In Perspective

The Art of Letting Go

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In many areas of life, intense activity and constant monitoring of results represent the path to success. In investment, however, that approach gets turned on its head.

The Chinese philosophy of Taoism has a word for it: 'Wuwei', which literally means 'non-doing'. In other words, in an investment context, the busier we are with our long-term investments and the more we tinker, the less likely we are to get good results.

This doesn't mean that we should do nothing whatsoever – far from it – but it does mean that the culture of 'busyness' and chasing returns promoted by much of the financial services industry and media works against our interests.

Investment is one area where constant activity and a sense of control are not well correlated. Consider, for example, the person who is forever monitoring his or her portfolio, who fitfully watches business television or sits up at night looking for stock tips on social media; in our work as professional Financial Planners, we have come across many cases or stories of people who do this and not once in our experience has it led to discernible contentment or good results.

In Taoism, by contrast, the student is taught to let go of factors over which he or she has no control and instead 'go with the flow'. When you plant a tree, for example, you choose a sunny spot with good soil and water and apart from periodic pruning and a casting a caring eye over it from time to time, you essentially leave the tree to grow. After all, nature has become pretty refined at nurturing trees over the years and she can be relied upon to do the same again, whatever difficulties she might encounter along the way.

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Ignore the noise

It's not just Chinese philosophy that cautions us against 'busyness', however. Evidence and experience confirms that our investment efforts are best directed to areas where we can make a difference and away from things we can't control.

We can't control movements in the market, we can't control news and we have no say over the headlines that threaten to distract us. However, each of us can control how much risk we take, we can diversify those risks across different assets, companies, sectors and countries, we do have some control over the investment fees we pay, we can influence transaction costs and we can exercise discipline when our emotional impulses threaten to blow us off course.

The reason these principles are so hard to absorb is that the perception of investment promoted through the financial media is geared around the short-term, the recent past, the narrow focus and the quick fix.

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We are told that if we put in more effort on the external factors and if we pay closer attention to the day-to-day noise, we will get better results. What's more, we are programmed to focus on idiosyncratic risks (glamour stocks, for example) instead of systematic risks, such as the degree to which our portfolios are tilted toward the broad dimensions of risk and return. Ultimately, we are pushed toward fads that the financial marketing industry decides are sellable and which require us to constantly tinker with our portfolios, which in turn costs us money – and sometimes lots of it.

Busyness and poor decisions cost more than just money

Much of the media and financial services industry wants us to be busy, but with the wrong things. The emphasis is often on the excitement induced by constant activity and chasing past returns, rather than on the desired end result. This out of focus approach is far worse among those who don't have a properly defined investment and wealth plan, in which every action, every inclusion or exclusion, every decision is well thought through and purposeful. It is about doing the things which deliver the greatest probability of you achieving all that is important to you, not guessing or speculating or wasting precious time and energy on things which are irrelevant to your plan and life.

In addition to the poor use of time and energy, the consequence of all the busyness, lack of diversification, poor timing decisions, narrow focus and trying to 'beat' the market, is that most individual investors earn poor long-term returns. In fact, they tend not to even earn the returns available to them simply by 'turning up' i.e the returns available from a simple index. This has been borne out by repeated studies over many decades, including in the analysis of investor behaviour by research group Dalbar. In the 20 years to 2012, for instance, Dalbar found that the average US mutual fund investor underperformed the S&P-500 (think FTSE All Share in the UK) by around 4% per annum.

This is a truly staggering number – after all, can you imagine the destruction of wealth this would bring about on a portfolio of, say, £1M? To put this into some context, £40,000 (4% of £1M) compounded at 5% per annum (a reasonable long-term nominal return from a balanced, multi-asset class portfolio), over a 30 year term (a fairly typical retirement period), equates to more than £2.5M!

As if the monetary loss in itself were not bad enough, what such significant (and entirely avoidable) wealth destruction really translates into is the loss of considerable financial security and, perhaps more importantly, the irredeemable loss of hard-earned life and lifestyle choices.

Perhaps the lesson we can all draw from this is that we could do worse than be guided by ancient Chinese wisdom: "By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning."

Best regards

Michael

In the 20 years to 2012, the average US mutual fund investor underperformed the S&P-500 by around 4% per annum.

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Michael Smith *Director, Chartered and Certified Financial Planner*

In addition to being a Chartered Financial Planner, Michael holds the globally recognised Certified Financial Planner qualification and is a Fellow of the Personal Finance Society. Michael also sits on Chamberlyns' Investment Committee and produces the firm's regular series of concise 'In Perspective' articles, which consider, and provide perspective on, a range of current and timeless wealth planning issues.

Chamberlyns provides a refreshingly different Wealth Management service for executives and professionals, who want to make the most of their money and the life that lies ahead of them.

Chamberlyns
E 33, 110 Butterfield, Great Marlings, Luton LU2 8DL

E: enquiries@chamberlyns.co.uk
T: 01582 434256
F: 01582 380456

For more information, please visit our website.