

Independent Model Portfolios



Why You Need To Stay Invested

Numerous studies show that the returns that investors have achieved over time are much lower than the returns of the markets they are invested in. This holds true in all countries, and over many decades.

A recent report in the USA revealed that since the 1974 establishment of the personal Retirement Annuity (called a 401k account), the US stock market has grown at over 11% per annum. Over this same period, the average investor earned less than 4% per annum. Allowing for different returns from the asset classes typical of a balanced retirement portfolio, the average investor received only half of the returns that they should have benefited from.

Why do investors receive only a fraction of the returns that they could?

Conventional financial theory suggests that investors are rational and seek to maximize their wealth through objective, non-emotional investment decisions. That makes sense. Nobody invests with the goal of losing money. However, the emotions of fear and greed, along with the herd instinct, can override rational thought.

Frequently, this leads to investors selling at the bottom of the market – when it is cheaper – and buying at the top of the market – when it is expensive!



Source – Carl Richards “the Behavior Gap”

The Behaviour Gap

The ‘Gap’ refers to the difference between the return on investment that investors typically receive and the return the market actually delivers, if you were to stay invested.

You don’t need to beat the market – just don’t let the market beat you

Successful investors tend to take a longer-term view, select reputable fund managers, and avoid switching between managers to the fund of the moment. They stick with their manager and ride out the market cycles.

But most investors don’t do that. Instead, they move their money in and out of their funds in the hope of gaining better returns – and because their timing is often bad, the result is long term poor performance.

‘Far more money has been lost by investors trying to time corrections than in the corrections themselves...’ Peter Lynch – Fidelity Investments

A recent example of this behaviour occurred during the Covid-19 pandemic. A record number of South Africans cashed in their investments and banked their money earning 4% interest. If they had stayed invested, they could have enjoyed the 30% growth on the JSE during the same period.

How Rutherford Model Portfolios achieve better investment returns for the average investor

If you are invested in the appropriate Rutherford model portfolio for your personal risk profile and taking into account your investment time frame, it is important to stick to the plan despite what is happening in the markets.

Each model portfolio is designed to achieve a target return over a certain time period, taking into account a specified amount of risk. This means that you will have a clear idea of the expected returns of a particular model portfolio before investing.

The Rutherford Model Portfolios are a compilation of world class funds and are highly diversified in terms of asset classes and fund managers. The various asset classes (such as equities, bonds, property and cash) perform very differently through the market cycles, as do the individual fund managers. Our investors gain access to all the core benefits of multiple asset classes and fund manager expertise, with the added level of diversification through our blend of fund managers.

Ongoing rebalancing of our funds ensures optimum asset allocation at all times and better long term returns with lower volatility

A panel of experts rebalance our funds, which means that the client and financial adviser do not need to concern themselves with switching between funds. The rebalancing that Rutherford undertakes ensures that the various asset classes remain consistently at target allocation to achieve the projected return of the specific fund. Our blend of fund managers aims to smooth out some of the extremes of particular fund managers by off-setting with other funds in the model portfolio. This has the effect of reducing volatility and creating a more consistent long term growth path.

Markets are beyond our control but knowing how *we are going to behave* in any market environment is essential to long-term investing success

Understanding the mechanics behind how the Rutherford Model Portfolios work makes it easier to keep emotions in check and avoid the alluring temptation to throw away hard earned money on speculative switches.