



THE POWER
OF INDEPENDENT ADVICE

IN THIS ISSUE

“ *In the words of Benjamin Graham, investors are often their own worst enemy. A certified financial planner will enable investors to make better financial decisions by making them aware of the human aspect of investing.* ”

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PERSONALITY AND HOW IT IMPACTS INVESTMENT RETURNS

By Desmond Benecke, Certified Financial Planner®

“The investor’s chief problem - and even his worst enemy - is likely to be himself,” states legendary investor Benjamin Graham.

Economists traditionally believed that investors behave rationally when making investment decisions. Man viewed as **Homo Economicus** (Economic Man) implies that man is endowed with high rationality and that [investment decisions](#) are always based on logical reasoning. We have now come to realise that Benjamin Graham was quite correct and that this assumption is no longer true. Investors often act irrationally and do not always make investment decisions based on economic utility.

When man is viewed as the real Homo Sapiens it becomes evident that the investor must be seen as a total human being: complex, often irrational, and unpredictable in spite of good intentions.

This reality has led to the development of an alternative field of study known as **“behavioural finance”** which seeks to understand what motivates people to make the financial decisions they do. The problem becomes more acute when one considers that financial markets are also not rational and are affected by a host of unpredictable variables. **Behavioural finance integrates the fields of finance, economics, and human psychology in an attempt to understand investor behaviour in terms of how people invest, save, and spend their money.**

COMMON MISTAKES

In the words of Benjamin Graham, investors are often their own worst enemy by making one or more of the mistakes listed below:

LOOKING AT HISTORIC RETURNS ONLY: This is similar to driving a car by looking at the rear-view mirror only. Historic returns are no guarantee of future performance. Market conditions change constantly, and the asset manager may have historically made the correct calls but there is no guarantee of this performance being repeated.

ASSUMING AN INAPPROPRIATE LEVEL OF RISK: Investors often try to maximise returns by assuming a level of risk that is not commensurate with what is appropriate for them given their overall financial circumstances. Investors sometimes do not understand the difference between their risk appetite and their risk capacity and are often not able to incur temporary capital losses due to market volatility.

ENTERING AND EXITING THE MARKET AT THE WRONG TIME: The ideal of buying low and selling high is mostly not achieved when investors are driven by greed and fear. Timing the market is a fool's errand.

CHOOSING THE FLAVOUR OF THE MONTH: The fear of losing out (FOLO) is very relevant to investors. Dinner table advice and information shared on social media often lead to inappropriate investments when investors purchase speculative high-risk investments that are totally inappropriate due to the search for the next big winner.

INVESTOR EMOTIONS

Behavioural scientists have identified a number of ways in which investors' emotions influence their investment behaviour. These are called '**systemic biases**' and include being overly confident in investment selection, focusing on recent investment performance and not being mindful of the power of compounding. Added to the above is loss aversion, hindsight, and familiarity biases as well as a herd mentality which cloud investor's judgment and often lead to poor decision making.

While it is impossible to remove human emotions completely from [investment](#) decision making, it is useful to be aware of the role of emotions and to constantly compare your behaviour against the available facts and your investment strategy as a sanity check.

THE ROLE OF YOUR PERSONALITY

Behavioural scientists assert that it is not only your biases that influence your investment decision making. Your personality, which is in many ways shaped by external influences such as what you learnt from your parents and your environment, also influence your decisions and ultimately your investment outcomes. Four personality types have generally been identified which each have a profound bearing on investor behaviour:

- 1. ACCUMULATORS:** This personality type is generally very confident in their decision making having previously been successful in other ventures. Growth is their priority, and they are known to assume irrational risks in pursuit of aggressive growth.
- 2. PRESERVERS:** Loss aversion is common with these investors and they often defer making decisions because they fear making mistakes. They commonly prefer safe investments such as cash to avoid volatility and inevitably suffer the consequences of not enjoying inflation beating returns.
- 3. FOLLOWERS:** The herd mentality often prevails with this personality type where yesterday's winners are pursued. Long term gains are rarely achieved as the prevailing fad is followed at the expense of long-term inflation beating growth.
- 4. INDEPENDENTS:** This personality type prides itself on independent thought and data sets that they acquire themselves. They are often overconfident in their own abilities and may desist from seeking advice losing objectivity in the process.

THE ROLE OF YOUR FINANCIAL PLANNER

A certified financial planner will enable investors to make better financial decisions by making them aware of the human aspect of investing. The financial planner will always remind the investor of their long-term financial plan and counterbalance the dominant personality type against the plan. This strategy effectively removes the emotion from investment decision making, ensuring a better result.

Read more about > [investment planning](#).

Please do not hesitate to contact any of our highly qualified financial ADVISORS at our offices countrywide.

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INTRODUCING WEALTH MANAGER: DESMOND BENECKE, CERTIFIED FINANCIAL PLANNER®

B Com | MBA | Post Grad Dip Fin Planning | Adv Dip Tax



Desmond started his career as a Commercial Banker in 1983, and later became involved with Private Banking and Wealth Management in 1999.

He gained extensive experience in managing relationships with High-Net-Worth Families, Financial Planning and Fiduciary matters while with the Absa Group and Standard Bank.

Desmond is head of the Fourways office, Johannesburg. He is a CERTIFIED FINANCIAL PLANNER® professional and Tax Practitioner and is fully qualified to give advice on all investment matters.

He holds a B Com Degree (Cum Laude); MBA; Post Graduate Diploma in Financial Planning and an Advanced Diploma in Taxation.

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HAPPY holidays

BRENTHURST OFFICES WILL BE CLOSING 18 DEC 2020 AND REOPEN 4 JAN 2021.

**MAY THIS SEASON BE WRAPPED UP WITH
CHEER & FILLED WITH**

celebration
FOR THE NEW YEAR.

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