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focus

# Lessons from the **World's Worst Investor**

**This is a tale about John Smith, the world's worst (or maybe just unluckiest) investor.** Before you feel too sorry for John, don't worry, *we've made him up!* In reality it would be hard to be as bad or as unlucky as John even if you really tried.

FORSYTH BARR

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### A man with a plan

John is a nervous, risk-averse man. (Yes, he is a man — the evidence is quite clear, women are generally better investors than men… but we'll save that for a different article.) Back in 1971, at the age of 21, he formed a retirement plan to save $500 a year, increased each year by inflation. That's a pretty good start. John's problem, however, is he only had confidence to put his money in shares when the market was going really well.

### John jumped in … to the second longest bear market in history

John made his first foray into the share market near the end of 1972. Markets had had a good run. Optimism was high. Time magazine predicted 1973 was "shaping up as a gilt-edged year for the stock market". John felt good about the world and bought a diversified portfolio of global shares.

Unfortunately for John his timing was a disaster. The 1973-74 bear market that followed was the second longest in history (after the Great Depression). The market slide started in early 1973 as inflation rose and economic growth slowed. Declines accelerated after the Arab oil embargo in 1973 and compounded after the Watergate scandal and President Nixon's resignation in 1974. Over nearly two years global markets fell by 40%. The strengthening of the New Zealand dollar made it worse and John lost nearly half his investment.

The good news (as we will see is) John didn't sell. He couldn't bear the idea of crystallising loses, so he put his portfolio in the bottom drawer and tried to forget about it.

### Black Monday

It took a fair while for John to get over the strain. He avoided thinking about the market for a long time, until the mid 1980s in fact. By then the market was booming. John's portfolio had recovered and was actually well in the black. The emotional scars had healed. John "knew" now was a good time to step back into the share market.

Unfortunately for John it was August 1987. The five-year bull market ended dramatically on 19 October 1987 — Black Monday. The 22.6% crash in the Dow Jones Industrial Average index is still the largest single day fall in history. Rising tensions between the United States and Iran, fear of higher interest rates, and, at the time, new computerised trading are various reasons cited for the crash.

John couldn't believe it. Lightning had struck twice. He put his portfolio back in the bottom drawer and swore off the share market.

### Dot.com crash

John stayed out of the market for over a decade. By then it was the late 1990s and the share market was hard to avoid. It was the internet boom, day trading was en vogue, and John saw many of his friends making huge profits on internet, tech and telco stocks. John had stars in his eyes, he thought "the internet is going to change the world – now must be a great time to invest!"

Unfortunately, we now know, the dot.com bubble was one of the largest in history. The NASDAQ, which had risen by four times between 1995 and peaked in March 2000, crashed 78%. Although John had stuck to a diversified portfolio his holdings plummeted. The overall market nearly halved.

**...At the end of 2020 John's $214,000 of savings over 50 years had grown to just over $1 million, a return of 7.2% per annum...**

Once again John took the ostrich approach. He put his head in the sand, his portfolio back in that bottom drawer, and his savings in the bank.

### The Global Financial Crisis

Understandably John felt aggrieved about his investing experience. By this time it was 2007 and he was 57. "None of his friends had been as unlucky as him!" He was starting to think more about his future retirement – "it wasn't that far away". His portfolio had recovered the bulk of the losses from the dot.com crash. The global economy was growing strongly, helped by the emergence of China as an economic power. He decided to give the share market another go.

Poor John, his curse struck for a fourth time (hard to believe I know!). The Global Financial Crisis was the worst global economic crisis since the Great Depression. It started with the collapse of the United States housing market and spread to the banking sector. Markets only stabilised after huge bank bailouts and other government and central bank intervention. At its trough the global share market had sunk by 54%.

### The COVID crash

After the GFC John decided that was it. He was never going to invest in shares again. And he didn't. For a fair while at least.

But as time passed a few things happened. By 2013 his share portfolio had recovered all its losses, and then quickly started showing some nice gains. The memory of the pain of the earlier losses faded. And, as interest rates continued to fall, it was actually the return he was getting in the bank that felt painful.

