I want it all in cash!

You would be excused if you read the heading of this article and immediately thought that this is about a Gupta transaction or a divorce order. However, if you had to advise anyone within the last 18 months about where to invest their hard-earned money you probably came across this phrase. Now here is the dilemma with articles of this nature: It is a lot like preaching in church... You are preaching to those already in church! The people to whom the sermon is directed is not there to hear it. In the same way, the financially illiterate do not read the Business section of the newspaper. Although, even those who religiously read the Business or Financial section of the newspaper are not immune to the psychological stress that goes hand in hand with investing. If you are aware of anyone who does not attend the financial "church" but who is making nervous changes to their investment portfolios, do send this on to them.

It happens every now and then that growth assets change into shrinking assets and that this shrinking can continue for uncomfortably long periods or that they simply tread water for prolonged periods of time like the case was recently. In these times questions like, "should I not rather put everything into a money market account?" often comes up. Why should I invest in something growing at a mere 1% or 2% or even negative growth while I can comfortably get 8% or even 9% (note: before tax) at the bank. If you are asking the same questions just keep the following in mind:

For the quarter ended June 2017 perhaps the best known local asset manager's funds performed as follows (before any platform or advice fees):

Money Market	=	7.32%
Stable Fund	=	5.23%
Balanced Fund	=	2.84%
Local Equity	=	2.53%
Global Equity	=	13.82%

Unless you had significant exposure to Global Equities you would have struggled to outperform Money Market investments. To decide to, with your rear-view mirror as your guide, switch all your investments into Money Market investments (although this might look like a good idea in the short term) would be foolish in the long run. Look at the below example, although extreme, to see the impact that decisions like this really has.

If you decided 10 years ago (14 August 2007) to start a long-term growth investment you would have quickly been in a situation where Money Market investments would have outperformed the growth funds you had decided on. By November 2008 you would have told your advisor (like a farmer from Caledon had told me) that you know more about investments than him and withdrew all your investments, held it in cash just to put it back into the market a year later at a higher price. Well, is that so bad you might ask? At least you could sleep peacefully during the year you held your investments in cash. Let's have a look at what the numbers say. If I look at the same funds from the same investment firms over the previous 10 years we can see that a R 1,000,000 investment if it was not moved at all would have given you the following return

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Funds	Return p.a.	Fund Value
Money Market	7.31%	R 2,025,140
Stable Fund	9.39%	R 2,454,085
Balanced Fund	10.80%	R 2,788,104
Equity Fund	10.95%	R 2,827,271
Global Equity Fund	13.20%	R 3,456,882

If, after the big crash on 1 March, you moved all your funds into the money market just to move it back a year later, once the market started feeling a bit safer again, your outcome would have been the following:

Change back after 1 year in Money Market			
Funds	Return p.a.	Fund Value	Lost Growth p.a.
Money Market	7.31%	R 2,025,140	0.00%
Stable Fund	9.20%	R 2,412,230	-0.19%
Balanced Fund	9.61%	R 2,503,602	-1.19%
Equity Fund	8.82%	R 2,329,549	-2.13%
Global Equity Fund	11.69%	R 3,021,716	-1.51%

If you, like some, were drawn to the high returns before 2007 from equities for the first time but were then completely put off by the crash of 2008 and then moved all your money to cash and then NEVER went back to higher risk investments your picture will look like the following:

Permanently move to Money Market after the crash			
Funds	Return p.a.	Fund Value	Lost Growth p.a.
Money Market	7.31%	R2,025,140	0.00%
Stable Fund	6.94%	R 1,956,422	-2.45%
Balanced Fund	5.15%	R 1,653,006	-5.64%
Equity Fund	3.58%	R 1,421,051	-7.37%
Global Equity Fund	2.84%	R 1,323,784	-10.36%

From the analysis above there are a couple of important things to note:

- Even if you did take your money out of the market after 2008 and parked it in a money market account until the dust settled and then put it back in your original investment a year later you would have done better than a pure money market investment.
- One mistake in judgement (because of panic and reactive behavior) can cost you as much as 2% p.a. over a 10-year period. Thus, do not make emotional and reactive decisions. The long-term implications can be devastating.
- **If you do not have control over your emotions and you do not trust someone else enough to leave it up to them completely, then please stay away from growth assets because your chances of making any real return are slim to none.**

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- Often, the price you pay for long-term wealth creation is short-term emotional pain. If you cannot bare the pain, then creating any significant wealth in the market is unlikely. A medium such as property might turn out to be a better investment vehicle for you.
- Short-term is often not that short. If you invested at the peak of the market in 2008 it would have taken you nearly 4 years before your long-term return on growth assets would have surpassed that of cash.

In summary: Stick to the plan. If you are fundamentally changing your strategy (like going from equity to cash or the other way around) based on recent performance (good or bad) you are probably making a big mistake.

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