Pedal through the tough times

A friend of mine talked me into entering a 40km mountain bike event the other day in Paarl. The fact that I have been on a bike only once this year before – in the mountains of Slovenia that almost led to an international medical evacuation (read heart attack on the Alps) - and the fact that my bike at home sits neatly in a cocoon of spiderwebs did not register with me as red flags. During the ride on the mountain biking trail however, besides for visions of people who have long yet passed, a couple of useful thoughts pertaining to financial planning and investment management came to me. I will share them below.

What is written on the label is not necessarily what is inside

At the starting line it is hard to distinguish between the experienced riders and the amateurs. My unshaved legs kind of gave my game away but besides that, I could have passed as a competent cyclist. There were a few fellow participants with potbellies twice the size of mine and each one of them had me literally eating dust that day. The same applies when you choose a financial adviser or fund manager. Do not pay too much attention to their flashy marketing material and expensive coffees but rather seek out someone with a thorough process and a long history of success. Otherwise you just might eat dust yourself.

Prepare yourself psychologically before the race

In my case I am very glad that I did not see the topography of the trail beforehand; the 12km uphill would have induced an instant stomach cramp. When you invest your hard-earned money, you better make sure you get a good idea of the topography beforehand. Like most of you know, the uphill can be very steep at times. If you are not psychologically prepared for this, you might just give up when the top is just around the next corner … and much like in cycling, a steep uphill (bad returns), is often followed by a downhill (period of very good returns). When you give up on your investments you are trading a temporary steep uphill for an almost permanent gradual incline and the effect of this on wealth is much more disadvantageous.

Be aware of who you take advice from

At the 8km mark a lady appeared with blue hair and pants that looked like a costume from Madame Zingara. She told us we can relax, we just made the worst of it. “It's all downhill from here,” she said. I suspect she read the map the wrong way around because from that point the REAL uphill started. We tend to be trusting of others, anyone's opinion is deemed trustworthy at first… even more so if it comes from someone with authority. At first glance she did not look like a participant but like someone involved in the organization of the event – someone who should know what is to follow. Based on this I loaded up on chocolate, thinking that it gets better from here. Lessons we can take from this includes doing your own homework, plan for the ride ahead (read financial and investment planning) and make careful decisions when adapting your plan to changes along the way. The last thing is not to make emotional decisions based on people's opinions or comments given along the way, whether it be at a braai or in the business section of the newspaper.

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0.83 meters per second is a lot!

The person who won the race did so by racing at 0.83 meter per second faster than I did. If you take into account that I stopped at every water station and attempted to finish their supply of Mars Bars while he probably grabbed a banana and carried on, the actual difference between the two of us could be even less. Maybe as little as half a meter per second. This however resulted in me finishing about an hour after he did or to put it differently, by the time he was done I still had 10km of a 40km race left to go. This is the huge difference that incremental outperformance gave him over the course of a 40km race. In the world of cycling a 40km race is equivalent to about 3 years in investments. If we compare this to say a 400km race with multiple stages, the difference between the two of us would be astronomical even with the same incremental outperformance. This is why constant outperformance in small margins plays a big role over time. I see people daily who are totally indifferent to this fact. R 1 million today growing at 10% per year or 12% per year over the next 30 years grows to R 17.45 million and R 29.95 million respectively which is a R 2.2 million **difference** in today's terms. This is what I call the "couldn't care" premium. The cost you pay to save yourself the trouble of sorting out you financial planning and investments.

In close: I have regretted starting things before, but I have never regretted it once I finished. Very few worthy challenges in life are easy. When things come too easy (long downhill in mountain biking) you can expect an uphill soon. Prepare yourself properly and do not quit on an uphill, the finish line is worth the temporary suffering.

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