Dear Friends

Avoiding the negative power of greed

Reflecting on 2020, it dawned on me that I narrowly missed making a dumb mistake in the year prior – all because I saw the dollars in my superannuation account and got excited. I was almost blinded by greed. Fortunately, my training and Marinis' disciplines saved me.

In July 2019, my super (in line with everybody else's) was performing brilliantly. Considering my age, my proximity to being able to 'Transition to Retirement' (and this does not mean I'm retiring – see my last eGrow) I should have, logically, manoeuvred out of some of my growth assets and increased my cash holdings – to build my own 'Marinis Buffer'. But the little green demon on my shoulder argued that it was too soon, my super was outperforming all expectations, and the upside was still there for the taking.

Then I thought about Stacey Vyden, one of our team of Authorised Representatives who does such excellent work for me. I thought "Stacey will challenge me on this – and point out that I would advise a client to stick to their established strategy". Therefore, I asked Stacey to rebalance my portfolio by selling down 20% of the growth assets and allocating the proceeds to cash (which earned just 0.5%) effectively creating the classic 'Marinis Buffer'.

Then came COVID-19, and the markets tanked… but my portfolio was protected and I consider myself very lucky I didn't give in to the 'green demon'. Instead, I'd built myself a shock absorber.

Whether you are a financial planner or a bus driver, it is human nature to roll the dice one more time. I often think that the main reason for appointing an adviser is to have that voice of reason which stops us doing things which could cause us financial problems.

As at December 2020, over the previous eleven years, my super portfolio has produced an average NET rate of return of 7.4% per annum. Regular readers of eGrow will know that I counsel my clients to plan around an average annual return of 5%, and these results were almost 50% better than that. Be assured, however, that I've based all my future plans around the lower figure, and I'm quite happy to be delighted on the upside.

My personal experience has proved to me the benefits of developing and sticking to a long-term plan – and having to account to another human being for our actions.

Irrational investment market behaviour

Economist John Maynard Keynes is famously reported to have said "The market's ability to remain irrational is greater than my ability to remain solvent" and in late January we had a weird example of exactly the type of craziness he was talking about. Driven by a forum on social news internet platform 'Reddit', a large group of retail investors made an attempt to disrupt the professional markets. Dubbed a 'Robin Hood' action, the outcome was not quite on par with the overthrow of the authority of the Sheriff of Nottingham – in other words, whilst the action succeeded in the short term, similar actions are less likely to be successful in the longer term.

Why? Because whilst the short selling tactics of the 'Reddit Rabble' have moved on to other stocks, and we can't say yet that they are done, this is not the new normal.

Small investors piling into stocks like US video retailer GameStop, and now other stocks, including silver, won't be a permanent feature of our capital markets. Eventually, they will sadly lose all their money and go back to (figuratively speaking) delivering pizzas.

This type of market behaviour is another example of why I so dislike speculation when it comes to long term investment, and in particular, retirement savings. I will never advocate gambling with your 'nest egg'. My constant refrain is to "stay in your seats and stick to the medium to long term strategy." The 'Reddit Rabble' had some spectacular paper profits – but they always evaporate when rationality returns. Most of these investors will, or have already, lost significant amounts of money.

That said, I must say overall, that I'm quietly cheered (and a little surprised) by the 2021 COVID-19 crisis bounce-back.

As usual, I expect that a lot of current investment market pricing is based on over-exuberance, and as always, we can predict a revaluation in the medium to longer term. We are also seeing property prices at crazy levels, fuelled by historically low interest rates, and this situation must also calm down as the global economy finds its balance again.

My innate caution tells me that we should all be remaining in our conservative ‘index’ style investments, keeping our investment costs down, looking for opportunities within the retirement legislation and protecting ourselves, as much as we can, against the downsides of life. Who knows when the next challenge (be it global, national or personal) will arise.

I suspect returns over the next five years will be slightly below average as the world rebuilds after the virus and people calm their irrational enthusiasm. My crystal ball, like that of everyone else, remains very foggy at the moment. But what I do ‘see’ is that those who play with the investment giants risk being crushed, as our friends on Reddit have and will discover. As I always say, “far better to get rich slowly and stay rich.”

During the depths of the COVID-19 crash, a client phoned me and said “the share market is down over 30% – let’s go shopping.” I cautioned against deviating from the strategy we had established, even though in hindsight (so far) ‘going shopping’ may not necessarily have been a bad move. The point is that we never know how low, or high, a market will go. Trying to time it is a fool’s game, as borne out by the research. I liken it to the analogy “You wouldn’t try to grasp a falling sword.”

True investment is about buying and holding assets for the long-term in line with your risk profile – in other words “getting rich slowly” – rather than attempting to predict, or time, the highs and lows in investment markets. Trying to second guess financial markets is speculation, not investment.

As I have advised numerous clients who have asked to ‘speculate’ in the past “leave your super with our established long-term investment strategy …and only speculate with those funds you can afford to lose!”

And One More Thing

The price of life insurance is likely to go up in the near future due to COVID-19. This makes sense, but it is annoying. I have asked Jason Zanini, a senior member of our team, to prepare a future eGrow on this topic.

Media

Please click here to see the latest media articles involving Marinis Financial Group. If you would like to read my recent contribution to Alan Kohler’s InvestSmart magazine about mental health and investing, click here.

As always, if I or any of the team can be of assistance, please don’t hesitate to contact us on (08) 8130 5130 or admin@marinisgroup.com.au.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative

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FINANCIAL PLANNING ASSOCIATION of AUSTRALIA

Financial Strategies (SA) Pty Ltd | **ABN** 54 083 005 930
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P 08 8130 5130 | **F** 08 8331 9161 | **E** grow@marinisgroup.com.au

A 49 Beulah Road, Norwood SA 5067 **|** **W** marinisgroup.com.au