The tipping point for John was when, in late 2019, term deposit rates fell under 3%. Surely he could do something better with his money? The global economy was robust. No obvious risks on the horizon. By this time John knew a diversified investment portfolio was a sensible long-term option. "Surely it must be better than the bank!"

So yes, poor John did invest again. Just before COVID struck. It was a pretty tough couple of months. He was close to retirement and didn't have time to earn those losses back. Fortunately though, this time round, the pain didn't last too long. The COVID crash was one of the quickest in history, but so was the recovery. Within six months or so John's portfolio was back above water and he was counting his lucky stars.

### Lesson's from the world's worst investor

In 2020 John retired at the age of 70. On the face of it his investing experience was miserable. He managed to invest just prior to the five biggest market crashes over the past 50 years. So how did poor John's portfolio look once he finally pulled it out of the bottom drawer? The answer actually is, surprisingly, not a complete disaster! At the end of 2020 John's $214,000 of savings over 50 years had grown to just over $1 million, a return of 7.2% per annum.

How can that be you might ask?

We can learn a few, very important, investing lessons from John.

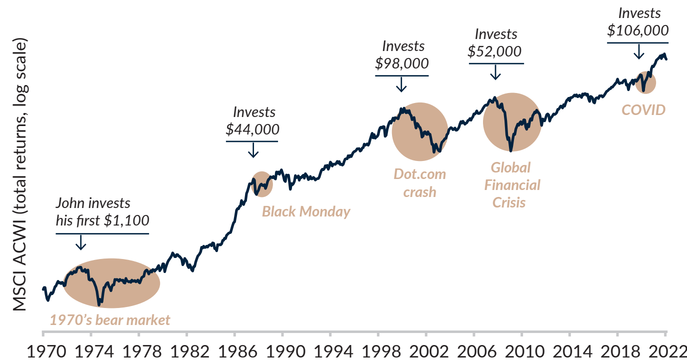
**John had a long-term savings plan.** He started early and saved every year. His first share market investment was at the relatively young age of 22. And once he bought he never sold. That **long-term**

**horizon** gave John the benefit of compounding returns over nearly 50 years. John had to endure the emotional turmoil of bearing losses along the way (and a lot more than most!) but that's the price investors pay to earn **higher returns from shares over the long-term** than more stable investments such as bank deposits.

What could have John done better? The answer is somewhat obvious – timed his investments differently. But maybe not quite what you think. It would great to think you could time your investing perfectly to coincide with the trough in markets. Unfortunately, the evidence is clear – there are extremely few (if any) who can do this consistently.

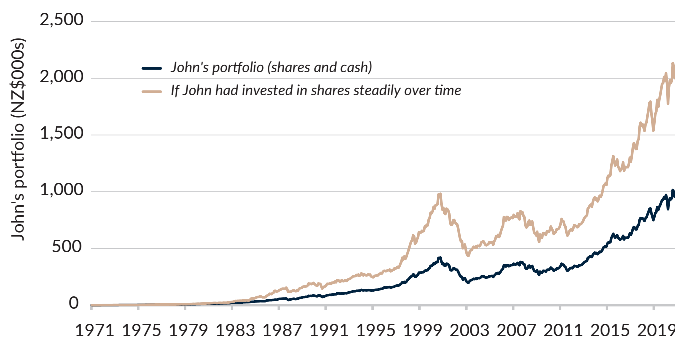
A more realistic approach is to **steadily add to your investments over time.** If John had invested consistently each month his portfolio would have been worth around $2.2 million when he retired – more than double. It helps reduce the emotion in your investing decisions, and makes sure you invest during the good times and bad. And it's not always easy to tell which is which! To quote Warren Buffett, "be fearful when others are greedy, and greedy when others are fearful" meaning it's typically best to invest when fears and risks seem most acute. Easily said but less easy to do. But having and (hopefully) sticking to a **long-term investment plan** is one way of increasing the odds.

UNLUCKY JOHN'S MISTIMED SHARE MARKET INVESTMENTS ...




Source: Refinitiv, Forsyth Barr analysis

...BUT HIS PORTFOLIO STILL WASN'T A DISASTER




Source: Refinitiv, Forsyth Barr analysis

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