CERTAINTY IN AN UNCERTAIN WORLD

JOHANNESBURG: The stock markets are going through an extended period of volatility or turbulence that is causing enormous uncertainty for investors. Those who do not have the necessary tools to navigate this turbulence are struggling and losing money as a result. There are ways to thrive in this turbulence but you need to be prepared to follow your own path and ignore the noise. I recently attended a presentation by one of my favourite investment thinkers, Herman Steyn from Prescient Investment Management. I was particularly interested to hear his thoughts on the current state of the world as he has a very different view to his peers and is not afraid to express his views. He had some interesting views on how you manage your money in uncertain times.

SUCCESS IN YOUR METHOD

Listening to Steyn's thoughts on investments reminded me that all the successful investors only have one similarity in their investment approach – they all have a very firm conviction in their methodology. More importantly, they are able to implement their investment process rigorously, irrespective of the current market conditions or investment fashions. This is very difficult to do on a consistent basis, especially when you are managing large amounts of money and you are underperforming your peers. A classic example of this consistency is Warren Buffett who ignored IT shares in the last few years of the 1990's. During this time, IT was the top performing sector in the US and was generating great returns for investors. This meant that most fund managers in the US showed fantastic returns whereas Buffett's returns were pedestrian. He ignored these IT shares because he had no method for valuing them and therefore did not know what to pay for them. History tells us that his view was eventually vindicated as IT shares crashed in the early 2000's and his "outdated" portfolio of shares performed brilliantly.

The lesson from Buffett is that you need to develop your own method of choosing investments and make sure that you stick to this method through all market conditions. It takes time and a lot of research to develop your own way of managing money but it is vital to do so if you want to ensure success over a career of investing. For the person who is not a professional investor, your strategy might be relatively simple and high level but you still need a way to make money decisions.

IN CHAOS THERE IS ORDER

If you have a proper investment methodology, the current market uncertainty (chaos might be more accurate) will not be a major source of stress for you. As an extreme example, if you have decided that you are only going to trade two blue chip share over your lifetime then any market drops are going to be fantastic for you. The reason is simple, you only have to monitor two investments and you will have a great idea of their value. When the entire stock market falls and drags your particular shares down, you will know when you shares start trading at a huge discount to their real value. This will be the time to buy your shares. When the markets are booming, your shares might become too expensive (according to your valuations) at which time you will sell them. By following this method, you will find that stock market chaos becomes irrelevant to you as you are not focussing on hundreds of different factors when making your investment decisions. You will only need to concentrate on a few factors before making a decision. In this way, your method allows you to create order out of chaos.

Naturally, such a focussed trading method is not recommended for all investors but the principle of having a method that obliges you to concentrate on a few limited factors is relevant. This is the real key to surviving and thriving during stock market uncertainty.

UNUSUALY UNCERTAIN

I have to confess to a certain level of frustration with the way that elements the financial media are portraying the current stock market conditions. There is an enormous focus on very narrow issues without an attempt to portray the broader perspective necessary to understand these issues properly. In the context that the financial system has recently recovered from a near catastrophic collapse, it is natural that the global economy is not going to recover in a nice, predictable pattern. The global economy has always been complex and constantly changing. It is natural that the economy will move forward and retreat as it attempts to find a new equilibrium. This is normal – it is certainly not unusually uncertain as the American media like to tell us. As investors, it is to our advantage to use these volatile times to take advantage of other people's emotional decisions by investing correctly in these times. For those people who are already invested, it is imperative that you stick to your strategy in difficult times as your investments need time to provide the required growth.

REVIEW CONSTANTLY BUT BE SLOW TO CHANGE

You should be very reluctant to make regular changes to your overall investment methodology. You need a high level of conviction in the way that you manage your money and constant change to your methods will not build confidence. However it is important that you review your investment methods on a regular basis (preferably in the good times) to ensure that you are following the right path. The best money managers are usually very curious to learn more about other people's methods but they are VERY slow to change their own. The very best ones tend to tweak their methods slightly over long periods of time but the general theme remains the same. If you can do the same with your own money management decisions, you will have a high probability of success over time.