in many underlying businesses – even though the price of your unit trust may rise and fall from day to day, the underlying value of the businesses you own is not changing.

2. **Reign in your emotions**
   When market prices fall sharply, your initial instinct may be to sell and limit your losses. However, you were happy to own these businesses at a higher price, why would you suddenly want to sell at a lower price? If anything, as prices fall you should be taking advantage of the opportunities and investing additional funds. This is why it is important that your fund manager constantly seeks out undervalued assets to invest in.

   Adopt a long-term view and have a strategy in place that is tailored to your financial goals and risk tolerance. Know yourself. If you know you find it very difficult to deal with volatility it may be wise to choose a unit trust with a lower risk profile; this may help you stay the course.

3. **Make sure your portfolio has balance**
   As a general rule, it makes sense to have a portfolio where there are no large specific risks, but rather a balance of risks and potential rewards. So unless you are extremely well compensated by the potential reward, you should be cautious about concentrating your portfolio in a particular company, industry or asset class. Similarly, it generally does not make sense to invest a large part of your assets in any one country.

   As a South African, rather than taking a large amount of South Africa-specific risk, it is probably a good idea to look for undervalued assets globally. Investing offshore should form part of your overall investment strategy. Rather than attempting to time the rand, or panicking when it suddenly weakens, follow a consistent approach of investing offshore with a manager whose philosophy and process makes sense to you.

Commentary contributed by Andrew Lapping, chief investment officer, Allan Gray
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