- Don't second guess your plan without enough evidence. Write it out, communicate it to someone and check if it still makes sense. Be pragmatic in re-assessing it with help but do not waiver without grounded reasons.
- Be resilient to adapt the plan as the environment or your circumstances change. The best investment strategy is robust over cycles, not necessarily the best in every cycle.
- Don't listen too much to the fearmongers. Sometimes tuning out the noise can protect you more than getting every investment decision right.
- Remember that the herd isn't necessarily right. And in investments they're usually not.

We keep to our outcome-based investing philosophy that places the client's goals at the centre of the investment process.

It's about maximising the probability of a client achieving their unique goals, ensuring portfolios remain flexible, adaptable and diversified, ensuring an attractive risk-adjusted return that provides a more consistent investment experience over time, and limiting the risk and temptation of market timing.

The art of investment strategy

By Moosa Hassim, Investment Analyst at Old Mutual Wealth Private Client Securities

From a pure investment perspective, if 2020 and the beginning of 2021 have taught us anything, it is that having a defined investment philosophy and strategy is as vital as ever.

Simplistically, an investment strategy guides an investor's decisions based on objectives, risk tolerance and future needs for capital, and when combined with a proven investment philosophy and process, can help investors maintain perspective during periods of market turmoil.

Last year was marked by extreme market volatility driven by the outbreak of the COVID-19 pandemic. At the same time, the beginning of 2021 showed how coordinated investor behaviour can profoundly impact the price of securities and news headlines.

To look through these events and achieve sustained long-term investment returns, an investor needs to establish an investment strategy and process that can separate the "noise" from actual investment signals This is because being a successful investor is less about being smart or right and more about following a sound investment strategy and remaining invested, despite how one may "feel" about markets.

TIME IN THE MARKET VS TIMING THE MARKET

Over the long term, the stock market historically reflects the macroeconomy's objective performance and the individual companies within that economy. Over the short term, however, the stock market often reflects human emotion, perceptions and misperceptions.

Benjamin Graham summed this up very well: "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

It appears that managing market risk is much more about remaining invested rather than trying to time the market. The chart below illustrates this point by showing how exiting the market during periods of heightened volatility could result in investors missing the upside that inevitably materialises.

Our research shows that if we miss just the top 10 performing days per decade, the annualised return would be almost half that of the market return.

Performance Comparison	20 Year CAGR
S&P 500	12.93%
S&P500 excl. top 10 days per decade	7.41%

THE IMPORTANCE OF AN INVESTMENT PHILOSOPHY AND PROCESS

In an ideal world, investors have all the relevant information at their fingertips and make logical decisions. This is the presumption behind the often-quoted “Efficient Market Hypothesis.”However, we do not live in an ideal worldand the market often goes through periods of inefficiency, where its value is not reflected in its price. Furthermore, research shows that most investors tend to lead with emotion rather than logic when making investment decisions and market inefficiencies exacerbate this, causing them to buy high and sell low.

Consequently, when markets rise, investors rush in to buy equities out of FOMO (fear of missing out), further driving up the price. Conversely, when markets are on a downward trend investors rush to exit in fear (and ultimately lock in losses) and then return after stocks have gained substantial ground, resulting in opportunity losses. To avoid these behavioural missteps and remove any emotional bias, it is essential to stick to a defined investment philosophy and process. Most investors know about the traditional Value and Growth investment philosophies.

However, ‘Quality’ as an investment philosophy has been gaining traction due to its success in adding long-term value in the context of increasingly volatile and uncertain markets. Quality investing is based on a deep understanding of the factors that influence a company’s performance over the longer term. An investment strategy and process based on a quality philosophy combines a top-down methodology with bottom-up stock selection.

Top-down analysis is long term and secular in nature, incorporating analysis of economies and markets. These findings are used to highlight themes that then warrant research into particular industries and sectors for attractive stock selection opportunities.

Bottom-up selection focuses on strong fundamentals combined with quality characteristics. These companies have high returns on invested capital, strong free cash flow generation, operating margin expansion (increasing profitability), long-term earnings and dividend growth prospects, balance sheet and financial strength, exemplary management quality, an economic moat (competitive advantage), and reasonable valuations.

Quality has proven to be a defensive investment philosophy that is able to endure over the long term. By conducting an analysis of the MSCI Quality Index (which aims to capture the performance of quality growth stocks by identifying stocks with high-quality scores based on specific variables) and the MSCI World Index, MSCI has found that quality outperforms in three out of four inflation and growth scenarios. What is even more encouraging is that quality factors display the strongest relative performance during periods of slowing growth. This validates the enduring characteristics of a quality investment style.

Despite quality outperforming the broader index over time, there will be short periods of relative underperformance – as is the case with any investment strategy. The key is for investors to resist capitulating during these periods and maintain confidence in their investment strategy.