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Why have a pilot or financial advisor?

From the flight deck

Would you board and fly in an Airbus 380 one of the world's most advanced passenger planes without a pilot? After all in today's technological age pilotless technology is already incorporated into the planes advanced avionics commonly called the auto pilot.

Modern jetliners can literally take off, fly and land themselves without any human intervention just like drones or driverless cars. So why do we need a pilot and co-pilot given automation can replace them? Not so long ago flying also required navigators whose job it was to provide navigational flight plans as airplanes lacked modern GPS navigation instruments.

I remember taking off on a British Airways 747 Jumbo Jet sitting next to the pilot and co-pilot and where the navigator used to sit was a big note – ***"WHO SHOT THE NAVIGATOR"***.

It was no doubt a take from a well-known TV series, Dallas. JR Ewing one of the main characters was shot and a slogan who shot JR was coined. It was also in the days you could visit the flight deck before 9/11. It's a symbolic reminder of how the 4th industrial revolution is increasingly changing the job landscape and replacing even skilled people.

So how is being a pilot and flying comparable to financial, investment and retirement planning? Why do most people need a financial planner *(read pilot)*, financial plan and continuous guidance? One obvious reason being human is we innately want to deal with real people who understand our specific needs, empathise and care about us and our families as we journey through life in sickness and in health, helping us navigate the bad times as well as the good.

We all need people in our lives who we can rely on and trust no matter who we are and irrespective of what skills or qualifications we possess?

We don't want a robotic voice telling us we are number 25 in a queue and please wait. People are not just a number or statistic and despite the convenience of modern technology we all appreciate and need the human touch.

When flying commercially you are greeted and get assurance when you hear the familiar greeting and introduction by the captain.

"This is your captain speaking from the flight deck I wish you a warm welcome. Flying time is approximately 2 hours and we will be cruising at 32 thousand feet. Some turbulence is expected so stay buckled up until we get to our cruising altitude. Sit back, relax and enjoy the flight while our flight attendants look after you and keep you updated".

Now what if the same introductory message was given to you using a monotone recording while flying in a pilotless plane (drone)? Now also imagine you are on a routine flight and just as you take off suddenly you hear a loud bang, feel a shudder, followed by a sudden loss of forward speed as the plane's climb is halted?

Panic, fear and anxiety would be a normal human reaction of not knowing what's happening. Instinctively you know and feel in your gut that something has gone horribly wrong. In a real life drama US Airways Flight 1549 took off from La Guardia airport captained by "Sully" Sullenberger.

Both plane engines were struck and disabled when hit by a flock of Geese just minutes after takeoff. The crippled twin jet engine Airbus A320 was moments away from a potential disaster and only the quick thinking, skill and experience of the captain saved the day.

A film was made about flight 1549 and Captain Sully whose flying skills were honed from years of experience and mixed with some good "luck" managed to save the lives of all the passengers and crew. Sully aquaplaned the stricken plane into the freezing Hudson River.   No mean feat under extreme conditions.

A court case and enquiry ensued as the "text book" and flight manuals written at the time proclaimed standard emergency procedures and protocol were not followed. Remember a multi-million dollar plane was written off. The insurers and enquiry board were on a mission to prove from the flight records and data, there was sufficient air speed, altitude and distance for Captain Sully to safely turn the plane around and land using a gliding technique similar to what the space shuttle uses on re-entry. In "plain" language, pardon the pun, the enquiry wanted to show the airplane could have been saved and landed back at La Guardia airport without the need to ditch into a river costing tens of millions of dollars.

Captain Sully from being cast as a hero veteran pilot and having helped save the lives of all onboard was now made out to be negligent having not followed "standard emergency" procedures. Basically the jury was out that Captain Sully needlessly crashed a very expensive airplane potentially endangering passengers by not following the conventional emergency procedures given in flight text book manuals.

If you watch the film, which I highly recommend starring Tom Hanks, you will find a lot of lessons and parallels that can be learnt and applied to financial, retirement and investment planning. Particularly around risk and just blindly following a text book approach. Intuition, skill and luck also have an impact on so many aspects of investing and life in general. Textbooks and theory simply try and make sense of what can be unplanned and often chaotic periods in investment markets.

The "flight plan" and flying conditions ***(read the markets)*** can sometimes change dramatically and without warning. Modern investment theory is continually being updated and rewritten. So what parallels can we draw from this real life event and relate it to what's been happening in local and international markets.

Reading the signs:

Like the flight instruments on a pilots control panel there are many market indicators that can signal potential danger such as PE (Price Earnings) which are like an altitude gauge. Steady dividend payouts fueled by growing markets are primary indicators of healthy market conditions which ultimately lead to higher market valuations in stock markets.

