

Putting the Spin on Investing

This week, I want to borrow some of the excitement surrounding the ICC Cricket World Cup 2007 to draw some analogies between cricket and investing. Though sports analogies are sometimes overdone, there are some key premises in relation to the game of cricket that apply very well to the field of investments.

Winning cricket matches is as much about strategy and temperament as it is about individual skill and team work. No cricketer can survive on mere skill. A well thought out strategy is a vital part of the game in all its aspects: batting, bowling and fielding.

Each player must be able to adapt to changing situations whether it be the batsman's style, the pitch or the run target. And for the captain, there is a lot of tactical planning to use your resources best. Even the average cricket fan can talk for hours on what bowling or batting resources he would use and how he would use them, were he made the captain.

Every investor should develop a well-defined strategy that acts as a framework for decision-making. The first step is to determine your goals, then to develop a sound investment plan designed to meet them. This investment plan should take into account factors such as one's time horizon, financial situation, and personal feelings about risk.

Many of today's investors recklessly plunge into the market without having an objective or goal. And if they do have set goals, they often change them with the whims of the market. To win, you can't allow your emotions to interfere with your long-term game plan. You must remain focused on your objective.

One of the most frustrating things for the captain of a cricket team is when a clear strategy is set and the players do not stick to it. An investment strategy is useless if not implemented with discipline. Just as a great cricketer does not choke under pressure, successful investors never allow fear or greed to cloud their judgment.

Unrealised losses in your portfolio can be unnerving, but fear of short-term loss is a flawed reason for taking action. If you sell to simply avoid negative performance, you're in danger of being on the sidelines during market upswings. You must have the patience to hang onto your investments long enough to benefit from a full market cycle.

Warren Buffet, arguably the most successful investor of the 20th century, places patience high on his list of qualities that make an investor successful. He is noted for saying that he only buys stocks that he would be satisfied holding if he knew that the stock market was going to be closed for the next ten years.

The relatively slow pace of a cricket match is a lesson in patience for both players and spectators. Opening batsmen are sometimes too eager to score quick runs and chase balls well outside the off stump in the early overs. Similarly, many of today's investors set themselves up for failure by trying to "score big" on an investment rather than looking for the ones and twos which often produces better long-term results.

Anxious investors set an investment strategy then lose patience and change tack at exactly the wrong moment as soon as things do not go as planned. Just as an opening batsman requires patience and fortitude to face the best opposition bowlers, you need to be patient with your investing. Successful investing is about commitment and endurance to achieve a specific goal, not about trying to get the next hot stock.

The riskier the investment, the more likely you are to bail out at the worst time, when your portfolio is way down and you have lost your courage. So one of the most important things an investor can do is figure out your risk tolerance and avoid taking on more risk than you can stomach.

Understanding how one will react emotionally to large short-term fluctuations and capital loss should be done upfront to avoid inappropriate knee-jerk reactions at times of stress. But bear

in mind that you have to take on some risk to keep up with inflation and achieve better returns.

Most investors need the potential growth that equities can provide to meet their financial goals. But just as there are people who should never play cricket because they have no interest or talent, there are people who should not invest in the equity markets because the thought of losing any money would keep them up at night.

This doesn't mean that they will never reach their financial goals, but it does mean that they will have to save a lot more to do so. What these investors need are strategies that seek to balance risk and reward, with the potential to minimize losses while also participating in up market gains.

The antidote to risk is to invest in a broadly diversified portfolio incorporating different asset classes and investment styles. Just as any cricket team must have players with various skill sets, so should a diversified portfolio consist of different investment strategies.

In cricket, you see teams that can bat well, but lack adequate bowling or fielding, and vice-versa. But it is generally agreed that to win championships, you need a good balance in every aspect of the sport.

The best cricket team, for instance, would not consist of 11 Brian Laras. Instead it would have a balance of players who were strong in different areas and whose skills complemented each other.

Too often our portfolio is built around a few holdings that are outperforming everything else. In the game of risk/reward balance, hedging all your bets on a star player might offer more reward but the risk is higher as well. Every player will get injured or have a slump sooner or later just like every investment will take a turn for the worse at some point.

Statistically speaking, you are much better off choosing a diversified portfolio. If your financial future is dependent on your investment team winning the World Cup, wouldn't you rather have the talent spread around than concentrated on one investment?

While diversifying your portfolio is easy to say, it can sometimes be hard to do. After all, how and where should you invest? What investment strategies should you include or exclude from your portfolio? How do you evaluate the various players to select the best team?

When cricketing nations need someone to evaluate players and put the best team on the field, they hire a coach. Using an investment professional to help you tailor an optimal portfolio is no different. In sport, it is often true that the team with the best coach wins the match, rather than the one with the most talent or ability. The same can be true in the investment world.

The game of cricket shares many common aspects with investing; far more than just winners and losers. Of course the financial stakes are often higher in investing but there's still a lot we can learn from watching teams and coaches prepare and play their game.

Winning cricket matches is often about strategy, discipline, patience and balance. These lessons apply to any sport or achievement that is worthwhile. Whether referring to successful investors, top athletes or great leaders, they all have these attributes.

The same principles that will make this year's Cricket World Cup Champions a success are universal and can be applied to any endeavour be it investing or cricket.