

Don't be 'herd' investor, take a risk and score!

A recent Credit Suisse report revealed the best performing stock market since 1900 to be none other than our own ALSI (JSE All Share Index).

Hard to believe, considering all the turmoil South Africa has been through over the last 116 years. Or maybe that is exactly why investors were rewarded with the best returns.

Investing is about risk and return, although investors usually focus single-mindedly on returns. Prospective returns are usually the highest where the risks are the greatest.

Unfortunately, our intuitive perception leads us to think and behave otherwise, resulting in buying high and selling low – notwithstanding all the empirical evidence backing up this behavioural finance bias.

Trying to explain the irrationality of investors has consumed the life work of some of the brightest people on the planet, but still it seems we cannot help ourselves.

We are doomed to repeat our mistakes.



Money Matters

Mark Williams

The graph below is a good example of explaining the above phenomena.

A recommendation to invest in the Nigerian stock market today would be met with much scepticism.

The darling of investors at the turn of the century, the Nigerian Stock Market, reached stratospheric levels in 2007 when investors were happy to pay crazy prices for businesses driven by the commodity super cycle and the African growth story.

The focus was on returns, which were extraordinary; the risks, if considered at all, seemed insignificant by comparison.

But it all ended in tears.

Investors lost everything and then some more, which may explain why a recommendation to invest in the Nigerian Stock Market today is likely to get you committed or – at the very least – lose you a client.

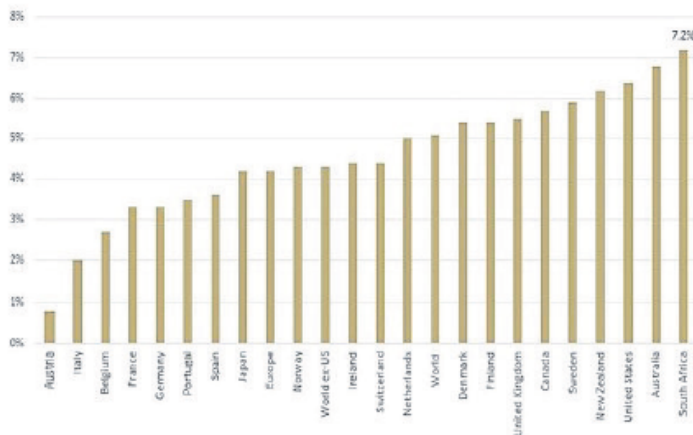
As usual, a Warren Buffett quote, “you pay a price for cheery consensus”, which sums up the herd mentality of investors perfectly. As a “herd” investor you would rather be wrong and lose money with everyone else than risk being wrong alone and making money.

Unfortunately, this is what it takes to be a successful contrarian investor, not to mention nerves of steel and the patience of job.

Anecdotally, take note of the performance gap between SA (ALSI) and the USA (S&P) over the last 17 years. Where do you think the value is currently? – www.markwilliams.co.za



Note: Index returns excluding dividends. Nigeria US\$ returns calculated using the Nigerian Autonomous Foreign Exchange Rate (NAFEX) since April 2017. Source: Bloomberg.



Real (after inflation) returns in USD.