WHEN MY FRIEND FORGOT ABOUT HIS MONEY

A few weeks ago, I received a call from a good friend regarding some investment advice.

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I have known the individual for some time and he is extremely financially astute, having had both a successful corporate career and subsequently started (and sold) a number of flourishing entrepreneurial businesses. He is a typical entrepreneur who much prefers making his own money than passively investing with an "overpaid asset manager" in an industry he doesn't really trust.

Nevertheless, he thought he had invested with us a few years ago and was looking for some more information. In discussion we realised that he had done this via a stockbroking platform so we did not hold his records but I thought it was worth checking. So we searched our database… And we found an investment he had made many years ago and completely forgot about!

He had started investing in 1998 with a monthly debit order of R200 into the then Syfrets Growth Fund (which has since been renamed the Nedgroup Investments Growth Fund). When he changed jobs in October 2003 he cancelled the debit order. At the time the value of his investment was R30 236.

He was very pleasantly surprised - his wife even more so - when he heard that this forgotten investment was now worth more than R250 000!

On reflection, this is a wonderful case study and provides some valuable insights into some of the true benefits of investing which we often lose sight of:

- Make sure you have enough **exposure to growth assets** (equity and property), especially if you are young. Far too many individuals with long-term investment horizons unnecessarily avoid risky assets and give up returns which cost them dearly. A rule of thumb is to have approximately 100 less your age as a percentage in growth assets.

- The "magic bullet" to investing is **compounding over the long-term**. The Growth Fund returned just over 15% per annum over the period. By doing this for 15 years, his investment grew a remarkable 8.5 times from R30 000 to over R250 000.

- **Stay the course**. The 15 years my friend was invested were not all smooth sailing and the investment did not go up in straight line. Indeed there were a number of negative years, including a negative 27% year over the financial crisis! Luckily, my friend had forgotten about the investment so avoided the risk of being emotional, panicking and disinvesting - which meant he would have missed the subsequent years which delivered 29% and 23% respectively.

- **Avoid chasing winners**. The Nedgroup Investments Growth Fund, which has been managed by Neil Brown over the entire period, has performed well over the period relative to peers. However, it has experienced numerous short-term periods where it has underperformed (been in the third or fourth quartile). Investors who follow short-term relative performance closely often switch to the latest best performer, almost always at the wrong time.

- **Re-invest your dividends**. Over time dividends and the ability of companies to grow them are a key component of total return. Over the longer-term, this income return is an even more important component than changes in valuation and has a big impact on positively compounding total returns.

- **Tax efficiency and costs**. The key number for investors is the return after taxes and costs. Unit trusts and especially equity unit trusts are extremely tax-efficient as all returns are capital gains and only payable when units are sold. It is also important to make sure the fees you pay on your fund are reasonable and good value.

This is a simple example but I believe it has many valuable lessons which teach that often the desire to do things (seem busy) detract from returns. Instead - setting a sensible plan, investing in appropriate assets and sitting on your hands is the best course of action.

Good luck and happy investing.

Nic Andrew