



Financial advice critical in volatile times

Seeking guidance from a trusted financial adviser is more critical

than ever in current difficult market conditions, says Peter Dempsey, deputy CEO of the Association for Savings and Investment South Africa (ASISA).

Investors tend to panic in times of market volatility, economic turmoil and political uncertainty, often resulting in knee-jerk investment decisions that are seldom sensible, adds Dempsey.

“It’s important to recognise that times are tough both locally and globally, and that every country has its own problems. The role of an adviser is to guide you through the noise, and help you to make best decisions for your unique circumstances,” he states.

Investor mistakes

According to Dempsey, in volatile times investors are particularly prone to making impulsive decisions, driven by the following common mistakes and behaviors that could destroy huge amounts of value in your investment portfolio. These include:

- Confirmation bias – Only paying attention to information that confirms your preconceptions.
- Optimism bias – Trusting your views and not the facts, or allowing your expectations to exceed reality.
- Loss aversion – Falling prey to inaction or taking only timid actions.
- Herding – Following others despite reality.
- Preference for stories over facts – Believing promises and tales of great successes and returns, which is key to the success of Ponzi schemes.

The value of advice

Dempsey notes that successful investors have a solid plan and do not sway from their path in difficult times. He points out that most successful investors, even those who are very experienced, work with financial advisors.

“Research demonstrates that advised investors remain more disciplined, better protected and have more assets, as financial advisers are able to guide them in balancing the need to face reality with the ability to recognise opportunities and the willingness to act.

“Advised investors are therefore able to accumulate more assets and build a balanced portfolio, manage their financial risk wisely, smooth their consumption to save for times they may not have, and optimise their personal balance sheets,” he states.

Dempsey explains that a good financial adviser will look at your unique financial situation holistically, and help you implement a watertight financial strategy with a long-term view that will be managed to adapt to your changing needs as you move through various life stages.

He adds that this strategy is not simply about choosing investments or unit trusts, but will also involve ensuring that you are prepared financially for planned events such as retirement, and are protected against unforeseen events such as death or disability.

“Advice is therefore key to making decisions that will increase or preserve your financial well-being for an independent financial future.”

The future of financial advice

The introduction of robo advice should not be seen as a substitute for a financial adviser, as robo advice does not provide an ultimate solution to all your advice needs, states Dempsey.

He notes that robo advice is useful for providing an online risk evaluation to help you manage your portfolio. It is also low cost, relatively easy to use, transparent and simple.

“However, it doesn’t evaluate complex family histories or help you to smooth your consumption or spending through planned and unplanned life events. It can’t answer tough questions in tough times, and it can’t identify and explain unusual risks and opportunities for your investments,” he explains.

He says that while robo advice and human advisors will continue to work in tandem in the future, innovations in technology, regulatory reforms and product innovations cannot replace the value of advice for your needs as an investor, especially in volatile market conditions.

“Financial advice is about coaching and planning as well as investing and financial protection, and while how advice is delivered may evolve, human behavior and the need for human advice will not change.”

Source: Risk Africa Magazine