

LAST WEEK'S WINNER

One of the biggest problems in the investment industry is the propensity for investors to chase the most recent best performing investment. People tend to believe that a fund that was number one in the rankings last year will again repeat the feat in the next year. Sadly, this type of decision-making costs investors about half their potential growth over the long term.

RANKINGS ARE A WASTE OF TIME

It really makes me grumpy when I see the best performing unit trust of last year getting massive exposure in the financial media. I get especially grumpy when the fund manager is profiled as some sort of genius who has a unique insight into the investment world. In most instances, the top performing fund from last year will have had the benefit of enormous luck. For example, the best fund manager in SA might be managing a Mining and Resources Fund but there is no chance that his fund would have performed well last year because the whole sector imploded. In contrast, nearly every Listed Property Fund did well, so even the most average fund manager in that sector would have looked good. Investors who allocate all their new money to Listed Property at the expense of Resources might be making a major investment error. My advice to people is to ignore rankings – very often last year's losers might be this year's winners.

SOME AWARDS DO MATTER

I don't attach too much significance to awards given to fund managers. I would certainly not allocate money to a fund simply because it won an award. However, if you are trying to determine the quality of an investment company, *some* awards do matter. For example awards that are based on consistency of performance across a range of different funds over long periods of time. Fund managers who can objectively prove that they consistently do well across different sectors (e.g. General Equity, Resources, Financials etc.) and over different market conditions are showing you that their success cannot be attributed only to luck. A good objective measure of this type of consistency would be an award from an independent industry body or publication.

FOCUS ON DIVERSIFICATION

When deciding what fund to select for your investments, rather ignore last week's winners and focus on a few other factors. These include fund costs, asset class diversification and geographical diversification. I would not be rushing to send all my money offshore now that the rand is so weak, nor would I only invest in financial shares at the expense of all mining shares. It is important to have a good spread of investments across a range of different asset classes and sectors. Having some exposure to international investments makes sense but you should always have local investments if you are planning to live in SA.