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by Standard Chartered's Chief Investment Office

Meet the world's best investor

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When I joined Standard Chartered 24 years ago, I was introduced to the world's best trader. His name is Harry Hindsight. He always got market timing right, buying at the low and selling at the high. Not surprisingly, his returns were as fantastic as they were mythical. His problem was he could only 'predict' outcomes after they had occurred.

In the real world, we make decisions before we know the outcomes. This means we have to factor in uncertainty which totally changes how we should act and plan.

In a world of significant uncertainty and complexity, there are always reasons not to invest. Moreover, we are naturally predisposed to attach a higher weight to negative perspectives when trying to predict the future. One could argue this bias actually encourages market commentators to forecast bad outcomes as they are more likely to get clicks. This vicious circle can be very damaging to people's investment performance.

Let's take a recent example. Let's say that, in March 2020, I had perfect foresight regarding the intensity and duration of the pandemic. I would probably have struggled to stay invested in equities, let alone add to equity holdings, especially given the chorus of Armageddon-like predictions.

Thankfully, I had two things on my side. First, I am generally optimistic when it comes to market outcomes and saw the enormous policy stimulus as a 'whatever it takes' moment for equity markets. Second, I am very comfortable adding to investments during periods of weakness and very rarely sell into market strength. This lop-sided approach is based on three fundamental beliefs:

1. Equities tend to rise over the long run
2. Equities are approximately twice as likely to outperform bonds over any 12-month period
3. Market sell-offs are incredibly difficult to time

I think most people would broadly agree with the first two, so let's explore the more contentious third belief. Here I will share two perspectives.

First, there are many indicators analysts use to signal potential weakness in equity markets, including volume of equity purchases financed on margin, an inverted yield curve, and stock market capitalisation as a percentage of GDP. However, we have yet to find any indicator that is reliable enough to turn my second belief on its head over a 12-month time horizon or longer.

Second, people often forget that not only do you have to get the timing of the peak right, but you also have to time the re-purchase correctly. You would have been much better off sitting on your hands throughout the roller coaster ride in March-April 2020 compared with if you had sold global equities a month after their peak and then repurchased a month after the trough – in this case, you would have repurchased stocks 10% above your selling price.

Of course, the real outcome is often much worse. I speak to far too many would-be investors who are massively under-invested in equities as they are fearful during the bad times and then worry they have missed the boat.

So what should these investors do?
I have three pieces of advice. First, determine what your investment allocation should be in the coming 2-3 years. Second, start small, but still start investing with that target state in mind. Drip-feed savings into investments on a regular basis and then if bonds or equities sell off, you can accelerate the purchases. Third, stay diversified. Try not to focus on very niche areas of the market to start with - adding these types of investments can come later when you have already built a foundation allocation. Effectively, admit to yourself and your loved ones that, unfortunately, your name is not Harry Hindsight.

Determine investment allocation

Start small,with target state in mind

Stay diversified

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