Perpetual

PASSIONATELY UNEMOTIONAL

PERPETUAL
17/08/2016

The first principle is that you must not fool yourself and you are the easiest person to fool.

Richard P. Feynman

Successful investors are passionate about investing but objective in their decision making. It's a crucial distinction because emotional decisions are fraught with danger. If you pay too much for shares or sell at the wrong time, you may feel an initial hit to your hip pocket but the consequences multiply over time because investing is a long term game. Small losses suffered or small gains captured can make a big difference over a 30 year investment horizon.

Cycle after cycle investors tend to chase returns rather than anticipate them. Whether it's Isaac Newton – the greatest scientists of his age – who lost his entire fortune buying into the top of the South Sea bubble nearly 300 years ago or the tech wreck of just 16 years ago, investment manias have traversed time, every society and as well as every industry. We look at a couple of the most common behavioural biases that can wrong-foot investors.

Loss aversion	Investors hold on to bad investments for too long, hoping to recoup losses. On the flip side, they sell winning investments too quickly, hoping to realise short term gains.
Herding	Investors follow the behaviours of others for fear of missing out. The tech wreck of the late 1990s is a classic example of investors following others in a frenzied rush to buy (and sell!)

Overconfidence	Investors who have made a successful investment in a particular asset class invest again because they think the outcome will be the same.

A systematic, objective and proven approach to investment

As an investor for the long term, you can ill afford to lose precious capital by investing in the wrong place, at the wrong time and for the wrong reasons. By taking the emotion – or investment bias – out of the decision you will avoid the fear and greed that lead to poor investments. It requires a systematic approach to investment where decisions are consistently assessed and constantly reviewed.

At Perpetual, our fund managers take the emotion out of investing by:

- **Valuation** – rigorous valuation disciplines help stop a fund manager falling in love with a stock. If it's priced below the intrinsic valuation established by Perpetual research, it *could* be a buy. If it's persistently above that number, it *could* be time to sell.
- **Ranking** – Perpetual analysts are compelled to place – and defend - a rank on the companies they cover. That helps them act objectively when it comes to buy or sell decisions.
- **Peer review** – having your investment theses tested by the jury of your peers helps takes personal emotions about a stock out of the equation.
- **Accountability** – each Perpetual analyst and Portfolio Manager is rated – and remunerated on the quality of their stock picking – because that is what delivers returns for investors. There is no place to hide…

As Perpetual's Vince Pezzullo, Portfolio Manager – Australian Equities puts it, **"People tend to chase returns which means you're paying the wrong price for an asset. There's always an opportunity, you just have to be patient enough to wait for it. That comes with time and practice, which is what we do."**