

Monthly Newsletter – January 2014

Happy New Year!

It's a new year and as we're all starting to grind back into business-as-usual after the summer holidays, we'd like to wish all our clients a prosperous, successful new year. At Galileo we're certainly looking forward to providing you with our best, as usual, and walking with you as you continue to grow your investments.

-- *Theo and Warren*

Protecting us from ourselves

The current levels of the stock markets in both South Africa and abroad are raising some interesting issues that need to be considered when making investment decisions for this year.

The potential investment outcomes for 2014 are hugely complex to predict. We could either see the market stagnate as investors bank their profits from the last few years, or the market could crash in the most anticipated crash in decades. Alternatively, the market could continue to defy expectations and rise for another year.

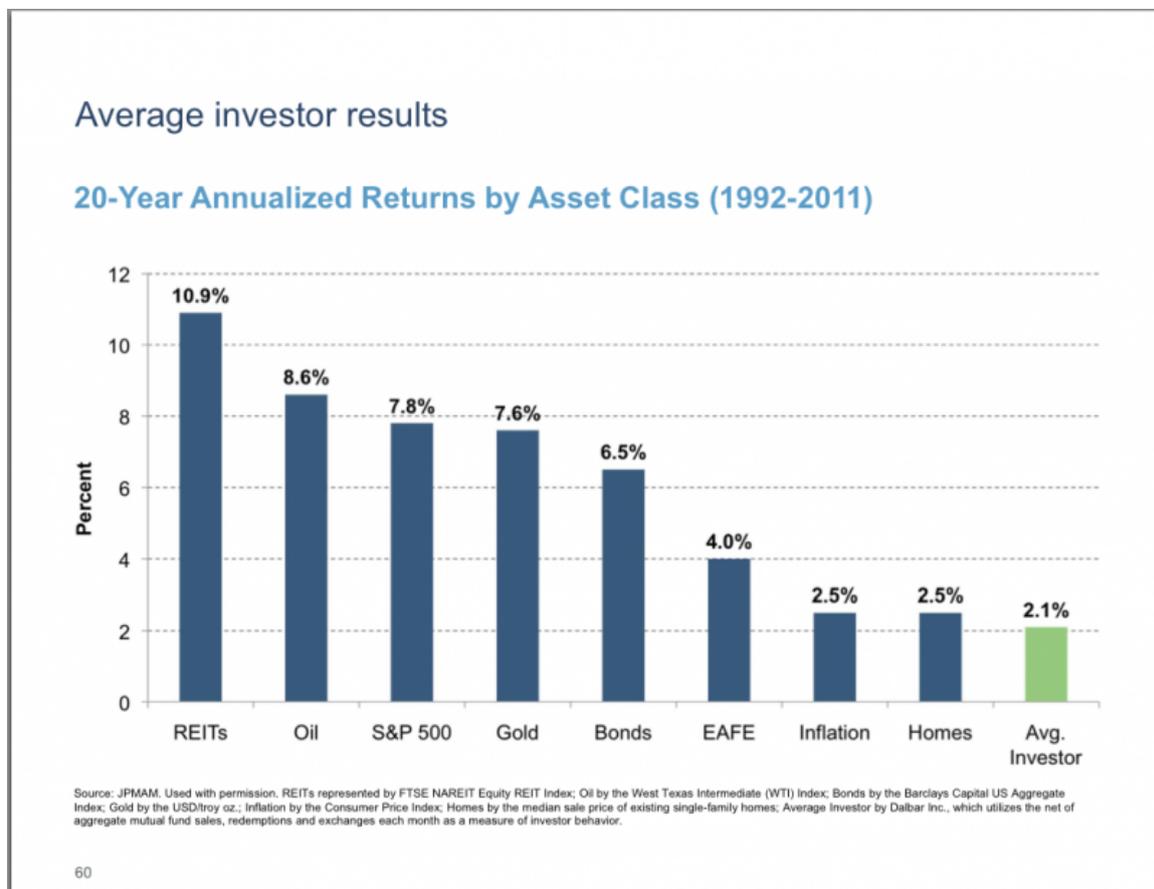
In short, no-one knows and it's therefore not rational to make long-term investment decisions based on factors that could change within days. Following this type of strategy could lead to major losses for investors.

