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INVESTING FOR THE LONG TERM – PRINCIPLES AND PITFALLS

Some time ago I had a call from reception to say I had a visitor. I recognized him to be a driver who had worked for an oil company I was with over 20 years ago. After a few pleasantries he broke down and related how he was now jobless and destitute and desperately needed help to survive.

I recalled that when he left the company the 'pension' for retiring employees was just a 'pesangon' or lump sum which related to final salary and length of service. There was no regular income to follow, even after a lifetime of service. Today things are changing. Larger companies are providing proper pensions for local employees. As for expatriate employees, company pensions are rarely provided outside one's home country so pensions can be a very significant issue.

A fact of life is that relatively few people – anywhere – are making adequate provision for later years. So what should we be doing about it?

When not to invest for the long term

Long term investing means making commitments. Before doing so it is essential to have a healthy cash position because running out of cash can spell ruin. As we saw with even international banks and other institutions in 2008.

This also means you cannot think of saving for the long term if you are heavily in debt. One of the commonest traps for consumers is credit card debt. It is hard to get by in the modern world without a credit card but if you do not pay your bill on time and in full you can be subject to outrageous interest charges, as high as 40% per annum. So clear all debts first! (An exception could be a mortgage, provided it is manageable.)

Where should you invest for the long term?

While it is clear that a healthy cash reserve is essential, cash is not the answer in building up long term savings. Interest on cash deposits in most currencies is insufficient to keep pace with real inflation. If you place a large sum of cash on deposit now the chances are that in 20 years time, even with interest, it will buy half of what you could buy with it today.

So where should long term money go?

Let's take a look at some of the options

- **Land** - undoubtedly a sound and profitable investment over the long term. As Mark Twain said, 'buy land, they are not making land any more'. But be prepared for potential disputes, planning problems and the time it might take to sell.

- **Property** – Everyone's dream is to own a home, and rightly so. For most people this is the biggest investment in their lives. Owning additional property as an investment can also be highly profitable but it must be seen as long term. And remember that you may own a stately home but it is not possible to sell a bathroom if you cannot pay the bills.

- **Own Business** – If you are a potential Bill Gates or Steve Jobs look no further. But the sad fact is that most businesses fail within five years. It takes a lot of skill – and luck – to run a successful business.

- **Stocks** – The fundamental building block of the capital markets. A critical component in wealth-building. But short-term speculation is risky; look long term and ensure you have a broad range of both international and your home country stocks.

- **Gold and other commodities** – The law of supply and demand will ensure that these assets will hold their value over the long term.

- **Structured Products** – Generally a safe way to protect your cash for the medium term and share in gains if stock markets rise over the period. But bear in mind that the guarantees are only as good as the bank that is underwriting them.

- **Collectibles and Alternative Investments** – A whole host of opportunities here, but mainly for the more experienced investor so look here only when you have all the basic investments in place.

Above all – DIVERSIFY!

Perhaps the greatest mistake people make is putting all or most of their eggs in one basket. You may be lucky and choose a basket that doesn't fall, but is it worth the risk?

And as for the retired driver who came by my office? Well, I gave him a bit of money and he called back two or three more times. Since then, not a word. He is just one among millions worldwide who did not or could not invest for the long term. If you are in a position to do so, it is never too late to start.

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