

## Chasing yesterday's winners

.... biases can  
impact investment  
decision making...

It's easy to get caught up in trying to find the 'best' investment at the 'current' point in time. However, as we know, investing is a long-term game. We also know that only looking retrospectively at investments can be detrimental to future decisions.

Recency bias, a behavioural bias that investors can often exhibit, leads investors to focus on the recent, short-term environment and commonly comes into play after periods of exceptional positive performance or extreme poor performance. At times it is also closely linked to hindsight bias, which is when an investor believes an event could have been predictable and leads to the belief that future events will be predictable. These biases can impact investment decision making.

An illustration of this is a common misunderstanding of investing in yesterday's winners (based on hindsight), and that the performance will continue (based on recent performance). The example below considers the outcome if an investor switched into the prior year's best performing local equity fund. This exercise entails a switch at the beginning of every year, into last year's best fund, over a 5-year period from 1 January 2017 to 31 December 2021. For reference, this 'switched equity fund' is compared to a local passive equity fund as well as a local active equity fund\*.



Data source: Factset, Morningstar Direct & Analytics Consulting; Data period: 01 January 2017-31 December 2021

\* The fund universe over the period analysed (2017 – 2021) was the ASISA South African Equity General category. Only surviving unit trusts and those that would be accessible were considered.



## STAY THE COURSE

---

... stay committed  
to your investment  
objectives...

---

From the above, it's evident that the switching would have been detrimental to investment growth, versus staying invested in one fund over the investment period (not even mentioning the emotional stress it may cause trying to manoeuvre and market time, year by year).

It's easy to get caught up in short-term mindset which may lead to less optimal investment decisions being made. Especially during periods of extreme over and under performance, it can be tempting to chase past winners or respond reactively. It is crucial to stay committed to your investment objectives and to focus on the long-term, while not getting swayed by short-term events.

Maintain your course, stay invested.

Disclaimer

The information provided is for internal use only and is of a general nature and does not take into account investor's objectives, financial situations or needs. The information and opinions contained in this document are recorded and expressed in good faith and in reliance on sources believed to be credible. No representation, warranty, undertaking or guarantee of whatever nature is given on the accuracy and/or completeness of such information or the correctness of such opinions. Views are subject to change on the basis of additional or new research, new facts or developments. Analytics Consulting will have no liability of whatever nature and however arising in respect of any claim, damages, loss or expenses suffered directly or indirectly by an investor acting on the information contained in this document. The information does not constitute financial product advice and it should not be used, relied upon or treated as a substitute for specific, professional advice. It is, therefore, recommended that investors obtain the appropriate legal, tax, investment and/or other professional advice and formulate an investment strategy that would suit the investor's risk profile prior to acting on such information and to consider whether any recommendation is appropriate considering the investor's own objectives and particular needs. No guarantee of investment performance or capital protection should be inferred from any of the information contained in this document.

Collective Investment Schemes in Securities ("CIS") are generally medium- to long-term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to future performance. CIS are traded at ruling prices and can engage in borrowing and scrip lending.