



THE POWER  
OF INDEPENDENT ADVICE

[www.bwm.co.za](http://www.bwm.co.za)

**20** YEARS  
CONSISTENT EXCELLENCE

## IN THIS ISSUE

# YOU ARE MOST LIKELY THE REASON YOUR INVESTMENTS HAVE UNDERPERFORMED

ARIN RUTTENBERG | FINANCIAL ADVISOR, BRENTHURST SANDTON

**A look at how investors' behaviour can negatively impact their returns.**

I was sitting and writing this article while drinking a coffee on a crisp Johannesburg morning, when I received a call from a client.

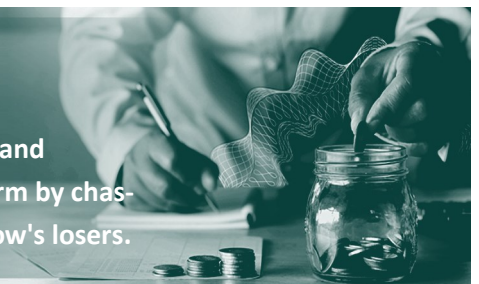
*"I have my eye on the FAANG/AI stocks. I'd like to invest a significant amount of what I have in these as I see they have gone up tremendously."* Where were you in 2022, I thought to myself, when the time was right to rebalance some exposure in these stocks. By the way, there is exposure to these stocks in the client's portfolio.

This really had me thinking that, in the dynamic world of investing, a curious paradox exists: Despite an abundance of information and sophisticated tools, many investors consistently underperform. The culprit? **Often it is not the market, but the investors themselves, chasing today's winners, which can very well be tomorrow's losers. Repeat this process, and one may even underperform cash.**

Behavioural finance, a field that merges psychology and economics, has identified several biases that influence investment decisions. Among these, three stand out: overconfidence, loss aversion and herding.

### INVESTORS' BEHAVIOR CAN NEGATIVELY IMPACT THEIR RETURNS

Despite having access to abundant information and sophisticated tools, many investors underperform by chasing current winners, which can become tomorrow's losers.



*"The most important quality for an investor is temperament, not intellect." Indeed, mastering one's temperament may be the key to overcoming the greatest obstacle in investing: ourselves."*

Warren Buffett

INVESTING WITH SA'S

### LEADING BOUTIQUE WEALTH MANAGER

WINNER 2020 & 2017 | RUNNER-UP 2023 & 2018  
TOP 3 2022 & 2021 | TOP 4 2019

RANKED AMONGST THE TOP WEALTH  
MANAGERS FOR 7 CONSECUTIVE YEARS

JHB ( HQ)	+27 (0) 11 799 8100
JHB (SANDTON)	+27 (0) 10 035 1391
PTA	+27 (0) 12 347 8240
CAPE TOWN	+27 (0) 21 418 1236
BELLVILLE	+27 (0) 21 914 9646
CLAREMONT	+27 (0) 21 100 3901
STELLENBOSCH	+27 (0) 21 882 8706
PAARL ( VAL DE VIE)	+27 (0) 21 100 3901
GEORGE	+27 (0) 44 050 6057
MAURITIUS	+ 230 5843 5215

## OVERCONFIDENCE

**Overconfidence bias leads investors to overestimate their knowledge, underestimate risks, and believe they can outperform the market based on what they hear on TV, radio or at a braai.** This bias can result in excessive trading of shares or switching of funds, with a misguided belief by investors that they can time the market. Warren Buffett, one of the most successful investors of all time, famously remarked, “The stock market is designed to transfer money from the impatient to the patient.” Overconfident investors often fall into the trap of being “active”, thereby incurring high transaction costs and taxes and/or only chasing yesterday’s winners.

## LOSS AVERSION

**Loss aversion, a concept introduced by Daniel Kahneman and Amos Tversky, refers to the tendency for individuals to prefer avoiding losses and being more sensitive to those losses rather than acquiring equivalent gains.** This bias can cause investors to hold on to losing investments for too long, hoping to break even, rather than cutting their losses and reallocating capital to more promising opportunities. Charlie Munger, Warren Buffett’s longtime business partner, encapsulated this idea well: “The big money is not in the buying and selling, but in the waiting.” Investors often struggle to wait, especially when faced with the pain of losses, leading to suboptimal decision-making.

