MoneyMarketing

In today's newsletter we look at the importance of time. Today the focus has been the release of Nelson Mandela 20 years ago. It has been a privilege to share such an exciting time in South Africa's history. Each generation has their moment of text book copy that they share in – sometimes it is more than one – the recent financial crisis would be another of our moments in the record books. 20 years can seem both a long and a short time – what does time mean in an investment and how do we view time, how do we make sure our timeframe for our investments matches our timeframe of life?

Time facts to never forget – sometimes we are just not that unique

We were reminded yesterday that it is always risky to say that something that is happening is unprecedented.

Investec Asset Management portfolio manager Clyde Rossouw made the excellent point that government debt to GDP ratios have been high in the past (for example World War II). Government debt has been on our minds a lot as deficits worldwide balloon and countries run into severe trouble.

There is no doubting deficits are high and will be a feature of all financial planning at a country level for years to come. But if you look back at the history – there have been deficits before.

Rossouw was speaking at the quarterly Investec Asset Management media briefing yesterday.

Necessary action with acceptable effects (not letting the world fall into Great Depression two) – but also one for text books and online encyclopaedias.

Time fact two we forget about -

The growth of China has been much watched – sometimes with scepticism and sometimes with awe.

In his excellent book The Effective Investor, Franco Busetti notes:

As recently as 1820 China accounted for a third of world GDP and India 16%, with Asia contributing over half of the world's gross domestic product. In 1820 the United States was barely an emerging economy, with a contribution of only 2%.

Rossouw observed yesterday that at the start of the Great Depression years

Argentina was the 7th largest economy in the world.

We live in a constantly moving world, things change often – sometimes at great speed, sometimes at slow speed.

We often forget about time. Time contains valuable lessons and examples – some good and great, some dreadful that should never be repeated.

For an investor it is critical to look at time with as much information as possible. Time is not just a line of events or one single happening – time is a dimension that is filled with valuable insights that we can use to better achieve our goals.

The truth about time

We have become shorter term investors as we have started to live longer. Potentially very confusing, and damaging to our pockets.

Many investors find it difficult to ride out short term volatility and try to time the market. Compare fund performances with investor performances – investors often (too often) don't get the performance the fund or manager has returned – and this can be down to the market timing of the individual investor - getting into and out of the investment/market at the wrong time.

While accepting that our view of the world has an increasingly short time focus – daily news attests to this – you can check values of investments at any time of the day – can we attribute our lack of a long term investment focus to this?

We plan our lives for the long term – flexibly yes and allowing for lots of change – but taking time over education, children – commitments that take many years. We don't plan to die young. These are long term views. While we do exhibit the short term "I want it now" culture - not all of choices follow this.

If you plan to live for a long time – then anything to do with achieving that also needs to be long term.

An investment decision is for the long term and needs to have as much focus and as wide a view as possible. Don't be a slave to one outlook – but also don't discard an outlook without examining any merits or lessons.

Short term news flow dominates

Don't ignore it. But recognise it is short term from an investment perspective and take a long and careful look before using short term information to make a long term money decision. One day the extreme volatility we are experiencing in markets may be just a few dents on a graph.

We are living longer

Your life could last a long time (and note here that the South African life expectancy figures are just an average).

Erica Stuart, of Liberty Group Advisory Services says that in South Africa our population can be divided into two – those with HIV and those without.

"The life expectancy for these two differs tremendously. While one part of our population dies young as a result of Aids, we also have a first-world community where the growth pattern of people over 80 mirrors that of the US and the UK. The life expectancy for the insured population in South Africa is 81 for females and 74 for males."

Stuart says that according to the Population Reference Bureau – an international organisation that tracks global population trends, since 1950, average life expectancy at birth for women rose from 69 years in 1950 to 81 years in 2009, while the average for men rose from 64 years to 74 years.

A better way of understanding life expectancy and longevity is to consider probability tables as opposed to life expectancy tables, says Stuart. Consider, she says, the table below that illustrates your probability of survival at age 65 (ie assuming you make it to age 65), based on a South African Annuitant Standard Mortality table.

Probability of survival at age 65

To age:	**70**	**75**	**80**	**85**
Male	87%	72%	54%	34%
Female	93%	84%	70%	51%

The table shows that more than 50% of men who survive to age 65 will survive past age 80, and that more than 50% of women who survive to age 65 will survive past age 85.

"In other words," comments Stuart, "those who plan on retiring at age 65 need to plan for at least 20 years of retirement income. And it is becoming more and more likely that children born in 2000 may live to the 22nd century."

Funding this long life requires a long term plan.

In his presentation at last week's ASISA (Association for Saving & Investment SA) media briefing, ASISA deputy CEO Peter Dempsey highlighted short term needs (for example a cash reserve fund), medium term needs up to five years and long term needs for 5 – 30 years.

30 years seems a long time. In light of life expectancy it does not. We need to pay more attention to this. For a long life – lots of funds are needed. That means save a lot – and include growth assets in a balanced portfolio.

When to use history

In his chapter on Long-term asset performance, Busetti says that the historical analysis of asset class performance teaches many essential lessons about investing in the stock market.

Busetti looks at the returns of local asset classes to 2008.

Busetti's **very long term** is 109 years – and over the very long term equities beat inflation 100% of the time. (1900 to 2008).

The average real return of equities is 7.1% pa, four times greater than that for bonds. Cash showed a real 1% return.

The **long term** view Busetti looks at is 49 years - equities again show strong returns and other asset cases show returns of approximately half that of equities (total equity return was 19.5%).

Over the past **20 years**, Busetti says the performance from equities and bonds was close and over the past 15 years identical. The past ten years saw equity returns again take the lead and in the past five years – equities beat bonds by over 9%.

A long term view is built on short term views – but can look very different

ASISA's Dempsey notes that long term returns are often very different to short term returns.

Busetti also looks at a year by year time comparison of returns for each equity class.

In a 49 year period – equities were the outright winner in terms of performance 55% of the time (27 times), bonds 12 times, cash 8 times and inflation 3 times. (Bonds and cash shared one period of top performance in 1969.)

The reason for the outperformance of equities over long periods – says Busetti – is that bull phases have been long and strong while bear phases have been relatively short and mild, "although vicious in their speed of decline." Bull markets are stronger, more frequent and last longer than bear markets.

How you can better your chances of good returns?

Make maximum use of compounding.

Stay invested and reinvest income.

"The compounding over time of reinvested income has a significant impact on the accumulation of wealth," says Busetti.

Time for time

A long term investment also means it is necessary to take the time to develop, and think through a plan. If it's important – which it is – it deserves the time to make it the best for each investor.

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