Prescient
INVESTMENT MANAGEMENT

July investor trends a reminder that market timing is not a wealth-creating strategy.

By Murray Anderson, Prescient Head of Retail

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The latest investment flow data from South Africa's Collective Investment Schemes (CIS) paints a familiar picture - investors trying and failing to time the market. In July 2024, we saw a significant shift in money out of equity funds and into fixed-income funds, with net outflows of R10.9 billion across all fund categories.

The data shows that investors pulled R14 billion out of equity funds, likely due to the uncertain political and economic environment leading up to the national elections, concerns of a negative outcome, and the adverse impact this would have on the rand and broader financial markets.

Meanwhile, they invested R9.5 billion in fixed-interest funds, seeking the perceived safety of fixed-income assets such as cash and income funds and the high yields available across the fixed-income universe due to the high interest rate environment.

But in making these shifts, investors may have missed the boat. The market dynamics that prompted their moves are now potentially working against them as post-election optimism buoys equities, and interest rates look set to decline. There’s nothing wrong with investing in an income fund over the short term, but it's preferable to invest in a balanced fund through the cycle for longer-term growth.

The data from July 2024 is just the latest example of a timeless investment lesson. Time and again, we've seen the costly consequences of investors chasing returns, fleeing from volatility, and ultimately underperforming the markets they're trying to outsmart.

Instead, investors should resist the urge to time the market and rather partner with skilled investment professionals who can make those decisions on their behalf. Professional investors are much better positioned to understand and anticipate market dynamics based on sophisticated, tried-and-tested investment processes and investment teams with extensive experience.

Investors who decided to disinvest from equity funds before the elections for the safety of fixed-income funds may now find themselves on the sidelines as equity markets recover. History has shown that this will likely dent the long-term returns they could have achieved by not trying to time the market.

Looking at the broader CIS flows, investors withdrew R5.8 billion from multi-asset funds. This is particularly concerning, as these funds are designed to provide diversified exposure managed by professionals best equipped to assess market conditions and make unemotional asset allocation decisions based on sophisticated and robust investment processes.

By abandoning multi-asset class funds exposed to equity, investors are essentially trying to time the market themselves - a strategy that research has consistently shown is a losing proposition over the long term. It's human nature to want to "do something" in the face of market volatility, but this often leads to poor investment decisions. Investors would be better served by taking a long-term view, staying the course, and trusting in the abilities of professional portfolio managers.

One positive trend is that multi-asset high equity funds have been attracting flows, indicating that some investors recognise the value of letting the experts handle asset allocation. These funds allow professional managers to actively shift between equities, fixed income, and other assets as market conditions evolve.

Rather than trying to predict the next big move, these funds give investors access to the managers' skills and experience to anticipate and navigate changing landscapes. For instance, the Prescient Balanced Fund offers exposure to a portfolio managed in accordance with Prescient’s systematic investment process, which is data-dependent, rules-based and rational.

This process eliminates emotional and biased-based investment decisions, including trying to time the market by making big swings in exposure. Instead, we make measured tilts in a portfolio to avoid getting it wrong and emphasise risk management over trying to make quick capital gains. In so doing, investors are better placed to achieve consistent returns over the long term, enabling them to continue building wealth instead of falling prey to knee-jerk reactions.

By maintaining a diversified portfolio, investing for the long term, and letting the experts manage the asset allocation across your portfolios or in multi-asset class funds, investors can maximise their chances of achieving their financial goals. It may not be as exciting as trying to predict the next big market move, but it's a proven strategy for building wealth over time.

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