Prudential Investment Managers
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Patience: Your competitive edge as an investor

Wait for it… Wait for it… It's difficult, isn't it? But, as an investor, patience is a virtue that you'll have to learn and master to become successful. As investment guru Warren Buffett once said, "The stock market is a device to transfer money from the impatient to the patient."

In 1973, Buffet bought more than US$10 million worth of shares in The Washington Post Company. Within a year, the price of those shares had dropped nearly 20%, taking three years for the share price to fully recover. Instead of selling his stake in the company while the price was falling, Buffet went against the herd and continued to buy more. He knew that the fundamentals of the business were strong, and over time, the share price bounced back and the business grew – and so did the value of his investment. Today, he regards his stake in the Washington Post as one of his best and most profitable investment decisions ever.

By now the value of patience should be fairly obvious. If Buffett had sold his shares when the price had dropped, he would have lost money and lost out on the potential of future growth. Buffett understood the importance of having a long-term outlook and to look beyond short-term volatility. As an investor, having a similar approach to your investments can reap tremendous rewards.

You'll often hear that patience pays off, but what does that actually mean? For new investors, a good starting point is appreciating just how long a long-term investment really is. One, three or five years isn't that long when it comes to investing; for a real long-term outlook, you're talking about 10 years at least – and probably even more than that. And while a decade may seem like a long time in most other scenarios (remember where you were in 2010?), it's barely enough for investments to start smoothing out those short-term ups and downs, and start producing real returns.

Just like a farmer wouldn't expect an instant harvest a few days after he sows the seeds, investors shouldn't expect instant growth after a few weeks (let alone days) in the market. If you go in expecting instant returns, you're likely to be disappointed. Which brings us to our second point: have a realistic understanding of what to expect when you invest. This means knowing the characteristics of the asset class that you're invested in and being clear about your investment objective. Speak to your trusted financial adviser, and put in place a realistic strategy based on your investment time horizon, risk profile and investment objective.

During that conversation, make sure you understand what you're buying and how your investment is likely to behave over time and during different market cycles. Equities, for example, are typically volatile over the short term, but are likely to outperform all other asset classes over the long term. Cash, on the other hand, has little volatility over the short term but only just manages to outperform inflation over the long term. Knowing what to expect from your investment will go a long way in helping you stay patient when markets are underperforming.

Lastly, trust the fund manager that you've chosen. Sure, you could make the argument that trust has little to do with being a patient investor. But if you've chosen a fund manager who you believe will manage and safeguard your money to the best of their ability, and who has a proven long-term track record, it makes being patient a lot easier when markets are falling.

Although past performance is not an indication of what will happen in the future, it does talk to a fund manager's ability to manage investments in different market conditions. Prudential, for example, have been managing their investors' money for over 25 years and have won multiple awards during that time for performance. To find out more about our funds, visit the Our Funds section of our website. Or if you're interested to see which Prudential fund best meets your needs, try our Fund Selector Tool.

As a concluding thought, it's perhaps apt to close with a quote from Buffet's right-hand man, Charlie Munger, who famously said, "It's waiting that helps you as an investor, and some people just can't stand to wait".

For more information on our funds and how to invest, speak to your financial adviser or call our Client Services Team on 0860 105 77, or email us at **query@prudential.co.za**.