INTUITION
22 NOVEMBER 2024

FOMO

We live in an information age. We have a client who invested in the stock market from a young age. He was an agricultural rep and traveled extensively. He likes to tell the story of traveling his area, but stopping regularly at places that he knew had the JSE ticker so he could see where the prices of his favourite stocks were. Today that information is available on our cell phones almost instantly. In addition, the media, given its insatiable desire for hype, highlights every high-performing investment counter in bright lights. 20 years ago, no one had heard of Nvidia, ASML, or Meta. Today, we are all armchair experts. Such hype leads to FOMO – the F(ear) O(f) M(issing) O(ut). Consequently, investors are madly scrambling from one stratospheric investment to another in search of ultimate riches. Are we missing something?

Robin Gibson

What is the point of investing? It is a critical question that will ground many of our responses to a lot of events related to investments. At Harvard House, we think there are only two reasons to invest (I am referring here to saving and growing money as opposed to the broader idea of investing time in relationships or investing in education as examples). The first reason is to build up a sum that will be used to purchase something specific - for example, a car, a house, or a holiday. These are finite targets, with finite time frames. How to invest to achieve this goal will depend entirely on the time frame of the expenditure.

The second reason to invest is to achieve financial independence or to be independently wealthy. What does that mean? In some circles that may be termed "retirement", but that conjures mental associations with advanced age. Our definition would be to have a Wealth Pool (a pot of financial assets) that creates a passive income stream, and that doesn't require the investor to expend time and effort to generate that income stream (in other contexts we might call that employment). The beauty of financial independence is the freedom to choose what you do with your time and effort.

Of course, this leads to another key question - how much is enough? The answer is completely dependent on what you want to do with your time and what that will cost. There are the basics of life - rates, levies, electricity, food, petrol, medical aid etc. Those are 'givens'. Then there are the nice-to-haves - fashionable clothing, travel, recreation or sport, and eating out to name a few. Every investor's list will look different and require a different level of WealthPool. Our experience has taught us that most people know what they would like, so calculating the correct number is not as difficult as it might seem.

SPEED READ

- **Recently, some high-profile shares have delivered heady returns. This year alone Bitcoin is up 117%, Nvidia is up 203%, RobinHood is up 159%, and Spotify is up 139%. If you don't have one of these, you may certainly feel like you've missed out.**
- **Context is so important to how we feel. External events sway our moods. Consider the national mood after more than 200 days of no load-shedding, and what it was like last year!**
- **Knowing why and what you are investing for is helpful to put all this news into context and help stabilize the rising panic that FOMO can create.**
- **We have partnered with successful investors who are enjoying the fruit of their discipline today without having ever participated in the 'rocketships' of the past – we have no doubt that we can guide others there too**

The biggest challenge remains the investor who acts like he is independently wealthy when he is not. This is very common among retirees. Such people generally feel they have only one solution to the problem, namely that their WealthPool needs to grow at a fantastically unrealistic return to secure independent wealth. Returns demonstrated by shares like Tesla, and Nvidia then become critical, and the pursuit of returns becomes the investors' primary pursuit. When this behaviour comes in the door, realism and risk management fly out the window. This investor is now very exposed to being scammed or even worse, making decisions that could result in losses that exacerbate the situation. So how should investors respond to these circumstances? Here are 8 points to help calm the FOMO:

1. Understand that over longer periods, different asset classes have delivered pretty much the same returns relative to inflation consistently around the world. Ensure your financial plan is built around these realistic returns, then the need for an exceptional performer becomes less of an issue.
2. When considering an asset that has exploded in value, bear in mind that even if you were hugely optimistic, good risk management would probably have guided you to a maximum of 10% exposure at the outset. If an investment jumps 100% in a year, and it is only 10% of your portfolio, it could only enhance the total portfolio return by 10% in that year. While a very significant addition, you are unlikely to be missing out as much as you think.
3. This point follows directly from the last. It is completely unrealistic and somewhat naïve to look at your entire wealth and expect it to grow by that radical percentage. Risk is managed by diversification and diversification by very definition will behave differently. While someone may be crowing about their 200% return in XYZ Ltd, it was unlikely that they had as much exposure as they would have liked. We have all heard stories about the guy who turned R250,000 into R40 million in Bitcoin in the last 8 years, but not the guy who turned R1 million into R300,000 over the same period in the same investment or what risk that R250,000 represented in their overall portfolio.
4. We have partnered with many, many investors who didn't benefit massively from the Financial Boom of the late 90s, the DotCom bubble of the early 2000s, the Mining Boom of the mid-2000s, or the Property Boom of the late 2010s but have still achieved financial independence in a far more pedestrian and sustainable way.
5. In 52 years of operation, we cannot think of one investor who rescued a failed investment plan with an outsized bet on a glorious return. What we can recall much easier is the individuals who were plunged into worse circumstances pursuing scams such as Supreme Bond, Master Bond, Edwafin, BlueZone, and BHI Trust on the promise of outsized returns.
6. Every asset class will have periods where it outperforms its long-term averages, and conversely, a period where it underperforms its long-term averages. Timing between them is almost impossible and often destructive, especially if you get the timing wrong.
7. Sometimes the most unlikely, disappointing investments are the ones that surprise you and perform superbly. Many property stocks have grown more than 100% over the last 12 months. Holding assets through tough circumstances has rewarded patient investors. This doesn't include the dividends banked over the period, which we believe to be an underappreciated aspect.
8. Despite being in a world where the excitement of new methodology and technology lurks around every corner, the fundamentals of investing have not been improved on. Invest early and often, compound income, and invest to beat inflation.

"In 52 years of operation, we cannot think of one investor who rescued a failed investment plan with an outsized bet on a glorious return."

Too many investors chase unrealistic returns that seem like the pot of gold at the end of a rainbow - but are just as unlikely.

Without any doubt, a well-constructed financial plan along with the discipline to implement it is the only way to independent wealth. The rest is the noise that can lead to some pretty destructive behaviour. If you don't know your plan, talk to your financial consultant. If you do, stick to it and ignore the FOMO.

By the end of November, it will have been six months since our election ushered in the GNU. This presentation will focus on the outlook for 2025, and delve specifically into whether the SA story is still intact.

Topic:	**Outlook for 2025. Is that SA Story Intact?**

Natal Midlands

Date:	05 December 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	04 December 2024
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am

Cape Town

Date:	2 December 2024
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP

3 Harvard Street, Howick, 3290, South Africa
P.O. Box 235, Howick, 3290, South Africa
+27 (0) 33 330 2164
+27 (0) 33 330 2617
admin@hhgroup.co.za
www.hhgroup.co.za