The Golden Rules

Here are some investment guidelines we try to follow:

Wait for the ‘fat pitch’

If you do wish to be more tactical in your approach then you should at least wait (in classic US market jargon) for the fat pitch, or the half volley as we cricket playing nations would call it. I prefer the comparison of being in a poker game. You shouldn’t be playing every hand, instead just keep folding until you get some very good cards.

Avoid the ‘prediction addiction’

Everybody, expert and amateur alike, is rubbish at making economic and stock market forecasts but investors still feel compelled to make and then act on these shots in the dark. Investment is not a black and white, precise science. You should be thinking in terms of a range of outcomes and the risk attached to each outcome if you make the wrong choice. Sitting on the fence with a well-diversified collection of asset classes and funds is just fine; ‘if in doubt do nowt’ as my Yorkshire forbearers would say.

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Get rich slowly

Investment should be calm and measured, even boring; it should not be hectic and stressful and a right old drama all the time. That grand old dame the Foreign and Colonial Investment Trust coined the advertising slogan ‘Get Rich Slowly’ and this remains excellent advice. Time and Patience are the investor’s best friends.

Control your emotions

Investors can be surprisingly counter-intuitive, buying assets after they have risen strongly and selling them after they have fallen heavily. Greed and Fear in other words. Investors typically place too much emphasis on what has just happened and simply extrapolate current trends. Investors need to be emotionally self-aware and avoid over-confidence, selective memory syndrome and the seeking of instant gratification.

Don’t fight the market

You are a long-term investor not a trader so accepting volatility and staying in the game achieves the long term returns which the market historically delivers. Markets are on the whole ‘efficient’ with the big and scary market moves frequently just short term panic melt-ups or down which are soon corrected by mean-reversion and should not concern the long term investor.

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Understand risk

Ignore investment speak definitions such as ‘volatility’ and ‘value at risk’. Instead consider ‘do I understand this investment’ ‘how certain am I of the outcome’ and ‘how much I could lose if it goes wrong’. Risk control is protecting the real value of investor capital, not chasing the possible consequences of unpredictable outcomes. Two golden rules are ‘seeking a higher return increases the risk of loss’ and ‘targeting a return higher than cash will involve the risk of a capital loss’

The 7/10 rule

If you get 7 out of 10 investment decisions right and don’t allow the 3 you get wrong to blow up your portfolio then you are doing a decent job.

Be realistic

The magisterial Barclays Equity/Gilt Study tells us that UK equities have produced an average return after inflation of 5.5% over the last 50 years and Gilts 2.5%. This should be your annual expectation of return, anything more is a bonus. Returns back to 1899 tell a similar story over a period involving two world wars, a fair number of financial crises and more economic booms and busts than you can shake a stick at.

Let it go

You are meant to be growing and protecting your wealth over the long term, not predicting every market toss and turn. You could always have bought something better, be it Korean smaller companies, frozen orange juice futures (one for the movie buffs) or the Polish Zloty but get over it. You should only worry about what you do own, not what you don’t. Obsessing about missed opportunity is emotionally destructive. So long as your portfolio is meeting its long term objectives then you can relax and ignore the noise.

Simple, liquid, transparent

You need to be in control of your core investments and if you can’t buy and sell them on a daily basis then they are controlling you. Similarly, if you don’t understand an investment then it is also controlling you. If you accept some illiquidity in an investment then it should have substantially superior risk/reward characteristics to existing liquid alternatives to compensate you for this loss of control.

Embrace clichés

What they may lack in analytical rigour they make up for in common sense. My favourites include ‘buy when sleeping, hold when creeping, sell when leaping’, ‘markets climb a wall of worry’, ‘all turkeys fly in a gale’, and ‘buy straw hats in winter’.

‘There’s no crying in baseball’

Accept when things go wrong, learn from them and then move on. Understand whether you screwed up because you didn’t do enough due diligence (shame on you), did the work but still made the wrong call (me on Bonds!), were genuinely unlucky/act of God (rare but Trump and Brexit’s effect on the markets arguably come into this category) or were just plain stupid. Don’t make the same mistake twice and don’t re-write history to justify past poor decisions.

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