

Comfortable with being uncomfortable

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Some time ago I read an interesting article about how the US Navy Seals, akin to our South African “Recces” and perhaps other special forces, prepare and train. The Seals have a saying: “*Get comfortable being uncomfortable*”. The theory is that if you can be comfortable being uncomfortable, you’ll be prepared to handle whatever situation comes along in your own life. The mantra applies not only to the extreme physical conditions they endure, but also the situations. During the rigorous training, they go through what’s called “[surf torture](#)”. Everyone would link arms and lay down in the frigid ocean until their bodies reach early stages of hypothermia. They do this daily before taking on whatever other tasks are required of them. The point is, stay focused on what needs to be accomplished, despite how uncomfortable it may feel.

As a country we face so many differences and seemingly insurmountable challenges, but these often are the breeding ground for wonderful opportunities. We can certainly learn from our exceptional Rugby coaches. South Africans are resourceful and resilient – we have witnessed it in the past. Hats off to the civil groups taking action, our free investigative press and individuals such as André De Ruyter, Herman Mashaba or Mark Barnes to name a few. Hopefully we shall witness positive changes by the 2024 general elections.

Is there such a thing as behaviour tax?

What is it? By now many empirical studies from *Vanguard* and *Dalbar* in the US (and recently in South Africa by *Momentum*), have confirmed the cost of poor investor decisions; i.e., the difference between an investment performance and the investor’s performance. These studies have proven the cost being surprisingly high (roughly between 1.5% and 3.5% **per annum** over a 10-year period). Thus, making investment changes at the wrong time during volatility or market uncertainty, such as trying to chase performance or less volatility. No investor likes these market movements; it is damn uncomfortable. Paul Samuelson, an economist and Nobel Prize laureate once said: “*Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas*”. It pays to focus on the seemingly boring aspects and minimise mistakes. It’s counterintuitive, but an investor will likely maximize gains over a lifetime if you go out of your way not to maximize annual returns. Below is an image by Carl Richards which illustrates the difference as to how we might feel about, or experience gains over losses. We tend to experience losses a lot worse than the same magnitude of an investment gain. The fear of losing money is sometimes at the heart of ill-informed decisions.



Howard Marks in his most recent memo, [I Beg to Differ](#), used the analogy of a bus stop. Imagine someone wants to catch a bus ride, but keeps jumping from the one bus stop to the other (not waiting patiently), the person might never catch a bus! As savers and investors, **we need to acknowledge what is out of our control**. Often investors make changes to their portfolios, to their own detriment, with some sense of control, external influence or unique insight.

Another peculiar example of human behaviour might be how we rationalise an item’s purchase that is on sale; when discounted by 20% or more. Not buying it might be an even bigger saving! However, in those instances, most people would be more likely to buy it, whether clothing or at the grocery store. Just imagine if the homes in your neighbourhood go on sale. Why then would we not want to invest more when the financial markets give us that investment opportunity with a discount of 20%? Warren Buffett is on record for saying: “*When everybody is greedy, be fearful and when everybody is fearful, be greedy*”. As savers we tend to look backwards (what happened in the recent past and projecting those results into the future). Often, we forget that a “new” future is in front of us. Making the right choices is not simple or easy. Investing well, like any significant endeavour, requires some level of discomfort to succeed such as sticking to that monthly budget and saving regularly, regardless. The importance of developing a discipline to press on when things are painful, to be patient and to execute on what’s right in front of us is a trait that carries over to accomplish almost anything difficult in life – to reach our financial dreams knowing that we are all unique, with our own needs and with our own story.

What may the rest of 2022 look like?

Pessimism dominated the financial news, pushing investor fear levels to record highs and leaving us with nowhere to hide. The last time all asset classes (stocks, bonds, industrial and precious metals) were down, was in 1981! With higher inflation, money-market instruments are not currently protecting any capital in real terms (after cost-of-living increases and taxation on interest).

We cannot predict, but prefer to plan for the future. A global recession seems likely, but it is not abnormal. We are going through an economic and investment cycle. Some investment allocations (like the broad US market) were expensive and there are signs that valuations are normalising. This normalisation may lead to more ups and downs, even though a lot of the correction has already taken place. It appears as if we heard the “bad news”. Financial markets tend to be forward-looking thus paving the way for a new upcycle. As the saying goes, history does not repeat but it rhymes. Although it’s difficult to predict when, [these cycles repeat itself](#).

In conclusion

As the storm abates, and in order to achieve those financial goals, we should stick to a well-crafted plan. Someone recently shared with me that they are not so much concerned with the results or benchmarks (I was surprised given the circumstances). None of it really matters to them, he just **wants to know if there is enough**. Enough to do the things they love with whom they want. Sounds like something from a novel, or poem. Perhaps this is the financial dream and freedom we all aspire to.