Investors are normal, not rational

Are you a rational wealth maximiser?
“When money realizes that it is in good hands, it wants to stay and multiply in those hands.”
_Idowu Koyenikan_

(Author: Wealth for All: Living a Life of Success at the Edge of Your Ability)
What is the current position?
What is the current position?
Where are we now?

Source: Google Images
#1: Our brains lead us on the wrong path

Buying high and selling low

Source: Blackrock, Informa Investment Solutions
#2: Our brains think it's good at investing

The more you trade the less you earn

**Overconfidence:** Placing *too much confidence* in your ability to predict the outcomes of your investment decisions.

Overconfident investors are often **under-diversified** & thus more **susceptible to volatility**.

People end up:

1. taking more risks
2. failing to diversify
3. trading too often

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**Performance vs Turnover**

- **Gross Return**
- **Net Return**
- **Monthly Turnover**
- **S&P 500 Index Fund (Net)**

**Source:** CFA Institute / Finametrica
#3: Our brains do not know how to handle new information

Holding on to the losers

Growth of R1 000 000 invested in May 2012 (when PSG switched from Investec Value to Kagiso Equity Alpha)

Time Period: 2012/05/31 to 2015/03/31

30% gap!
#3: Our brains do not know how to handle new information

Holding on to the losers

Source: Morningstar Direct
#4: Our brains are too focused on the past

Past performance does not determine future performance

- People look for **information that agrees with their opinions**: News, data, etc.
- **Past decisions are used for future decisions**
- The trap is that people keep on investing, making bigger bets - due to **past success**
- Investment returns vs investor returns - Gap is known as the **behaviour gap**

Source: Behaviour Gap
#5: Our brains do not like to lose

Illusion of control

- The **reluctance to accept a loss**, can be costly
- For example: One of your investments may be down 20% for good reason
- The best decision may be to just accept the loss & move on
- However, you cannot help but think that the share might bounce back
- The **illusion of control refers** to your belief that **you have in an influence over the outcome** of uncontrollable events

- **More information does not equal better decisions**
  - It is what you do with it that matters

- These traps lead to:
  - Over-estimate your knowledge
  - Under-estimate the risk
  - Exaggerate your ability to control the situation

Source: CFA Institute
#6: Our brains like to go with the trends

The more you trade, the less your outperformance

- Active trading because of **change of risks** as markets change - **Fear**

- Individual investors’ attention is drawn to the noise & they act after they see the results of other investors’ actions - **Greed**

Figure 1. Buy-and-hold was superior to a performance-chasing strategy across the board: 2004-2013

![Bar chart showing performance comparison between buy-and-hold and performance-chasing strategies across different categories: Large blend, Large growth, Large value, Mid-cap blend, Mid-cap growth, Mid-cap value, Small blend, Small growth, Small value. The buy-and-hold strategy generally outperforms the performance-chasing strategy.]
02 | What is the ideal position?
What is the ideal position?
Where do we want to be?
#1: Begin with the end in mind

Get advice

Research: “A financial adviser value of advice 2010”

Clients who have an adviser are:
- happier with their investments
- wealthier
- more engaged with their finances
- have certainty & control over their financial future

Source: Behaviour Gap
#2: Be proactive
Invest early
#3: Put first things first
Prioritise your priorities

...WHERE DO YOU WANT TO GO?
#4: Think win-win

Balance the best possible outcome from both sides

Source: Investopedia
#5: Seek first to understand, then to be understood

Invest in what you know

- Investments is a **term decision & outcome based**
- Be familiar with the **risks & opportunities**.
- If it is to good to be true, it is **not true**

Source: Behaviour Gap
#6: Synergise
Two heads are better than one

- Ask & ask again
- Perception about risk vs returns vs time vs reality
- What you think you may need vs what you actually need
- Leverage on the skills & knowledge of an adviser

Source: Behaviour Gap
#7: Sharpen the saw
Be informed with PSG

- Contact your adviser at least once a year
- Investment updates & research at seminars
- Webinars through PSG
- myPSG – Single portal with all your information
- Communities like Twitter, Facebook & LinkedIn
03 | How do we get there?
What are we proposing?

One integrated investment platform: It is your choice

The widest choice of quality investments

- Single manager and multi-manager funds, share portfolios and other investment instruments
- Hassle-free administration and consolidated reporting
- Specialist technical advisory services and support
- Multi-asset, goal-based and managed solutions
- A wide range of underlying funds and instruments to build your own solutions

Flexible technology

Tools

- Online calculators, financial needs analysis, portfolio planning and charting tools
- Efficient, scalable and accurate administration

Access best-of-breed PSG products and the widest choice of underlying investments

- Unit trusts
- Multi-manager solutions
- Retirement annuities
- Structured products
- Offshore investments
- Hedge funds
- Living annuities
- Endowments
- Personal share portfolios
- Corporate cash solutions
- Currency futures
- Contracts for difference
- Life portfolios
- Call and notice deposits
- Single stock futures
- Local and offshore equities
What are we proposing?

Why PSG? We care about investors’ outcomes

### TOP FUND PERFORMANCE

<table>
<thead>
<tr>
<th>Fund</th>
<th>Awards</th>
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<tbody>
<tr>
<td>PSG Asset Management</td>
<td>2004: S&amp;P – Sector award: Flexible sector (3 years)</td>
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<tr>
<td></td>
<td>2004: S&amp;P – Sector award: Growth sector (1 year)</td>
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<td>2005: Raging bull – Sector award: General Equity (3 years)</td>
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<tr>
<td></td>
<td>2006: S&amp;P – Sector award: General Equity (3 years)</td>
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<tr>
<td></td>
<td>2010: Raging bull – Sector award: Flexible (3 years)</td>
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<td>2010: Raging bull – Best domestic AA Flexible fund (5 years)</td>
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<td></td>
<td>2011: Raging bull – Best broad-based domestic Equity fund (3 years)</td>
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<td></td>
<td>2012: Morningstar – Best South African ZAR Moderate Allocation Fund</td>
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<tr>
<td></td>
<td>2013: Morningstar – Best South African General Equity Fund (1 and 5 years)</td>
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<td></td>
<td>2014: Raging bull – Runner up of the South African Collective Investment Schemes Management Company of the Year award</td>
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<tr>
<td></td>
<td>2014: Raging bull – Best South African Multi-Asset high equity fund</td>
</tr>
<tr>
<td>PSG Multi-Management</td>
<td>Wealth Moderate Fund of Funds – Morningstar Moderate Fund Allocation Award and Multiple Raging Bull awards</td>
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### OUR INVESTMENT PLATFORM

- One of the fastest growing investment platforms in South Africa
- Rated by NMG as one of three platforms positioned for changing legislation
- Voted by the PSG Wealth financial adviser network as their platform of choice

### AWARDS

- Stockbroker of the Year – 2011, 2012 and 2013
- National Broker of the Year – 2011 and 2012
- Wealth Manager of the Year – 2012
- Best Wealth Manager in “Upcoming entrepreneurs” category and 2nd overall Wealth Manager – 2014
- Top Private Banks and Wealth Manager survey for 2016 - Placed second
Questions?
Conclusion
Conclusion
What must you remember

• Be aware of that you are normal
• Stand back from noise
• Get advice from an expert
06 | Shaun van den Berg
shaunvdb@psg.co.za
0860 774 774
END | thank you
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