(Maybe) Simple but Not Easy

If you were given a $100,000 to invest, how would you invest it?

The time horizon and risk profile are crucial, but an equity index that returned more than 20% over the last 12 months would surely catch your eye. The case for this investment strengthens when considering its 11% per annum return over the last 20 years. What could possibly go wrong?

Facing a Downturn

You decide to invest the $100,000 in an Exchange Traded Fund (ETF) tracking the promising index. The investment immediately hits a snag, losing $5,000 in the first 2 months. After a slight recovery, the downward trend continues, and after 2 years, the investment has dwindled to $63,000. Imagine the emotional toll of seeing your hard-earned money shrink month after month. How many investors would remain patient and remain invested?

Month	Investment Value
1	$100,000
6	$98,000
12	$93,000
18	$60,000
24	$63,000

Source/s: Morningstar (2024)

This illustration is the experience of a hypothetical investor investing in the S&P 500 on 1 June 2007. Quite difficult emotions attached to a historically reliable investment.

Recovery and Lessons Learnt

Fast forward to post-global financial crisis, and a recovery ensues. By 21 May 2024, the initial $100,000 investment is worth $487,000, achieving annualised growth of 10% per annum. This turnaround underscores the importance of patience and a long-term focus in investing.

Current market uncertainties, from economic and geopolitical issues to valuations, continue to test investors' resolve. This after a seemingly familiar period of very good returns.

While it is essential to encourage a long-term focus, remember:

1) Times of market stress make a long-term focus exceptionally difficult. Advisors need to empathise with clients’ individual circumstances.

2) Past performance is not a reliable indicator of future results. Regular investment reviews are crucial to ensure relevance.

3) Regularly review asset allocation, for example ensuring sufficient emergency funds are available, preventing the need to redeem long-term investments during market downturns.

4) Have an investment plan and stick to it. Successful investing is about keeping emotions in check.

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If you have any questions, please do not hesitate to reach out to Tawanda and our team directly on global@seedinvestments.co.za.

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