What makes a successful investor?

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During the COVID-19 pandemic, research conducted by Momentum Investments showed that clients destroyed over R600m by switching between different funds. We call this a 'behaviour tax'. The market turbulence trap often catches investors off guard as they trade off short-term emotional comfort (switching to perceived safety) for long-term investment returns.

But loss aversion is not the only reason for the behaviour tax. In 2022, we saw that investors who increased risk levels in their portfolios based on past performance were heavily penalised with a behaviour tax of 4.5%. These investors were attracted by property funds, for example, that recovered from the COVID-19 pandemic – with some delivering investment returns of over 50% in 2021. This overconfidence in the past repeating itself was the primary cause of the behaviour tax in 2022.

So, what should investors do? Is the world of investing just too complex? The answer is that it does not have to be. Our inherent personality affects our money behaviour, but there are some basic rules we can follow to dramatically increase our odds of being successful:

1. Get your money to work. Do not keep your money under your mattress, and do not worry about the right time to invest. The best time to invest was yesterday, the second-best time is today. Time (compound interest) is by far your biggest ally in the investment game. A large portion of Warren Buffet's fortune – one of the richest people on earth and arguably one the most successful investors ever – is simply because of compound interest.
2. Do not put all your eggs in one basket. Do not get caught up in the hype of spotting investment unicorns, or whether cryptocurrency is about to implode or explode into the stratosphere. Nobody can predict 'the next big thing', and trying to do so is closer to gambling than it is to investing. Choose a good mix of investments (shares, bonds and cash) that aligns with your investment goals, but only after you have put an emergency fund in place to deal with unexpected challenges life will invariably throw at you.
3. Leave it alone! We all know the adage, 'It is not about timing the market, but time in the market', and investing for the 'long run' being a sensible strategy. But long is getting longer. Since 2013, the South African stock market has not given the double-digit returns of the past. What used to be a reasonable length of time to invest to get a positive return (five to seven years) has lengthened to over 12 years. Avoiding the behaviour tax is as simple and as difficult as ignoring both the ups and downs of the investment journey.

> "Time is your greatest ally in the investment game, as exemplified by Warren Buffet's fortune"

Lastly, a financial adviser can make a huge difference in planning your financial future. A financial adviser can help you stay focused and on track to achieve your financial goals. Research shows that people who take advice over the long term are more likely to accumulate wealth and have more income in retirement than those who don't use a financial adviser.

Following these basic rules and allowing time to work its magic can provide some powerful impetus to long-term wealth creation.