

Early Worm Gets the Bird

The fund management industry is highly competitive. There are a small number of managers that dominate the industry and a large number of smaller boutiques that are all competing for a seat at the table. The results are published and are there for all to see. Marketing helps, but merit outweighs.

Incumbents have a distinct advantage over newcomers. You need money to establish a track record, but you can generally only get money after if you have a track record. Newcomers, or boutiques, sometimes have to offer something different to attract attention in an industry where there are over a thousand funds in South Africa alone. The incumbents also need to establish an 'identity' of their investment philosophy, and many want this to be distinguishable from competitors.

Due to this, there will be a cohort of managers touting how they 'go against the grain' and 'swim upstream'. This is important, as following the crowd will make your results similar to that of the crowd. The whole point is to do better. Being different can be a painful exercise. I point you to the below comic which better illustrates this point than I could -



Source : Alexcartoon.com (25 March 2019)

To be different sometimes means you have to be early. Being early could result in a loss-making position, while others are making money. This relative underperformance is very hard on a person. No-one likes to lose while everyone around you is making money.

This, in and of itself, is not necessarily a deal-breaker if the end result is acceptable, but it is not easy to distinguish between a strategy that has a good potential to recover and one that is doomed to fail.

One thing you can do to help understand if an (early) strategy has good potential to succeed, is to understand what the rationale behind the conviction is.

If a manager has an optimistic viewpoint about the prospects of their strategy (which have perhaps not borne much fruit yet), and has a track record of getting this right more often than not, then it is a start. This should be the first of a few dimensions in the process of forming an opinion.

If an individual comes across as something of a doomsayer, by having a pessimistic view about an external factor, then possibly you should ask a few additional questions. Note, if someone is pointing out a problem, we will be well served by listening to this and taking this into account in our thinking. Many have a point, some have an agenda, and it is hard to be sure at face value.

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If you have a problem with something and are prepared to invest against this problem, you must be able to profit from this. To try and profit from a crash is tremendously hard, and it is not clear at all if this is even possible. If you are sitting on cash and waiting for the world to fall apart, you have to ask yourself if you will be able to deploy this when the chips are down.

Not all investment strategies will deliver returns all the time. All businesses have good and bad years, and sometimes seemingly extraneous circumstances can impact you in an unforeseen way. Good businesses last, bad ones don't, mostly. The lasting, good businesses should generate better returns than cash deposits, and should do so for a long period of time.

The world around us is changing and evolving by the minute, and so is investment risk. It opens up opportunity, so it should get you excited and not make you afraid.

The point is, don't walk across a street blindfolded. Understand the risk and the environment. If you are unsure, look both ways a few more times. You'll never get across if you stand still.

Kind regards,



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Wealth Manager

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Performance has been calculated using net NAV to NAV numbers with income reinvested. Full performance calculations are available from the manager on request.

DEFINITIONS (where applicable)

Annualised Return	Annualised return shows longer term performance rescaled to a 1-year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1-year period have been shown.