Since around 2013/2014 I could read the early signs that indicated problems in our local economy. We were heading into stormy weather. Having been through the 1998 crash which only recovered around 2004 and then in 2008, I could see a similar market downturn unfolding made worse by rampant corruption, abuse of state resources and a weakening socio-economic climate (read joblessness, etc.). It was obvious to me this would be bad for equities locally.

Internationally was also not necessarily a better "flight" destination as you get virtually no returns in cash or bonds in developed markets.

Also the "experiment" of quantitative easing (printing money) in my opinion has pushed developed market equities, particularly the U.S.A., to "artificial" levels. Growth in U.S.A. equities was not based purely on economic fundamentals but has been artificially inflated following the 2008 financial crisis by excess "cheap" money entering the share markets.

Attached is a graph from Prudential Fund Managers showing the JSE All Share Index from 2003 to 2017. The "altitude" *(read growth)* has been flat for almost 5 consecutive years. In fact if you take out Naspers which accounts for almost 20% of the JSE, local equities have been negative. Equity investors have not been rewarded for the relative risk they have been taking?

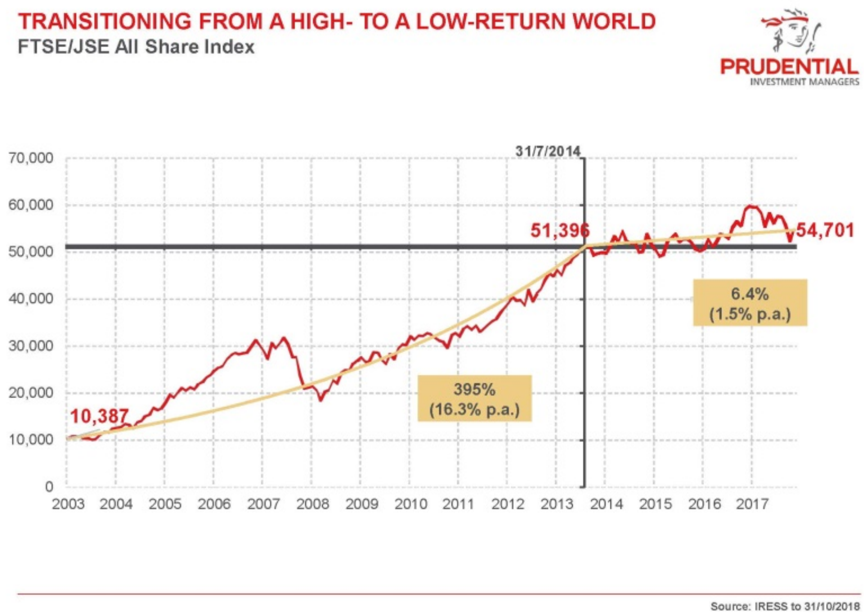
The text book approach however tells us to ride out the prevailing market storm and focus on the "long term". That's fine in theory but typically investors, particularly pensioners, are now under financial pressure due to their need for a steady income. Lower dividends and growth means typically pensioners either need to cut back their spending or sell off unit trusts and shares in order to meet their daily expenses.

Even younger investors with longer term time horizons will at some point become disillusioned? Equally savers in high or medium term equity unit trusts or retirement funds will start questioning their advisors or trustees.

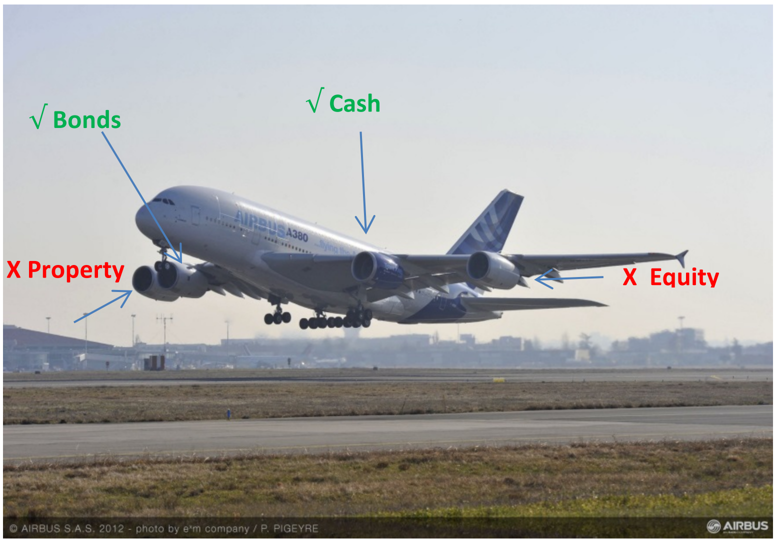
In truth the equity plane cannot fly or fly properly no matter how good the fund manager or advisor is under current market conditions.

So what does one do as a financial pilot?

Simply putting the plane on auto pilot when you have a twin engine bird strike is no solution. Evasive action from the captain (read financial advisor) is needed. A clear and calming message must come from the flight desk and the skilled pilot needs to get his passengers to safety without undue loss of capital (read lives).



