Three Ways to Improve Your Investment Decision Making in 2022

For the past two years, the COVID-19 pandemic has impacted all facets of our lives, including our investment decisions. After the falloff in asset prices and portfolio returns in 2020, 2021 saw the continuation of the recovery across asset classes, which began towards the latter part of 2020. The capital markets also saw an improvement in activity with several initial public offerings, additional public offerings, a cross-listing and new bond issues. Though new debt and equity issues are below pre-pandemic levels, these transactions and undervalued assets offered investors opportunities to improve their portfolio returns. While some investors took advantage of these opportunities, others have shied away from risky assets due to the general market uncertainties and volatile prices. As we enter 2022, the pandemic is still evolving; however, investors should be prepared to take advantage of new investment opportunities and attractively priced assets, even as they try to manage the risk of losses. This year, the spread of COVID-19, including the Omicron variant, will continue to present challenges. However, it is anticipated that efforts by businesses and consumers to sustain operations and function within this ‘new normal’, will create the space for new market transactions, which will present additional opportunities for investors. Furthermore, given the pandemic's adverse economic and fiscal impact and the current limited availability of resources to fuel any high fiscal stimulus

1 Barclays (2021)
2 Overtrading is the excessive trading of securities, such as stocks, to the point that it hurts a trader or goes against certain rules.
3 Noise refers to information or activity that confuses or misrepresents genuine underlying trends.

such as that witnessed in 2020, governments will be reticent to shut down economies once more. Consequently, while there are uncertainties and risks going into 2022, we believe that economies, corporate earnings and local asset valuations will continue to gradually recover. Against this background, here are a few factors to keep in mind as you continue to pursue your investment goals, take advantage of existing and new opportunities, and manage the risks associated with elevated volatility in markets in 2022.

1. Prepare for the unexpected through diversification

Owning a diversified portfolio of quality assets constructed to achieve your goals over the long term can be a good remedy for periods of heightened uncertainty. Diversification is the best medicine for the uncertainty that shrouds capital markets in the COVID-19 environment. Diversify your portfolio with a combination of assets that can achieve your long-term investment goal. However, do not react similarly to factors such as the surge in inflation globally and locally or the tightening monetary policy by many central banks to reduce inflationary pressures. For example, if you invest for capital preservation purposes, and your portfolio is concentrated with low to medium coupon bonds that were bought during the low inflation and interest rate environment, the real return could fall, or become negative with elevated inflation and relative attractiveness of new bond issues with higher coupons. You could add an investment property or invest in vehicles that give you exposure to attractive real estate investments to take advantage of rising property value in the mushrooming real estate market, particularly in the growing industrial and target commercial segments. This would help counter the inflation risk and manage the risk to portfolio returns. Furthermore, buying undervalued assets/equities also helps to provide you with a buffer if the expected growth in growth stocks does not materialise or is slow to materialise. The aim is to manage your risk by spreading out your investments across various asset classes and holding various assets from each asset class. This means that your portfolio should consist of various asset types, including bonds, stocks, alternatives, and cash. You also want your equity portfolio, for example, to be diversified and not be concentrated in a single or a few Stocks.

2. Successful equity investing requires patience and taking a long term approach

While market volatility may incite fear, to improve the chances of improving overall returns, follow a robust process that balances long-term thinking. This is one where you generate your core investment returns with more reactive and opportunistic short-term tweaks to your portfolio. Excessive reaction to short-term market events through overtrading can go against your best interest, as it could cause you to crystallise losses that you could have otherwise recovered over time. Instead of overtrading in response to noise, take advantage of short-term opportunities, and invest in quality companies that will perform well over the long

term. This means you can hold these stocks and ride out any turbulence. The income earned from your investments, whether dividends or interest, can be re-invested over time to offer compounded returns, and the increase in valuation/asset prices bolstered by the sustained exhibition of strong performance will reward patient investors in the long run. For example, you can invest in undervalued companies with solid fundamentals such as a strong market presence with a strong, sustainable competitive advantage in their industries, supported by good profitability, liquidity and solvency, and good governance and management. Additionally, you can invest in attractively priced stocks of companies in industries that are expected to benefit from the pandemic and the emerging trends, such as increased digitization, e-commerce, and nearshoring.

3. Do not hold cash for emotional reasons, but for financial ones

Holding on to cash for financial reasons, such as maintaining liquidity to take advantage of short-term opportunities, fund an upcoming purchase, or cover medical bills, is understandable. This will remove the need to liquidate positions in your investments when they might be down in value. However, cash laying idly runs the risk of earning no or negative interest as inflation erodes its value over time. Some investors that hold cash do so as a symptom of fear rather than because of a need. Many investors would have reduced their market exposure at the outset of the pandemic to provide short-term
comfort. However, for psychological reasons, excess cash held on the sidelines for a long period has its costs. These costs include: opportunity costs, which are foregone returns from investing, and the cost of inflation, as rising inflation causes negative real rates of return, creating a significant drag on overall portfolio returns for those holding excess cash. To manage your emotions as you invest, we suggest that you remind yourself of the bigger and your reasons for investing. Further, increase your knowledge of the different asset types and what drives their performance (both positively and negatively). Then, gradually increase your presence in the market, and importantly – diversify! Diversify! In 2022, commit to holding enough cash to allow you to take advantage of opportunities and cover obligations, but be sure to deploy the excess cash when the new opportunities and undervalued assets that are in line with your risk tolerance present themselves. This will put you in a stronger position to meet your goals and achieve better portfolio returns over the long run. As we continue to operate in this COVID environment for another year, investing will continue to invite questions about future uncertainties but separate the noise from the critical information. Focus on the fundamentals of the companies and assets you are invested in, construct diversified portfolios, and employ patience to ride out the excess turbulence you may encounter in the short term to reap the long-run rewards. If you doubt this approach, consider the following example. Following the 2008 global financial crisis the JSE index declined by 25.76% to 80,152.03 points at the close of that year, and although the market took some time to recover, it did so in 2015, rising to

4 This is defined as the most liquid assets. It includes more than just the physical traditional bills and coins, but also short-term investments.

150,692.13 points by the end of the year. Those investors that took advantage of the opportunities inherent in investing in undervalued but quality stocks, and that remained invested in the market until it recovered, were later rewarded as they benefited from the 88.0% growth in the main market over that period. Furthermore, if those same investors remained invested until 2019 when the market boomed to a new high of 532,325.41 points, they would have partaken of the 564.1% growth in the index between 2008-2019. While the recovery took some time, the long-term payoff for those investors that stayed invested was obviously substantial. Therefore, view market downturns for the opportunities they present, as history has shown that market crises are ultimately surmountable!

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