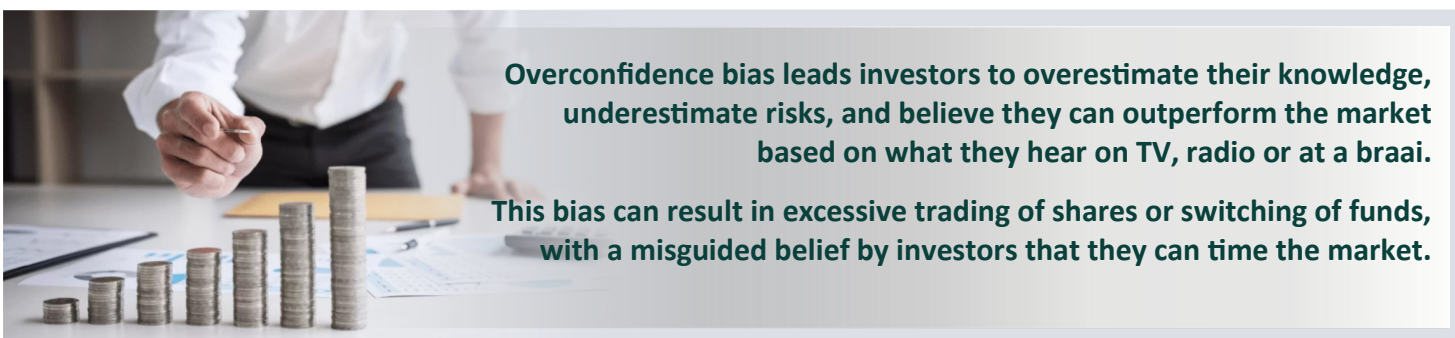
## HERDING

**Herding is the tendency to follow the crowd, often based on the assumption that the majority cannot be wrong. This bias is especially prevalent in bubbles and crashes, where fear and greed drive collective behaviour.** The dot-com bubble of the late 1990s and the housing market crash of 2008 are prime examples of herding behaviour leading to market extremes. Renowned investor, John Templeton, cautioned, “The four most dangerous words in investing are: ‘This time it’s different’.” Yet, investors repeatedly ignore this wisdom, getting swept up in the prevailing market sentiment.

## THE INFORMATION OVERLOAD

**In the digital age, investors have unprecedented access to information. Paradoxically, this wealth of data has not necessarily led to better investment decisions. Instead, it has contributed to shorter investment horizons and heightened market volatility.**

The constant stream of news, analysis and opinions can lead to information overload, making it difficult for investors to distinguish signal from noise. I see this all the time and, as a result, many become susceptible to short-term thinking, reacting to every market fluctuation rather than adhering to a long-term strategy. Warren Buffett advises, “Our favourite holding period is forever.” However, in practice, few investors manage to adopt this long-term perspective amid the barrage of daily market updates.



**Overconfidence bias leads investors to overestimate their knowledge, underestimate risks, and believe they can outperform the market based on what they hear on TV, radio or at a braai.**

**This bias can result in excessive trading of shares or switching of funds, with a misguided belief by investors that they can time the market.**

## STRIVING FOR RATIONALITY

Overcoming these biases requires self-awareness and discipline. Here are strategies that can help:

- 1. EDUCATION AND SELF-REFLECTION:** Understanding common biases is the first step towards mitigating their impact. Regularly reflecting on past investment decisions can provide insights into one's behavioural tendencies.
- 2. ADHERING TO A LONG-TERM STRATEGY:** Developing and sticking to a well-thought-out investment plan can prevent impulsive decisions driven by short-term market movements.
- 3. DIVERSIFICATION AND RISK MANAGEMENT:** Diversifying investments and adhering to risk management principles. True diversification means learning to dislike a part of your portfolio, as the whole point is for certain asset classes to perform better, sometimes significantly better, than others.
- 4. SEEKING PROFESSIONAL ADVICE:** Consulting with financial advisors can provide an external perspective, helping to counteract individual biases, especially should investing not be something you understand.

**CONCLUSION:** Investing successfully requires more than just market knowledge; it necessitates an understanding of human psychology. By recognising and addressing cognitive biases such as overconfidence, loss aversion and herding, investors can make more rational decisions. Furthermore, in an era of information overload, maintaining a long-term perspective is crucial.

As Warren Buffett wisely noted, "The most important quality for an investor is temperament, not intellect." Indeed, mastering one's temperament may be the key to overcoming the greatest obstacle in investing: ourselves.

### ARIN RUTTENBERG | FINANCIAL ADVISOR | BRENTHURST SANDTON & KWAZULU-NATAL



ARIN, based at Brenthurst Wealth's Sandton office, has been in the financial services industry since 2013. He has experience at Investec, Momentum Wealth International and Brenthurst Wealth Management, where he has worked since 2016.

He holds a BCom degree and a Postgraduate Diploma in Financial Planning from the University of the Free State. Arin's passion for financial planning drives him to continuously expand his knowledge, enabling him to help clients achieve their financial goals. He has completed the First Level Regulatory Examination for Representatives, allowing him to provide comprehensive investment advice.

**Phone:** +27 (0) 10 035 1391 **EMAIL:** arin@brenthurstwealth.co.za



**CONTACT ANY OF OUR HIGHLY QUALIFIED FINANCIAL ADVISORS AT OUR NINE OFFICES COUNTRYWIDE TO DISCUSS YOUR INVESTMENT STRATEGY.**

<b>Johannesburg</b>	+27 (0) 11 799 8100	<b>Claremont</b>	+27 (0) 21 100 3901
<b>Sandton</b>	+27 (0) 10 035 1391	<b>Bellville</b>	+27 (0) 21 914 9646
<b>Pretoria</b>	+27 (0) 12 347 8240	<b>Stellenbosch</b>	+27 (0) 21 882 8706
<b>Cape Town Waterfront</b>	+27 (0) 21 418 1236	<b>Val de Vie Estate</b>	+27 (0) 21 100 3901
<b>George</b>	+27 (0) 44 050 6057	<b>Mauritius</b>	00 230 5843 5215

#### **BRENTHURST SATELLITE OFFICES:**

**KWAZULU-NATAL | FREE STATE | MPUMALANGA | NORTH WEST**

Brenthurst Wealth Management is an authorised financial services provider (Reg No: 2004/012998/07) FSP No.7833. This e-mail and any file attachments transmitted with it are intended solely for the addressee(s) and may be legally privileged and/or confidential. If you have received this e-mail in error please destroy it. If you are not the addressee you may not disclose, copy, distribute or take any action based on the contents hereof. Any unauthorised use or disclosure is prohibited and may be unlawful. The view and opinions expressed in this e-mail message may not necessarily be those of the management of Brenthurst Wealth Management (PTY) Limited.