Sun Life Financial

Today’s economy blog

by Kevin Press

Patience, realism and piggy banks

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Sam Wiseman and I first met a little more than a decade ago. He was a pension investment consultant, and I was editor of one of the industry’s trade magazines. I’ve always found him to be a well-informed, serious capital markets thinker. And I wasn’t surprised when he successfully launched an investment management firm called Wise Capital Management.

He and I reconnected last week, and talked about the value of a long-term view, realistic expectations and the importance of a good piggy bank. Here are three common-sense reminders from Sam:

1**. Be patient**. Wiseman did a study of returns on the S&P 500 from 1928 to 2009, to determine how many three-year periods provided a positive return. The answer was 82%. He ran the numbers again for five-year periods and got 87%. At 10 years, it was 92%. If you wanted 100% certainty of a positive return, you needed to be in the market at least 17 years. “That’s the type of timeframe you need to turn positive,” he said.

2. Be realistic. Don’t count on a money manager to beat the market by 5% to 10% a year. Individual managers will do this every now and then. “You can do it once. It’d be amazing to do it twice, and if you did it twice you’d become a very rich company,” said Wiseman. Big years are generally a function of a manager’s investment style (i.e. growth versus value, small cap versus large cap.) It’s unrealistic to expect that level of return consistently. “Styles are going to go in and out of favour.”

3. Be ready for bad news. Wiseman recommends building a healthy contingency fund. “At all times you should have up to two years of expenses,” he said. Over the course of your career, it is safe to assume that you’ll be unemployed for at least a few months. There will also be periods when markets turn down. “You don’t want to start emptying the piggy bank when the market gets hit as it did in September 2008. That’s the worst time to take out money.”

Wise Capital Management was ranked the no. 1 Canadian equity value manager in 2009 by Brockhouse & Cooper.

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