

Remember the power of three

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When the markets rise we get annoyed if we haven't forecast it. Equally when it falls all of us at Tacit Investment Management get mad that we ever invested in the first place. It's a phenomenon known as 'the psychology of missing out.' It's our human fear of being left behind. And of course it occurs in everyday life whenever we make investment decisions.

Following a period of strong equity market returns it's important to remember why we invested and what our ultimate objectives are. At Tacit if you're one of our investors we've a three-pronged approach designed to help you understand which of our strategies is most suitable for you. These three factors provide a longer term perspective of your requirements along with your ability to reach a given goal based on equity market history.

The first of these approaches is your eventual objective for your investment. Do you need to grow it, receive an income from it or maybe you're seeking a bit of both? Understanding your purpose and your timeframe is our first priority.

Second is your attitude to risk. Behavioural studies show that investment losses hurt us far more than gains can make us happy. This loss aversion is vital to understand as it leads to poor decision making at tough times. For example, selling out investments following the market falls of 2008 would have locked in significant losses and after a while be seen as a poor investment decision. Understanding how you would react to something like this will help you and your advisors mitigate these risks.

Thirdly is your capacity for loss itself. This is technical but is best described as your ability to incur short term losses in your investment portfolio whilst persevering with your longer term objective. For instance, if you as an investor require a set income from your investments then you'll have a lower capacity for investment losses than someone who is currently saving and adding to their investments.

It's vital to remember that everyone is an individual and the solutions to the three elements vary from one person to the next. When markets have been rising it's easy to forget about your own objective and chase the short term returns. Human nature dictates this and try as we might we can't change human behaviour.

At Tacit we've learnt that understanding this power of three before investing followed by a reminder of your investing objectives is vital to ensuring that you achieve your specific longer term goals.

This can lead to some difficult conversations, but we don't and never will apologise for putting your best interests first at all times. Marrying our knowledge of markets to your individual requirements sits at the very heart of the Tacit decision making process.

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