University of South Africa Retirement Fund

“History unfolds itself by strange and unpredictable paths. We have little control over the future; and none at all over the past.” Winston Churchill

Sometimes communication on market events may come across as being high-handed, with the core message simply being to stick with your current investment strategy. A phrase often used is: “It is about the time in the market, and not market timing”. The basic message of this communication is consistent with this, but we have tried to provide some additional context by explaining how our behaviour drives our decisions.

War, such as the one in Ukraine, reflects the worst of humanity. It causes terrible loss of life, and the destruction of homes and infrastructure. For those who are directly affected by the war, the potential impact on investment returns matters little. Rather, their focus is on surviving and wishing for their loved ones to be safe.

For those of us who are largely unaffected by the "first order" effects of the war, there is the freedom to be concerned about how the war may affect investment markets, and hence our retirement benefits. The best answer to give to this question is: "we don't know, especially in the short term." To many this seems like a very unsatisfactory answer. This is even more so the case, because one can readily watch the news, or read posts on social media from an expert who expresses his or her opinion about what will happen next, which may give the impression that the future course of events is predictable for those who are sufficiently well-informed. However, there are lots of research that shows that if one measures how accurate these "expert" forecasts turn out to be, most opinion is no better than guesswork.

Something else you should know, is that the biggest mistakes in forecasting occur when there is the highest degree of uncertainty. This also tends to be the circumstances when people are most prone to behavioural errors such as being over-confident that they are right, or alternatively being fearful and making hasty decisions.

Maybe the best thing to do is to pause and consider how you can use the above information in relation to your retirement fund savings. One could draw the following conclusions:

1. It is probably more useful to spend less time trying to forecast what may happen in relation to a specific event. such as the conflict taking place in Ukraine, because the chances of getting this right are slim. Rather one should focus on thinking about how vulnerable your investments are to "bad things" occurring.
2. You should try to look towards the long term as opposed to getting caught-up in the noise of the moment; and
3. You should ensure that you are comfortable with your investment strategy, as this will reduce the risk of you making a mistake.

Let's look at each of these three points in more detail.

Your portfolio is well diversified

There is some good news on the first point – the portfolios in which your money is invested contain many different investment ideas[1]. Yes, the portfolios have some exposure to Russia/Ukraine, and multi-national companies that do business in Russia and hence will be negatively affected by the sanctions applied by the rest of the World. However, it is likely that this will be a relatively small proportion of the portfolio. The portfolios will also have some exposure to companies that are likely to benefit from the war, such as commodity companies, including the likes of South African platinum miners.

[1] This statement applies to members invested in a growth portfolio structured with the objective of delivering long-term returns well ahead of inflation. The statement would not, for example, be relevant to a member invested in a money market portfolio, although in that case there would of course be no direct exposure to Russia/Ukraine.

Naturally, the high degree of uncertainty in the market may cause the amount of your retirement money to go down, particularly over short-term periods. In addition, investment return is likely to vary widely from day to day. One may look at the position one day and see that the portfolio is up, but in a week's time, it may be down and possibly by quite a lot. It is exactly this volatility that causes many to make mistakes in investing. Obviously, one way to guard against this is to avoid checking the amount of your retirement savings too frequently!

The far more important question is not how these savings may fluctuate from day to day, but whether one loses a portion of your money permanently. At this time this seems somewhat unlikely given the limited exposure your retirement money has to the conflict region. Of course, one can never be sure, because there is a small chance that the Russian Ukraine War spirals into a broader global conflict, in which case the risk of a permanent loss of capital will increase.

Think long term

The human brain is wired to react quickly, especially in the face of danger or uncertainty. In our evolutionary history this ability to react quickly has been critical to our survival and success as a species. This thinking however makes it very difficult for us to think long term.

As important to the success of mankind has been our ability to be curious, to be brave, to explore and to innovate. These are all long-term behavioural traits. If you think about it, it is these human traits that drive investment markets in the long term, not the noise caused by the day-to-day things that happen around us. It is for this reason that it is critical to have a long-term focus when investing, even though it is often difficult to do so.

Choose an investment strategy that you are comfortable with

Most communication like this implores you to stick with your current investment strategy. This, of course, is sound guidance. However, what is often missing from the communication is that there is a prior step. This step is that you should choose an investment strategy that you are comfortable to stick with even when markets decline. Expressed another way, you should decide upfront how much negative return you are comfortable to bear when markets perform poorly. By doing so, you remove the stress of having to react to market events and avoid decision-making at the time when the risk of an error is highest. Arguably, this guidance is more useful than just saying "stick to your current investment strategy".

Summary

The table below shows the returns of the Fund's investment portfolios for March and April 2022.

Month	Inflation Target	Stable	Income Protection	Shariah
March 2022	-0.74%	-0.47%	0.44%	-0.51%
April 2022	-1.34%	-0.18%	0.46%	0.19%
March / April 2022	-2.07%	-0.65%	0.90%	-0.32%

Whilst the returns are negative for all the portfolios except for the Income Protection Portfolio, there is very little that would indicate that Europe was in the midst of the largest war on the continent since the end of the Second World War. However, if one then listened to the news or read social media, there will be significant story telling about the War and its possible impact on investment returns. This, in another way, highlights the importance of considering the facts ahead of the story.

Nevertheless, the future remains unpredictable and, of course, there is the possibility that investment markets could be down significantly in the near future as a result of the conflict or indeed for some other reason such as high inflation. Arguably, the most important point made above is that you should follow an investment strategy that you are comfortable to stick with when markets decline. In so doing you remove the anguish of having to make decisions at the time when the risk of making a bad decision is at its highest.

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