EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR MONTHLY ECONOMIC UPDATE

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WHAT THE TOUR DE FRANCE AND MARKETS HAVE IN COMMON

Long-term investing shares parallels with the Tour de France – a strategic journey where endurance prevails over short-term sprints. Much like cyclists navigating diverse terrains, investors navigate market fluctuations from quarter to quarter and year to year. Success demands patience, resilience, and a strategic approach, underscoring the significance of steadfast commitment in the financial race for wealth.

For those unfamiliar with the Tour de France, it is cycling's premier event, covering 3 500 kilometres in France across three weeks. It was originally started in 1903 to boost the L'Auto newspaper's circulation and then evolved into a global spectacle. Cyclists face various stages, from challenging mountain climbs to flat sprints. The yellow jersey, introduced in 1919, symbolises the overall leader. The Tour de France has woven a tapestry of legendary battles, captivating audiences with its blend of athleticism and endurance.

The correlation between the Tour de France and financial markets is intriguing. The Tour has never been won by a cyclist who has claimed victory in every stage. During the difficult mountain stages when conditions are challenging, it is usually the climbers who prevail; in the case of markets, defensive funds usually outperform during challenging times. Conversely, flat stages favour speed, akin to high-frequency traders utilising leverage and derivatives. Similarly, financial markets witness varying dominant strategies, whether defensive, growth or quality, each quarter or year, reflecting the Tour's changing winners from one stage to the next. But, ultimately, success lies in donning the metaphorical yellow jersey or, in our case, achieving financial prosperity. But how do investors win the yellow jersey in the race for wealth?

Renowned investor Howard Marks asserts that success in investing lies not in being consistently right all the time but in being more right than others most of the time. Terry Smith from Fundsmith emphasises that "in order to win or achieve financial success, one needs to be excellent at one discipline, not bad at the others, and to work with your team", or, in this case, your Efficient financial advisor. In this way, we can assist clients in investing in the correct long-term strategy and not switching strategies during the wrong period, that is, in the wrong stage of the race because they might have temporarily fallen back in that particular period (stage). What we often see happen is that clients switch funds, or even asset classes, incurring fees and taxes at the wrong time, only to discover that their previous approach outperformed after the switch.

In recent decades, quality investing has established itself as the pre-eminent leader among various investment styles, consistently earning the coveted metaphorical yellow jersey. In short-term sprints, quality can underperform but, over the past 25 years, quality investing has consistently outperformed the MSCI World Index in every rolling ten-year period. Or, as Marks put it, being more right most of the time. At Efficient, we align ourselves with long-term, quality investors, prioritising businesses with proven track records over extended periods. These enterprises stand out through attributes such as price leadership, superior quality, robust brand strength, and adept managerial prowess, among other defining characteristics.

In the persistent pursuit of wealth, we implore investors to be resilient like Tour de France cyclists. Steadfast, long-term investors must own quality businesses, unaffected by short-term market fluctuations. Success demands patience, strategic commitment, and a disciplined approach that will steer investors through the different stages to financial triumph.

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