EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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INFORMATION OVERLOAD IS LIMITING INVESTMENT RETURNS

Since the arrival of the internet, talks about the "information age" and its many benefits have taken place continuously. Benefits such as cheap, or even free, access to large volumes of information. But the discussion rarely progresses to the potential negative impacts that might arise from too much information. We believe that the benefits of access to information are real, clear, and well-documented, however, as with anything in life, too much of a good thing is generally bad. Not only has the volume and accessibility of information increased but also its frequency, so much so that real-time data has almost become the norm. This creates a unique problem when the goal is to achieve a long-term target. People, in general, have grown accustomed to speed and efficiency, and get frustrated at the mere thought of having to wait, especially if the immediate environment seems uncertain. This picture is the polar opposite of investing.

Investing, especially in equity markets, requires a long-term mindset, with very little attention being given to the noise surrounding you in the short term. Warren Buffett said it perfectly: "If you don't feel comfortable owning a stock for 10 years, you shouldn't own it for 10 minutes". This is generally the approach that most investment managers take when selecting assets to include in their portfolios, and it increases the probability of achieving optimal performance over the long term. Unfortunately, investors are not always as patient, and often impair their investment performance by making short-term decisions based on emotion, or as we will elaborate further, information overload. The average retail investor receives performance reports at least quarterly, with investment fact sheets piling into their inboxes monthly. Then we are not even talking about the myriad of competing investment managers force-feeding their marketing material via e-mails, social media, phone calls, and even airport terminals. No wonder the average investor feels overwhelmed by the investment question and second-guesses their decisions at every corner!

Investment managers are also being forced to adapt to the "information age", not only in terms of the changing investment landscape but also from a client management perspective. Owing to the frequency with which investors can access investment information, and the vast amounts of alternatives being marketed to them, investment managers are being pressured to make shorter-term investment decisions, limiting their long-term return potential. An example of this problem is the performance differential between retail investments and alternative investments, such as private equity funds. One of the key differences is the investment period. A typical lockup period (the time in which investors cannot withdraw funds) for a private equity fund is at least five to seven years, with infrequent investment information throughout the period. This creates an environment wherein the investment manager can make long-term investment decisions without the pressure of clients withdrawing funds in the short term, which increases the probability of achieving favourable long-term investment performance.

As with most real-world problems, the solutions are, unfortunately, not simple. One approach that can address some of these issues is the bucket approach to financial planning. This approach involves creating different buckets or pockets of investments, each addressing a different investment need with its own investment horizon. This affords the client the much-needed comfort that their unique needs are being addressed, it simplifies how they look at their total investment portfolio, and it increases their chances of sticking to a long-term financial plan. For long-term financial success, we recommend trusting your investment manager, maintaining a long-term mindset, and avoiding getting distracted by short-term noise.

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