INVESTING IN 2011

DURBANVILLE: There is no doubt that any investor, who needs to commit capital to new investments in 2011, is facing a bewildering array of questions that need to be answered: local or international markets?, are equities expensive?, avoid bonds?, pay off debt? Here are some guidelines to help with those decisions.

SIFT OUT THE INFORMATION FRMO THE NOISE

Economic or stock market news makes for interesting reading when you have nothing to do, however not all of this news is relevant to your investment decisions. Savvy investors have the ability to differentiate good investment information from worthless news. At the start of every year, I enjoy reading The Economist's annual called "The World in 2011" where they attempt to tell you what is going to happen to the world in the year ahead. In this year's edition, they even have 25-year forecasts from esteemed commentators like Nassim Taleb. Unfortunately, I am not convinced that any of this will be useful information for my investment strategy for 2011 and so I treat this stuff in the same way I treat the daily sports news. At least I will have an idea of the main talking points that will dominate the first few months of the year. For me, it is more important to know about the more basic trends such as how many houses were sold in the US, is the trend up or down? In addition, how many cars are being sold in SA and how are the cell phone companies doing because that will tell me about the health of our economy.

DON'T RELY ON PREDICTIONS

If you read about the views of individual fund managers in South Africa, they are almost universally underweight South African shares and overweight international stocks. This should already be a warning signal to savvy investors, whenever a large group (or herd) of investment managers are moving in concert, you should probably do the opposite. As a matter of interest, I have only heard Dave Foord say that SA shares are cheap and are being ignored by international and local investors. He would not be surprised if the JSE gives us a 20% return for the year. He is one of SA's very best money brains so we should take cognisance of his views but he could also be wrong and the herd could be right.

Dave Foord would probably tell you to diversify your investments across a range of asset classes, currencies and countries – I would agree with him. One of his most interesting calls is that he is buying an ETF on foodstuff that include corn, wheat and soybeans. Another interesting call is his purchase of Singapore Dollars instead of USD, EUR or GBP. To me, he is a classic example of someone who knows how to differentiate information from news.

FOLLOW YOUR OWN PATH

It is difficult if not impossible for one person to replicate the type of investment strategy employed by successful long term investors like Foord or Warren Buffet. The only way to ensure that you do not fall victim to the herd mentality, is to create your own investment path. The simplest way to do this is to determine your own goals for the next: 12 months, five years and 10 years and work backwards from there. For example, if you have expenses planned for the next 12 months e.g. annual holiday or new gadget; then set aside some of your monthly salary to ensure that you meet those objectives. If you have no planned expenditure over the next 5 years but need to buy something big in 10 years time, you can invest your lump sum entirely in shares. I would not necessarily invest 100% of the lump sum into the market at once – it might be worth phasing the money into the market over 6 to 12 months.

By formulating an investment strategy that is based on your own objectives, you will be able to partially isolate yourself from the herd mentality of the market because you will be marching to your own beat. The real trick is to ensure that you do not let market noise influence or deter you from following your path – that is the most difficult aspect of investing.

As an aside, it will be interesting to see if Dave Foord or the herd is right this year i.e. will the local market still deliver good returns or will the international markets reward investors in 2011.