

## Fully flexible fund a must

**A** big bull market and a vicious bear market have led to some tainted investor perceptions and behaviours in the last eleven years. In the run up to the financial crisis returns were aplenty and most investment strategies made money. In the subsequent downturn returns were scarce and fear was high - investors turned from aggressive bulls into hibernating bears.

The good returns of the first decade - achieved by a fantastic bull market in South Africa - were not difficult to find - and even the not so well thought out investment strategy would have made an investor money. According to Karl Leinberger, CIO of Coronation Fund Managers, the ten

year bull run masked some bad asset allocation and investment decisions, and saved many investors and managers from their own mistakes. Strong markets bailed investors out and led to complacency. Leinberger was speaking at the final Conversations with Coronation presentation for 2011 in Johannesburg.

"Retired investors tend, through the cycle, to be "recklessly conservative" with their own money." The next decade will require a well thought out approach to investing - with enough exposure to risk assets to achieve growth. This decade is more challenging - returns are harder to come by and markets are more volatile, and in these markets good investment and asset allocation decisions

have to be made, Leinberger commented. And to achieve required returns growth assets will be required. "We won't get away with bad decisions in the next decade."

The risk an investor faces is that they outlive their capital - and the challenge the adviser has is to determine what exposure to growth assets is required for their capital to last their lifetime (and longer).

Leinberger believes that in the market conditions we experience today - where volatility is likely to continue - a fully flexible fund is an absolute must. And while equities are essential and investors cannot be overly conservative, it is not the time to be too brave and go out on a limb with excessive exposure to risk assets.

### **Align time horizons**

As investors we also need to understand the concepts of long and short term and how

to interpret and react on short and long term newsflow, events and performance.

If you are investing for the long term then your decisions need to be taken with that timeframe in mind, and you need to be mindful of short term performance, newsflow and decisions. Today you will frequently hear that managers are long term. However as Leinberger pointed out the average hold period that has reduced from seven years to seven months does not back this up. It is a matter to interrogate your fund manager on - if they are not holding for long term are they really a long term manager and would their style fit a long term investor?

Secondly Leinberger observes that a long term manager will have short term periods of underperformance - and if you don't see this it is also a warning sign

and a matter to be raised with the fund manager. In tougher markets with a lot of newsflow and daily market moves based on that newsflow there will be investment decisions taken that will create discomfort and look instinctively wrong. Good decisions made in bad periods and difficult markets can look bad for a while. "Be concerned when the bad periods aren't there," he said. Bernie Madoff, for example, never had a bad quarter. So what is short term performance that should not cause too much concern for the investor?

Twelve month performance can be result of luck only. "It is absurd to agonise over one year performance," Leinberger says.

The third important point to keep in mind as a long term investor is that the value of an asset often sits outside the current time frame. The market

cares about three years, Leinberger said, last year, this year and next year. "But 90% of the value of the asset sits beyond these three years. The market is pretty efficient at pricing the next three years but not for the value beyond that. For those with patience this is a glorious opportunity."

"In times of extreme emotion there is opportunity," Leinberger said. Given that we need to relook our investment time horizons and align them with our expected lives and expected lower returns, Leinberger sees three areas of opportunity: selective opportunities in European bank bonds, global blue chips (an asset no one wants to own today) and rand hedged SA equities. Going forward alpha will matter a lot more and you will need exposure to offshore as this is where the higher returns can be found.