



# Ashes to Ashes



By Tim and Claire Mackay

**PORTFOLIO POINT:** Notching up a respectable score with your investments means paying attention to the basics.

Australia's crushing loss in the Ashes delivered a devastating blow to the pride of Australian cricket. There are lessons we can take from this defeat, many of which apply equally to cricket and investing. From the ashes of defeat we deliver a six-ball over of investment lessons to get your batting average up.

## Ball 1: Back to basics

*"Keep it simple. Attend to the basics first; if you can't do that, then more complicated things will be impossible anyway."* (Richie Benaud).

In cricket the basics are batting, bowling and fielding well. It hurts to say it but in the 2010-11 Ashes series the Australians were completely outclassed. England focused on the basics with the same single-mindedness we used to associate with the Australian team. When it comes to investing the basics include time, risk and diversity – you should focus on them with a similar single-mindedness.

The Ashes contest has been around since 1882 and it will come again in mid-2013. Knowing this enables cricketing authorities to make informed longer-term decisions. Likewise, you should know what your investing timeline is and work to it. The longer your timeframe the better, as short-term results can sometimes obscure the true potential of long-term investments.

When you think of cricketing and investing greats two names sit loftily at the top of most lists: Don Bradman and Warren Buffett. Both had an unparalleled mastery of the basics of their respective fields and both avoided taking unnecessary risks.

Bradman, the greatest batsman the game has seen, hit just six sixes during his entire test career. He avoided flashy shots, preferring to safely hit the ball along the ground with less chance of losing a wicket. By way of comparison, during the current Ashes season the Australian team hit 14 sixes to England's total of seven.

As revered ABC commentator Alan McGilvray said of Bradman: "Every ball was computed, it's worth analysed, its dangers identified and its dispatch programmed with mathematical certainty".

Likewise, Warren Buffett believes in sticking to the basics of safety-first investing. "You only have to do a very few things right in your life so long as you don't do too many things wrong". Perhaps it's no coincidence that Bradman spent most of his professional life as an investment adviser!

So ask yourself: are your investment decisions made with the laser-like focus of Glenn McGrath or are they all over the place like a delivery from Mitchell Johnson? Are you the type of investor who is continually trading, seeking the latest hot stock? And to what end?

In the words of Buffett: "We believe that according to the name 'investors' to (those) that trade actively is like calling someone who repeatedly engages in one-night stands a 'romantic'."

## Ball 2: Get your on field team selection right

Will the team formation and strategy be defensive or attacking? What combination of players will best complement each other? What combination will be most effective in the playing conditions and against the opposition?

In many ways, investing is no different. You first need to determine your defensive and growth mix. Then you need to investigate the best alternatives through research and analysis of the many investing options available. You evaluate market and economic conditions, examine opportunities, and use all this analysis to determine your final selections to get your team selection right.

## Ball 3: Invest for the long term

When you invest for the long term you need to make some brave decisions and stick with them through the inevitable cycles. In cricket sometimes the best decisions are the long-term ones, such as selecting young players for the future of the game.

From this Ashes series the best examples of decisions made with a view to the long-term ramifications were the inclusions of England's Alastair Cook and Australia's Usman Khawaja. Cook came into the series with big questions over his form and technique and left it having smashed batting records as Man of the Series. Khawaja played only one game but left a solid impression as the bright future of Australian cricket. Long-term investment in these players can bring clear rewards.

When it comes to investing you should keep a strong conviction in your long-term investing strategy through the inevitable highs and lows. Cricket teams and portfolios alike perform the best when there is little chopping and changing but rather long-term certainty. A revolving door policy of poorly performing investments in the short term takes its toll on performance: chasing returns can lead to lower returns and the costs of trading (fees and taxes) eat away at portfolio performance.

## Ball 4: Who pays who?

Cricket players today maximise their income if they play for the Twenty20, One Day Internationals and then the test teams (in that order). The massive money available in the IPL clearly gives players a personal incentive to overstretch themselves, prepare less for tests and develop techniques that only suit the short forms of the game.

**Question:** Do you think the fact that Alistair Cook did not play ODIs or Twenty20 for England contributed to his test performance?

Likewise the way your advisor is paid may create conflicts that impact on you. Follow the money: stockbrokers can't make money if you don't buy and sell shares; most advisors can't make money unless you invest in managed funds via a platform; and insurance agents are reliant on the commissions they earn on your policies. In the words of Buffett "Would you ask your barber if you need a haircut?"

Develop a long-term partnership with an advisor you trust who will work in your best interests. Cricket partnerships have long been the key to success – Jardine had Larwood (hmmm); Lindwall had Miller; Lillee had Thomson; and McGrath had Warne. We believe fixed-fee advisors are the partners you should trust for strategies that are best for you. Then ensure you implement their advice effectively – "Advice isn't worth anything if the person can't use it properly." (Bill 'Tiger' O'Reilly).

### **Ball 5: Review the selectors off the field**

The selectors choose Australia's cricket team; when it comes to investing either you do it yourself or you seek professional advice. Australia's chairman of selectors, Andrew Hilditch, declared after the 3-1 Ashes loss that the selectors had done "a very good job" in selecting the Ashes team, completely avoiding any responsibility for the crushing series loss.

When it comes to your adviser, do they take responsibility for their advice? Do they have the necessary skills and expertise for your circumstances? Do they specialise in areas such as SMSFs? Do they encourage you to ask questions and learn more about your finances?

You should only ever select an adviser you respect; this ensures your interests are aligned. Keep in touch but don't smother and don't be afraid to pay for specialist advice (getting the right piece of advice from the right person at the right time is nearly always worth the price).

### **Ball 6 - Avoid the on and off field distractions**

Distractions can be fun for the public: Shane Warne's texting ability (yet again), Michael Clarke's engagement dramas and Pakistani bookmakers. Unfortunately, such distractions invariably detract from performance (Warne seemingly an exception). Did you hear any distractions from the English this series? No, not a peep (not even from Kevin Pietersen!), they focused solely on their performance.

Investing distractions, such as the hottest stocks or the funds of the month, will always come and go. Sensational investing headlines will sell papers but it is your job to filter all that investment noise and focus on ensuring your investment scorecard shows a healthy, long term batting average.

### **Over**

Congratulations to England, the better team won this time and demonstrated that both the team and the board of selectors clearly have lessons to learn. We look forward to the battle being rejoined in 2013. We pull up stumps with four wrong'un questions for you to ponder:

- Which commentators do you trust: Channel 9 or ABC? The Daily Telegraph or the Eureka Report?
- Do you pick the same team for conditions in Australia and the sub-continent? How do you approach domestic versus international investing?
- Do you know why and when the third umpire will step in? Do you know why and when the tax office will ask you about your SMSF?
- Do you prefer five-day tests or Twenty20? Is your appetite more for long-term investing or for the high-risk, short-term approach?



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