GOLF AND THE ART OF INVESTING

Understand yourself better and you are more likely to score the much coveted financial hole-in-one, says **Dr Peter Brooks** of Barclays Wealth

While investing and golfing may seem to be worlds apart at first glance, there is a great deal of similarity between the two — especially when it comes to formulating the strategies towards victory.

American golfer Ben Hogan once said: "Reverse every natural instinct and do the opposite of what you are inclined to do, and you will probably come very close to having a perfect golf swing."

It is critical that investors adopt a similar strategy—to control their every natural instinct so that they stay focused on their long-term investment objectives. Achieve this, and that financial hole-in-one becomes much more attainable.

When performing decision-making research, many investors are often prone to biases and making suboptimal decisions in most parts of their life. Indeed, investing is littered with many stories featuring good investment strategies that are damaged by poor decisions. When stressed, one's decision-making can become flawed and irrational as there is a tendency to make snap judgements rather than taking a step back to focus on the bigger picture.

In both golfing and investing, participants can display signs of stress and anxiety. Palms become clammy; hearts pound in chests; and you cannot stop the butterflies in your stomach. Many people do not expect to experience these emotional reactions when preparing for the future, nor are they prepared for it. Just as a professional golfer with a one-stroke advantage needs to learn how to win under pressure, the private investor needs to learn how to cope with periods of market stress.

FINDING YOUR FINANCIAL PERSONALITY WITH BARCLAYS WEALTH

At Barclays Wealth, we ask our clients to take our proprietary Financial Personality Assessment (FPA) to allow us to gauge their likely reactions to stress and help them address these in their investment strategy. There are six dimensions covered by the FPA: risk tolerance, composure, market engagement, financial expertise, delegation, and belief in skill. Three of the six key factors reflect one's attitude to risk and the other three reveal how one makes investment decisions.

These concepts sometimes appear to mystify investors. One way to think about these dimensions and their likely reactions to investment situations is with golfing analogies.

RISK TOLERANCE

Imagine after a great drive on a long par five you are in the middle of the fairway with 230 yards left to the green. Between you and the small sloping green is an expanse of water and you would need to carry your approach shot 200 yards just to clear the hazard. To make matters worse, there is a strong head wind.

Someone with a higher risk-tolerance would shoot directly for the green attempting to make an 'eagle', while someone with lower risk tolerance would choose to use the lay-up area and reduce the possibility of getting a 'bogey' or worse on their scorecard. The decision for the play you are making is based upon balancing the risk and reward of each way of playing the hole.

The concept of risk tolerance in investing is the same. It is whether we accept the potential for higher reward and the associated higher risk. This is a distinctly personal trade-off.

HOW COMPOSED ARE YOU?

Many golfers will be aware of "white knuckle syndrome", the moment your grip starts to get tighter and you therefore transfer less energy through the clubface to the ball. This is a natural reaction to stress.

Perhaps the best example of flawed decision-making under pressure has come from Jean Van de Velde in the 1999 British Open at Carnoustie. Standing on the final tee of the Open Championship and only needing a six on the par-four to win the tournament, Van de Velde went into a stress-induced meltdown. He eventually took the penalty and a triple bogey that resulted in him losing the play-off. This is a perfect example of how stress can cloud a person's judgement.

Anyone looking in from the outside could tell that Van de Velde was struggling to see the bigger picture. Financial advisors often feel the same when they watch clients sacrificing their long-term goals because of reactions to short-term peaks in their anxiety levels. Any advice for you to be less anxious at times of stress is unlikely to work. The best strategy is to prepare yourself and your portfolio to help you cope with the inevitable periods of heightened market volatility.

TAKING THE CRUCIAL FIRST STEP

For many golfers—especially beginners—there may be some tee shots we fear taking. This could be due to either the unfamiliarity with or perceived difficulty of the course, or just a lack of confidence in our swing. The signature 17th hole of the Stadium Course at Tournament Players Club Sawgrass in Florida, USA, is one such example of a hole many find frightening.

Starting out with investments can induce the same fearful response in some individuals. Barclay Wealth's market-engagement dimension helps identify if clients have a psychological barrier that they need to get over. This is common among people who inherit their wealth or those who have recently sold a business and who are investing for the first time. The key here is to build a strategy of investment that provides greater comfort. Phasing investments into the markets more slowly would be one such example.

YOUR PERCEIVED EXPERTISE

Buying a new driver can be daunting to many who are less knowledgeable about golf. While you may be aware of several variables that could affect the selection of the right club, you could also feel you are not knowledgeable enough about all of them. Beginners are likely to seek education on which clubs will help them lower their handicap. More experienced golfers are likely to discuss more complex preferences for their club set-up, as they seek to understand every detail of the choice they are making.

This process is similar to an investor speaking with their advisor. Sometimes the advisor will need to help fill gaps in their client's knowledge and explain some basic financial concepts. For other investors, the conversation may very quickly get into portfolio analysis and expectations ►

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for markets. The perceived financial-expertise dimension assesses how familiar and informed you feel you are with current financial circumstances, and how confident you feel in your own financial knowledge and decision making. Does the investor feel more comfortable with a simple investing approach, or does he or she want to avoid thinking about a lot of technical analysis? The advisor should communicate with their investors in ways that are appropriate to their comfort, knowledge and experience and this dimension helps them to do exactly that.

COMFORT WITH DELEGATING

All professional golfers delegate responsibility to their caddies, whether it is reading the line of a putt, checking the yardage to the flag or keeping the clubs clean. This reduces stress and keeps the golfer focused on their role in the same way an investor may use a professional portfolio manager to help manage their finances.

As an investor, it is always worth thinking about what you want and who you can trust to act on your behalf. You may choose to delegate due to a lack of time or because you feel that a professional is better placed to do that for you, especially in areas you may not be familiar with, such as foreign markets. For instance, while golfing on a familiar course, you may rely more on your own judgement, but when on a golfing holiday you might be more open to having your caddy estimate distances or read the putting line. Seeking advice can be useful for investors who tend to feel anxious when monitoring their own investments. They can draw comfort from knowing that someone else is worrying on their behalf, just like how professional golfers rely on caddies to map out the course for them before their game.

PROFESSIONAL GUIDANCE

A few lessons with the club professional is important: it helps you build a strong foundation for a good swing. Learning from the skill and experience of the professional is going to add something extra to your game that you could not get from a self-help book.

You do not need an investment manager to start investing, but you may find they can help you to achieve better returns. Alternatively you may believe that investment managers are unlikely to consistently beat financial markets on your behalf and therefore find tracker funds more appealing.

With a better understanding of your financial personality, you can then take steps to take control of your investing behaviours. Putting in place rules and strategies can help you manage some of the more damaging effects of irrational investor behaviour on your long-term goals.

It takes patience and dedication (and some skill and talent) to lower your handicap; similarly, becoming a savvy investor requires as much dedication. Fortunately some changes in your approach to investing can significantly improve your performance. The next time you feel stress and anxiety from your investing, remember your pre-shot routine: step back from the ball, take a deep breath, focus and set yourself up for success. ■

OVERTRADING

A CASS BUSINESS SCHOOL STUDY

One damaging effect of irrational investor behaviour is overtrading. A Cass Business School study, sponsored by Barclays Wealth, showed that UK equity investors on average gave away 120 basis points annually by chasing emotional comfort. Many other studies have found even higher "investor-behaviour penalties". These differences may appear small but when compounded over the long term, they amount to a very significant difference in performance—it amounts to receiving approximately US$7,000 less on a US$100,000 investment over five years.

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