My Flight Instruments



What is keeping the financial airplane engines flying?

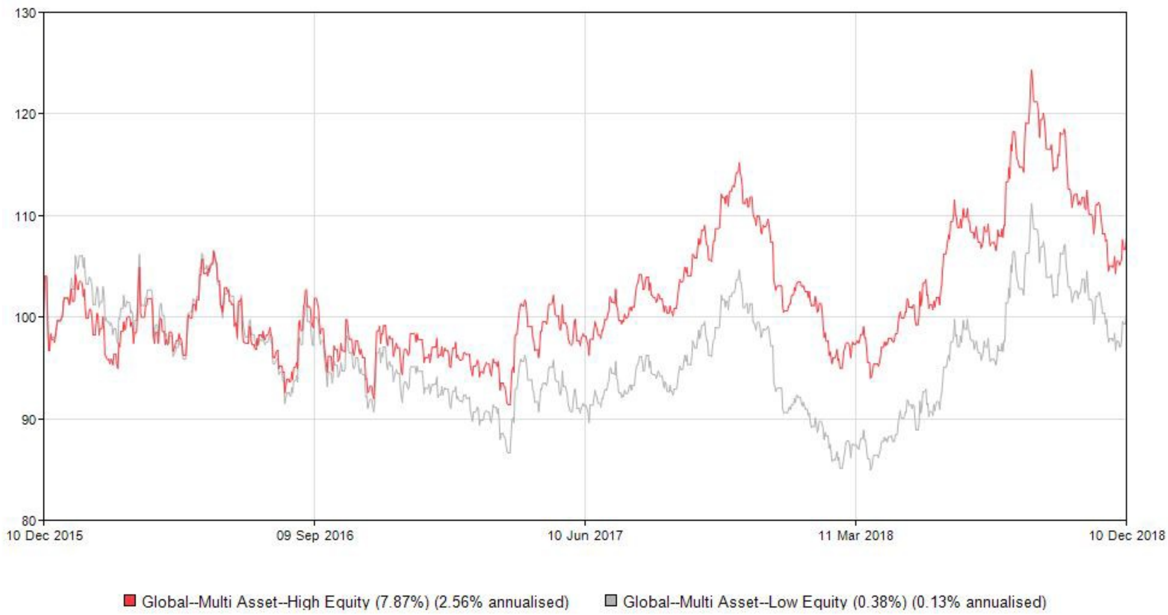
√ Cash & Bonds

X Equity & Property

Comparisons between high equity and low equity unit trusts

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
South African--Multi Asset--High Equity	-3.63	-7.01	-4.27	8.69	2.82	28.13	5.09	137.93	9.07	818.97	11.28
South African--Multi Asset--Low Equity	-1.79	-3.20	0.97	14.84	4.72	33.78	6.00	115.45	7.99	526.93	10.49

Investors going nowhere? Risk not rewarded over past 5 years. Cash and bonds are the engines driving returns for now.



My message to my valued clients is clear:

1. As the pilot I am on the same flight as everyone else. We are all heading on the same destination together. I typically invest my money alongside that of my long term clients and family members.

2. Although 2 out of four of our modern Airbus A380's engines have been hit (read equities and property) the remaining 2 engines namely cash and bonds have allowed us to safely continue flying in current low return "weather" conditions. Our current asset allocation which ultimately drives long term performance has been approximately 70% in cash and bonds from around 2014. This has largely protected our investor's capital while providing a steady income/yield.

3. Investors can protect their capital using a diversified asset allocation. Remember around 91% of performance in the longer term can be attributed to your strategic asset allocation (read risk profile). Review your strategic allocation and yield/return regularly with your advisor ensuring your specific needs are met.

4. Ignore the market noise and media hype. Focus rather on your specific needs, wants and cash flow. Getting the right advice and "flight" plan with a <u>professional</u> advisor has proven to achieve better risk adjusted returns over time. Research shows a properly advised client does 1.25% - 2% better than self-managed portfolios. If you want to fly solo good luck but there is a reason why there is typically a pilot and co-pilot. Modern airplanes like the markets can be complex and daunting and requires expertise and experience.

5. Lastly not all financial pilots and the planes they fly are the same. Find one that suits your needs and budget. Compare pricing, products and service backed by client references. As deputy chairman of SAIFAA, (The South African Independent Financial Advisors Association), I recommend investors get independent and objective advice.

6. Look at the "flight records" and experience of your chosen advisor. Advisors that say they can be better pilots need to show you physical proof? I always show clients my actual returns record and where I personally invest.

7. Lastly trust your gut instinct and intuition. That voice in your head is like a safety warning light. Don't always follow the herd. Do you your flight inspection and get good advice that's independent and not a window dressed one size fits all solution typical of a budget airline or product provider?