Behaviour gap

Investors worldwide make countless choices designed to increase returns and minimise losses. Yet, if most investor behaviour is oriented toward growth, why is this growth typically compromised by investor behaviour?

Enter the so-called behaviour gap: a term coined by renowned author Carl Richards and one of the most notorious phenomena in the investing world. A number of academic studies have shown that because of bad timing decisions, investors sacrifice a significant portion of their returns.

The chart below shows the returns of the main asset classes in the USA over 20 years and compares this to the returns actually achieved by investors over that time. As an illustration, the stock market grew by 7.8% per year while investors only achieved 2.1% per year. This difference of 5.5% is called the behaviour gap and shows how badly investors harm themselves when making investment decisions.



How do we help you to close this gap?

First, we do this in our recommended portfolios by employing the so-called ‘free lunch’ of diversification. We try to ensure that each of our clients has the optimal level of diversification to meet their objectives. This means we invest in a variety of different shares as well as across the main asset classes of shares, bonds, listed property and cash.

Second, we want to ensure that our clients actually attain the returns that our recommended investments generate. That is why we spend so much time discouraging market timing and narrowly-focused decision-making that leads to the behaviour gap.

It’s helpful to think about two kinds of returns: an investment return and an investor return. Our recommended portfolios try to maximise investment returns, while our financial planning is designed to maximise investor returns.

In summary, we are unlikely to make major changes to our investment strategy this year; we will focus more strictly on your asset allocation and ensure that we do not fall prey to the temptation of market timing, which will cost you in the long run.

The delicate art of receiving a compliment

Many people feel awkward when they are complimented and don’t know how to respond. Most of us are raised to be modest, so when someone compliments us, we don’t know how to react in a gracious way without feeling like we’re blowing our own trumpets.

The problem, researchers say, is that there are power relationships in play. Sometimes both parties are equal in power, but sometimes the power balance is skewed in the direction of either the complimenter, or the complimentee.

So, how do you balance modesty and courtesy, and respond in the most gracious way?

First, remember that if you are questioning the compliment, you're potentially putting your relationship with the complimenter in jeopardy. Don't disagree, but do accept a compliment at face value unless you have reason to think the other person has an ulterior motive.

Don't ask them to repeat it, or explain it, or you may seem to be fishing for more. Instead, keep your response brief and focused.

If you feel uncomfortable receiving praise for an intrinsic quality you have, redirect the compliment to effort or luck – this avoids self-praise, while implicitly agreeing with the complimenter.

Finally, do use humour in your response, particularly if the person complimenting you has more power in the relationship. Research shows that teasing can be used as a power negotiation strategy. However, if the compliment was indeed an innocent remark, humour also allows you to reduce the self-praise factor that so many of us shy away from.

The safest strategy for any type of compliment is a simple "Thank you." Whatever you say from then on depends on your relationship with the speaker.

Foot massage DIY

When Harvard Medical School says a foot massage is a good idea, then it's probably a good idea to pay attention – the organisation recently recommended regular foot massage as a simple boost for your health.

Our feet are often forgotten in the greater health picture, and yet they work very hard for us every day. And just like your back, neck and shoulders can benefit from a regular rubdown, foot massage improves circulation, stimulates muscles, reduces tension, and often eases pain.

Not all of us have the time to go for a regular professional foot massage, but it is something you can do fairly easily for yourself, unless you have a willing partner who's happy to oblige. Here's how they recommend you do it:

1. Sit in a comfortable chair. Bend your left leg and rest your left foot gently on your right thigh.
2. Pour some skin lotion or oil into your hand. Rub it gently into your foot and massage your whole foot, including the toes, arch, and heel.
3. Do a deeper massage. Press the knuckles of your right hand into your left foot. Knead your foot as you would bread. Or work the skin and muscles by holding a foot with both hands and pressing your thumbs into the skin.
4. Using your hands, gently pull the toes backwards and forwards, or apart. This stretches the muscles underneath.
5. Repeat on the other foot.

Voila! A simple pause that will relax and revitalise you.