Expensive lessons from a year of hard knocks

Dean Fergie

Monday, 06 July 2009 | Columnists | Page null | Dean Fergie

We have a saying around our office about investing: The game never ends. N matter how many good decisions or otherwise have been made in the past, yo always have to be on the lookout for new risks and opportunities. The stockmarket continues to challenge and surprise, reward and punish. As suc its participants need to constantly learn and adapt. Those who believe the know it all will only do so for a brief period.

At the end of every financial year I find it worthwhile to look back over the past 12 months and assess the decisions I have made. What did I do wel what calls do I wish I hadn't made; what did I fail to implement; what hav I learnt? The 2008/09 year was a watershed for experience, and one in whic the lessons came at an expensive price. So, what have I taken away from th tumultuous period?

"No matter how bad things get, they can get worse." Without doubt, all investors were shocked by the speed and aggression with which the market unravelled following the collapse of Lehman Brothers in September 2008. Ev though the market had already fallen significantly, and many stocks were looking remarkably good value on a historical basis, this did not shield them from falling a lot further. Those that stood in the face of the marke relying on valuations to support prices, paid the price. Which brings me t my second lesson.

"Sentiment can be more powerful than fundamentals." As a bottom-up, fundamental investor, seeing markets and stocks swing by many per cent ove a period of days, if not hours, was indicative of an irrational emotion-driven market. At these times it is wise to step back and let the traders, hedge **funds** and punters have their fun. Knowing when the game has changed and when not to play is a valuable quality.

"Diversification, as always, is key." Few sectors, other than cash, were immune from the destruction of value. Even historically conservative secto such as property trusts and the banking sector were victims. Personally we were caught with too many mining services companies. While their business remained sound, the rerating in both their outlooks and their earnings multiples meant that their prices declined significantly. Diversification a sign of humility. It says: I don't know it all, there aren't any no-brainers, I am going to be sensible and spread my bets.

"There is always light at the end of the tunnel." By nature, I'm an optimist. Even at the nadir at the end of 2008, I always hung on to the belief that at some stage markets would rebound. Calls to move to 100 per cent cash, while a conservative play, flew in the face of diversification. Those who took this option missed out on one of the strongest quarters for the Australian market over the past 20 years. When everyone is calling for markets to fall further - that is usually the signal of a market bottom. T stockmarket will never go to zero.

I'm looking forward to the challenges ahead in the new financial year. No doubt it will increase my stock of experience and show me that there is ev more that I don't know. Meanwhile, I'll aim to outweigh my poor investment decisions with good ones. I am also keeping my fingers crossed that the lessons for the coming year will be far less expensive than they proved to be in the last one.

Dean Fergie is executive director of ***OC Funds*** *Management.*