Long-term lessons?

With all the noise surrounding the investment economic and political world I thought it useful to look back at history.

Old Mutual Macro Solutions recently issued its "Long-Term perspectives 2017." It looks at 87 years of South African history.

What does it find?

Asset class returns

- It finds that the benefits of diversification are undisputed.

- Cash is not a good long term investment.
  Its real return over the 87 years was 0.7% p.a.
  However, there are times when cash will outperform other asset classes. It did so in 11 of the past 87 years, i.e. 13% of the time.

- Bonds give a better return than cash, a real return of 1.6% per annum since 1925.
  They were the best performing asset class 14% of the time.

- They argue the equities offer the best long term return, namely a real return of 7.9% p.a.

  However, equity prices do fluctuate, with a highest return of 93.7% in 1979 and lowest annual return of26.4% in 1970.
  They were the best performing asset class in 47% of the time i.e. 41 out of 87 years.

- We could not talk about South African investors and leave out gold.

It was the best performing asset class 14 times and gave a real return of 4.4% p.a. since 1967.

- Listed property has been available to investors since 1980. From 1983 to 1998 it gave a negative return of -7.8% p.a. in real terms then started to improve and from 2002 to 2016 gave a real return of 15.1% p.a.

Need to diversify

From this it becomes clear why they emphasize the need for diversification. No one asset class will always do best.
A balanced portfolio will, on average, not give you the best performance in any one year but it will certainly ensure that you do not get the worst performance. It will not beat, over the long run, an all equity portfolio, but it will also not give you the same roller coaster ride that equities do.

Impact of Inflation

Another strong point they make is that an investor’s worst enemy is inflation.
For example, in real terms it will take 90 years to double your money in cash.

They give a few examples that are quite startling.

Year	**1970**	**2016**
Spur Burger	R0.30	R72.90
Cheddamelt steak	R0.50	R114.90
750g Ricoffy	R0.25	R81.99

At the average rate of historical inflation a car which now costs R260 000 will cost R455 000 in 10 years time.

Hence, they argue that even though growth investments, such as equities and listed property, will be volatile, they are "must haves" in any portfolio, which wants to offer long term real returns.

Holding time

Their research shows that as one's holding time increases, the probability of negative returns declines.

Time Period	**Probability of losing money**
1 day	44%
1 week	43%
1 month	38%
1 quarter	30%
1 year	20%
3 years	6%
5 years	0%
10 years	0%

Conclusion

Its sometimes good to look at long term returns when there is so much political and economic noise surrounding us.

There are 4 points that really impact on me:

1) The long term enemy for a South African investor is inflation
2) You need investments that may give you inflation beating returns such as equities and listed property.
3) Market declines are not abnormal. Indeed, the very opposite so one needs to come to terms with them and therefore hold a diversified portfolio with different asset classes.
4) As Warren Buffet has said, to be successful you need patience, investment is not a sprint but a marathon.

Kind regards
Brian