Opinion **The Long View**

Investment lessons from 12 years of writing the Long View

As a £500 investment I made in 1992 shows, 'home bias' is one of the pitfalls of investing

JOHN AUTHERS

John Authers 42 MINUTES AGO

The long-term is your friend. That is the core philosophy of the Long View, and it is a good one. Put money away, let compound interest work its wonders, and the chances are that you will be fine.

As this will be my last Long View, 12 years after my first, the time has come to unveil the results of an experiment I started at the dawn of my time as journalist for the Financial Times.

In 1992, what was then known as the Unit Trust Association named me its national journalist of the year. I was in my third year at the FT, and proud to accept it. The prize was £500 in the unit trust (mutual fund) of my choice. As I was already telling readers to take the long view, I decided not to touch the money once I invested it. I have never added to it. All income has been reinvested. I wanted to see how a long-term "buy and hold" investment would do. .

The money's fate demonstrates many investment lessons I have learned in the years I have written this column.

My choice, among many suitors, was the Capability UK Growth Fund, managed by Capel-Cure Myers, a grand old name of the City. It had one of the best performance records of any fund over the previous decade. I had interviewed its manager, who was very impressive.

The investment was made on November 12 1992, with an initial 5 per cent charge deducted. As of midday in London on Thursday this week, almost 26 years later, it was worth £3,160.15. The long term was indeed my friend.

Since 1992, I have come to accept the case for passive index investing at the core of a portfolio. So let us compare this performance with the index.

The fund is benchmarked against the FTSE All-Share, a broad measure of UK stocks. If £500 had risen in line with that index, with income reinvested, it would now be worth slightly more: £3,296.60. But this is without deducting anything for fees. There were no FTSE All-Share tracker funds at the time, but I think we can assume that their charges, while low, would have taken performance a bit below that of my fund.

As costs are more predictable than performance, I still advise that it is best to use a low-cost tracker. But the difference with a well-managed active fund turns out not to be great. The key was to buy long-term exposure to stocks at a reasonable cost, and it worked out.

However, my reason to choose it made little sense. The manager, whose name I now forget, is long gone. So is the Capel-Cure Myers name. For years, the fund has been known as Old Mutual UK Equity, under the South African insurance group. Next week, its fund managers will buy themselves out into a new company, and it will become the Merian UK Equity fund. Choosing a fund by who manages it, either the individual or the company, makes little sense.

As for choosing a reasonably diversified active fund that is unlikely to deviate all that much from the index in either direction, like this one, few people would do that now. Richard Buxton, who heads the fund management group soon to be known as Merian, tells me that money flows out daily, generally to passive funds, and "we wouldn't launch a fund like this today". Instead, it is

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moving to truly active funds, which take concentrated positions away from the index. Such funds, given that indexing appears now to be so big that it is distorting the market, can only be healthy.

My big mistake had nothing to do with the active-passive debate, or with stock selection. I got my asset allocation wrong. Academic research shows that asset allocation (choosing stocks or bonds, or countries, and so on) matters far more than picking stocks. The entire exchange-traded fund industry has grown up since 1992 for those who want to do their own asset allocation.

The most common asset allocation error is "home country bias" — concentration in your home country. I committed it. Had I put £500 into the US S&P 500 it would have turned into £6,660, before fees. In the MSCI All-World index excluding the UK, it would have reached £4,264.50. The UK stock market has not been the greatest in the past 26 years. The pound has weakened. Investing overseas would have been better.

Britons have missed out on the great growth in the US tech industry of the past quarter-century and are now putting money into the US, just as that market looks overpriced. Performance-chasing is a bad idea and will probably mean buying at the top and selling at the bottom.

So the fund soon to be known as Merian UK Equity teaches many of the lessons of my time writing the Long View. Diversify, minimise fees, think about asset allocation, don't trade too much or chase performance and remember that if you are patient, the long-run is your friend. That's about it.

It has been a privilege to write this column for the past 12 years, and for the FT for the past 29. I leave the Long View in the capable hands of Michael Mackenzie. To all readers, especially the many of you who have been in contact and who I have grown to know, thank you. May your portfolios prosper.

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