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Make Kipchoge your role model by staying the distance

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Earlier this month, Eliud Kipchoge from Kenya became the first person in recorded history to run a 42km marathon in less than two hours.

Kipchoge has amazing talent, but it was also a feat of reserves and resolve, built up by years of discipline and working the programme.

Creating wealth is not much different.

Investing requires consistency, perspective and patience. It's a marathon, not a sprint.

For investors to reach their financial goals, they should stick it out when times are tough, but also maintain their (financial) fitness when markets bounce back.

Local equities and listed properties' returns have been as flat as the Free State, while active asset management has failed the local investment community over the last five years and their portfolios are the poorer for it.

Irrational markets make for irrational investors and it is not uncommon for people to make hasty decisions in panic or while attempting profit chasing.

Any financial advisor worth his salt will tell you longevity should always be a major consideration in a financial plan.

But still, South African investors continue to switch frequently among top-performing funds, against advice and despite much evidence that chasing top performers just doesn't work.

Morningstar recently conducted research into the area of investor returns, comparing a portfolio where investors switch into the best-performing fund from the previous year at the new year (ie the "performance chaser" portfolio) and compared it to the returns achieved by investors who remained invested in their portfolios over the same timeframe.

The returns earned on these hypothetical portfolios were compared to two portfolios of unit trust funds managed by Morningstar – one low-equity portfolio and one high-equity portfolio.

Morningstar's low-equity portfolio returned 6.3% more than the low-equity performance chaser portfolio over a period of four years.

In other words, an investor with an investment of R1 million who picked the Morningstar portfolio and remained invested for the entire period would have earned an extra R63 095 in returns.

The difference is even more pronounced in the high-equity portfolio. The Morningstar adventurous portfolio returned 13.93% more than the high-equity performance chaser portfolio over four years.

An investor with an investment of R1 million who picked the Morningstar portfolio and remained invested would have earned an extra R139 269 in returns.

It highlights the benefits of staying invested as a robust and consistent strategy as opposed to chasing yesterday's winners.

A well-diversified portfolio that is designed to meet your investment goals while remaining within your risk tolerance is much more likely to result in long-term investment success than trying to buy yesterday's winners.

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