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How you can influence your investment outcomes

After an undeniably tough 2018, the local market staged a turnaround during the first quarter. But the atmosphere in the country is blowing hot and cold: As the general election approaches, and the Eskom crisis rages on, there is an undercurrent of uncertainty and markets are hypersensitive to the mood. Investors are understandably feeling anxious.

While we cannot control or accurately predict market movements or macroeconomic factors, this does not mean we have no control of our own financial future. There are various decisions that we can make to ensure a more secure outlook for ourselves, even in the midst of the uncertainty.

Knowing our locus of control

Researchers have long been interested in the notion of perceived control, also known as our locus of control. This is defined as the belief that one has the ability to influence and make a difference in the events that surround one's life.

In 2013, researchers from the Max Planck Institute for Human Development made some interesting discoveries. The researchers concluded that perceiving one's life as predictable and within one's control, can reduce emotions that lead to debilitating states like despair and apathy. The study was the most longitudinal of its kind: It analysed 16 years' worth of data collected by the Americans' Changing Lives Study, and tracked participants over a further 19 year follow-up period. The overall conclusions of the research were that higher levels of perceived control are associated with longer lives, and also that perceptions of control diminish with age.

Of course the study acknowledged that adverse life events understandably impact on our perceptions of control. However, what we can take from this research is that, while much of what happens in life is beyond our control, we still have the ability to influence many elements and outcomes of our lives.

Our investments are one such element. In fact, investing is an aspect of our financial future over which we can indeed exercise a high level of control.

Decisions you can make to influence your investment:

- **To invest or not to invest:** Firstly, you make the most important decision regarding your investment – this being the decision to invest in the first place.
- **The time is now:** Of course, you can also decide when to start investing. It is always recommended to start sooner rather than later, in order to benefit from compound growth. The Max Planck study found that perceptions of control are highest in young adulthood. This finding has implications for investment behaviour, supporting the notion that young to mid adulthood is an excellent time to channel our perceived control towards influencing our financial future.
- **The optimum amount:** The choice of how much to invest is also within your control, although naturally this is bound by constraints such as your income and household expenses. While it is undeniable that certain expenses are not adjustable, it is an empowering exercise to consider which elements of your current household spend you might choose to forfeit now, in order to reap greater financial returns in the future.
- **Stay in the game:** The next most influential decision you can make around your investment is one of the most important and also most difficult. This is the choice to keep investing during tough economic times. There is a tendency among investors to pause their contributions when pressure on household budgets is high. However, having the self-control to remain steadfast in your investment at such times, will pay its rewards in the long run.
- **Avoid binge spending:** We all have the propensity to want to splurge on luxury items in periods of economic relief. Given that the economy lies outside of our locus of control, it makes more sense to add any surplus cash to our existing investments or consider opening tax-free investments, leaving us in a more secure financial position when the tide turns again.
- **Select your investment manager:** The choice of who to trust with your investment is one over which you have full control. Investment managers allocate a great deal of time and expertise to growing wealth for their clients. Research your options thoroughly before starting an investment. Bearing in mind that all investments go through periods of underperformance, keep assessing whether you feel comfortable with the long-term results, services, and investment philosophy of your chosen investment partner.
- **Know your goals:** Your choice over which unit trust to invest in will depend on your investment objectives (i.e. what you want to save for), your anticipated timeline, and your tolerance of risk. Some unit trusts involve higher risk than others. These generally result in greater rewards over time, but can involve greater fluctuations in the short term. Your choice of unit trust is a decision that you can make on your own, or with the help of an independent financial adviser.
- **Seek trustworthy advice:** On this note, choosing a financial adviser is yet another aspect over which you have influence. If you wish to make use of an adviser's services, it is important to choose one who you feel will be a long-term support to you in your investment process, enabling you to make informed decisions.

As humans we have to accept that a great deal of what happens in the economy – and in life in general – is out of our control. However, it is encouraging and empowering to realise that there are still many decisions we can make to positively influence our investment outcomes, and consequently our own financial futures.

Commentary contributed by Lettie Mzwinila, business development manager, Allan Gray