Prudential Investment Managers

MARCH 2021

The secret to investment success has never really been a secret

Many people avoid investing out of fear that they won't get it right. They worry that they don't have a head for numbers, or a finance degree, or that they don't read *The Economist*. But the 'secret' to successful long-term investing is actually not a secret at all, and it is achievable by anyone. If you can make a plan and stick to it, you have what it takes to be a successful investor. The guidelines below will help.

Clarify what your goals are

What are you investing for? How much will you need? How long before you need it? Clarifying your investment goal and time frame will help you decide on which investment product is most appropriate. If your goal is to buy a new car, it is probably a short-term goal; something you'd like to achieve in three years or so years. Money market funds, bonds or other less risky income-type investments would be appropriate (check out the Prudential Enhanced Income Fund). Sending your children to university, on the other hand, or retiring at 65, is usually more of a long-term goal, with 10 years or more to save up for it. With this longer timeframe, equity exposure can be an appropriate investment option, since the risk reduces the longer you hold it: here, the Prudential Equity Fund may be a good option.

Be consistent about investing every month

One of the easiest tips for investment success is to make investing automatic. Decide upfront how much you can afford to invest every month, then set up a debit order and forget about it. By keeping this practice consistent, regardless of what is happening in the markets, you benefit from “rand-cost averaging.” Simply put, this means that you buy more shares when the market is down (shares are cheaper) and fewer when the market is up (shares are more expensive). This is proven to be a more effective strategy than trying to time the market since getting the timing exactly right is practically impossible, even for investment professionals.

Avoid decisions based on emotions

Investor behaviour is one of the key determinants of long-term investment success – or lack of it. The key challenge is to remain rational in turbulent times and not make decisions based on emotions. In practice, this means sticking to your plan even when markets appear to be in crisis. Similarly, it means staying with your plan through market euphoria, when it may feel like you are missing out on a great opportunity. Buying when prices are high (euphoria) and selling when prices are low (fear) is a classic investment mistake that almost everyone makes at some point. Your ability to stay rational through short-term volatility will have a big impact in the long term. If you feel like you can’t avoid acting on your emotions, speak with a financial adviser who can help you stay the course.

Diversify to minimise risk

If you had invested every cent you had in Naspers 10 years ago, you would be in a comfortable position now. However, you would have experienced some very hair-raising times when the share price plunged. If you had invested everything you had in a different hot stock – Steinhoff – you would be in dire straits. And it would not have been possible to predict either outcome at the outset. Diversification is the most important tool you have available to protect your investments when the future is unknown. In simple terms, diversification means that you spread your investments across different industries, geographies, and financial instruments to mitigate risk. If one part of your portfolio is lagging, other parts should make up for it.

Unit trusts are generally a sound choice for those seeking a diversified investment. The costs are relatively low compared to investing directly in shares, bonds, or other assets, and you are exposed to a wide range of assets within one fund. The Prudential Balanced Fund, for example, is a diverse portfolio that includes local equities, foreign equities, and listed property, among others. This is a worthwhile consideration for investors with a five-year timeframe or longer.

For more information about funds, please visit the Our Funds section of our website. Alternatively, if you’re ready to start investing with Prudential, you can do so online in under 10 minutes. For any other queries, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.