

Long-term perspective the only valid one

PRIVATE INVESTORS remain battered by the increasing volatility of equity markets, with many seemingly prepared to forego some performance so they can sleep at night. In fact, provided you look at investments over the long term there shouldn't necessarily be a trade-off between risk and performance. Certainly, over the short term a conservative fund won't keep pace with the stock market if equities are enjoying a period of significant strength – if for no other reason than such funds' asset allocation restrictions prevent equities from reaching a weighting above 75%.

However, the position is quite different when a long-term horizon is adopted.

Tristan Hanson, head of asset allocation at Ashburton, says: "Since it launched in 1992 our Replica Sterling Asset Management Fund has delivered an annual return of 6,69%, with volatility of 6,68%. Compare that with the MSCI world equity index, which has delivered 4,8%, with volatility of 15,09% as at December 2010.

"Our goal for our asset management funds is to generate positive returns over the cycle with relatively low or moderate risk by combining the risk-reward characteristics of several asset classes providing diversification and superior risk-adjusted returns over the long run."

Pieter Koekemoer, head of personal investments at Coronation Fund Managers, reinforces the need for a long-term perspective of investment performance. He attributes Coronation's success to having a long-term investment horizon and the discipline to stick to it. "A longer time horizon gives the fund manager the ability to look through the noise of daily news and have as a reference point the normalised value of a business," Koekemoer says.

The issue of discipline is key. Coronation comes under exactly the same pressures to produce short-term outperformance. Therefore it works harder at the outset to set agreed expectations, and also has structured itself to ensure an alignment of the interests of investors, staff and shareholders.

The time horizon of any specific fund manager is easy to determine: if it's really sticking to a three- to five-year focus then its portfolio should change by no more than a fifth to a third each year, whereas Koekemoer says many fund managers' portfolios change by 100% each year. "Even when we have exceptional one-year performance we never emphasise it, as it sends the wrong message. We regard one-year performance as random and not necessarily indicative of our skill," he says. ■