

While most investors are happy to be as far removed from the technical details of their investment portfolios as possible, preferring to spend their time doing what they love, a subset of investors likes to get involved in the finer details.

Some do this because they are interested in learning more about investment markets, others because they've long been fascinated with this field. However, there is a subset of investors for whom this activity is about something else: looking for excitement in an area unlikely to fulfil their desire for adventure.

The outcome of increasing one's financial wealth is exciting, one that will likely improve quality of life in many ways. However, expecting the process that delivers this outcome also to be exciting is a mistake that can get in the way of your ultimate aim.

Back to Basics

The research shows that more than 90% of a portfolio's return is attributable to the asset allocation decision. This is the simple decision of how much of a portfolio to allocate to equities (shares in the great companies of the world). With the remainder of the portfolio, in most cases, being allocated to bonds and cash, this simple decision is one you want to understand and get right.

Secondly, we know that an investor's behaviour, especially during times of market turmoil, is as (if not more) important than the portfolio's performance.

These two factors will largely dictate your financial success, and all other factors can be ignored if you have a trusted adviser helping you to manage the details. The exact investment funds you and your adviser choose to use in implementing your agreed strategy, the managers looking after those funds, and the investment styles they follow are largely irrelevant.

The asset allocation decision and the discipline required to exhibit good investment behaviour could not be described as exciting. And this is where the trouble starts for some investors.

The Gateway To Speculation

We all know someone who loves to tell those around

them about the exciting investment opportunity they've recently discovered. These always come with promises of great returns, a good story, and a third party punting the investment.

Compared to the ideal process described above, this can sound exciting and sophisticated. And naturally, our built-in fear of missing out causes us to desire something similar.

However, in most cases, this desire for something different is nothing but a distraction from what's good for us in the long term and, at worst, can be an excuse to time the market.

These actions move us from being investors to being speculators, which is a recipe for financial planning disaster. It causes us to turn our focus away from the long term, obsess about the short term, and ignore the simple investing fundamentals.

By leaving behind what has always worked and focusing on what's working today, we reduce the probability of our long-term financial success. When the current thing inevitably stops working, we look for the next popular thing. This cycle can go on forever.

Trust The Process

The process that's always worked is choosing the appropriate asset allocation and then showing discipline and patience. While it may not be exciting, the outcome of financial independence is very exciting.

We urge you not to lose sight of how incredible it is to have the ability to be a shareholder of the biggest and best businesses in the world. These businesses, and the people who manage them, work for you. They use their profits to embark on profitable projects or to distribute dividends to you.

Any temptation to look for sophistication is more likely to end in pain than gain. Your future self does not need you to be excited about your investments; they need you to have an income you can't outlive. We encourage you to live a good life and find meaning outside of financial planning, as this will ultimately be what you fill your days with.