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What the ICC Cricket World Cup can teach us about investing

For most South African cricket fans, the 2019 ICC Cricket World Cup has probably been one to forget. But if the Proteas have taught us anything, it's that past performance is by no means an indication of future performance.

The same holds true for investing. When it comes to choosing which funds to invest in, it's easy to fall into the trap of looking at past performance as an indication of what sort of returns you can expect to receive in the future – in spite of the many disclaimers warning us not to do so. While it's not to say that past performance doesn't have a role to play, it's just a reminder that it shouldn't be used to predict future performance.

When does past performance matter?
Past performance can often give you an indication of the quality of your chosen fund manager. To demonstrate the point, we need only look at the "gentleman's game" for an example. The history of a

cricket team can often give you a good indication of the quality of that team. Teams that regularly place near the top of the world rankings are likely to have played, and won, under a range of different conditions. This level of consistent performance generally talks to the quality of the players, coaching staff, infrastructure, depth of talent etc. From an investment perspective, funds with a good long-term track record can also give you an indication of what's happening "behind the scenes", such as the fund managers' stock-selection process, team stability, research capabilities, investment philosophy, etc.

How long is long term?
Generally speaking, the longer the timeframe the better. In keeping with our cricketing theme, let's move towards the five-day format of the game to demonstrate the next point. When playing a test match, the quality of a pitch is often determined by how long it lasts before cracks start to show. The longer play goes on, and the longer the pitch holds up, the better the quality of that pitch. Although investments aren't limited to five days, the same concept applies… in that the longer a fund can hold up without showing signs of "cracking", the better.

The same can be said for the batsman's approach in a test match. The objective is to last the distance, and play consistently to build up a lot of runs slowly, rather than to smash as many runs as quickly as possible. This should also be true with an investment manager who takes calculated risks, like Prudential Investment Managers.

Take the Prudential Equity Fund and Prudential Dividend Maximiser Fund, for example. Over the past 15 years they are ranked first* and fourth* in their ASISA category in terms of performance (as at the end of May 2019). Our multi-asset funds haven't done badly either, with the Prudential Balanced Fund placed first** in its ASISA category over 10 years (as at the end of May 2019). While this is definitely not to say that the next 10–15 years will repeat itself, given that no "cracks" have shown over the years, it does give some indication as to our quality as an investment manager.

Winners and losers
Since the start of the World Cup we've seen many great team performances. But no matter how well a team plays, if their

opponent plays better, it all counts for naught. Fortunately, when it comes to investing the concept of winners and losers is a lot different. If your investment does well, and performs according to how it is expected to, but then another does better, you still benefit from your investment's performance. The important part is choosing a fund that not only matches your investment objectives, time horizon and risk profile… but one that is looked after by an investment manager who you can trust, with a proven track record.

It's equally important to stay the course even when your investment might not be doing as well as you'd like. Research has shown that performance doesn't always come in a straight line, but it's usually far better to stay invested in periods of poor performance than to chase the top performers. And perhaps it's here where we as cricket supporters can learn a thing or two from investing; that even though the Proteas may be going through a dip in performance, they are still far too good a team to stay down. They'll bounce back at some point, but in the meantime we'll continue to support them. As the adage goes: while form is temporary, class is permanent!

If you are ready to invest in one of Prudential's funds, we can get you started. Contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.

** The Prudential Equity Fund and Prudential Dividend Maximiser Fund are the best and fourth-best performing funds within the ASISA South African Equity General category over 15 years as at 31 May 2019 (source: Morningstar).*

***The Prudential Balanced Fund is the top performing fund available to the general public within the ASISA South African Multi Asset High Equity category, measured over 10 years as at 31 May 2019 (source: Morningstar).*