BELLAMONT

HANDBOOK

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BELLAMONT
WEALTH MANAGEMENT

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CONTENTS

INTRODUCTION

Why is an Investor's Handbook Necessary?

It is essential that our clients have a clear and concise understanding of our objectives, as this alignment is key to achieving our shared goals. While most wealth managers offer glossy marketing brochures, we at Bellamont prefer to provide you with an Investor's Handbook.

Our Mission

The Wright brothers, Orville and Wilbur, didn't just aim to build a flying machine; they wanted to achieve sustained, controlled flight. Their ambition drove them to develop the first successful powered aeroplane in 1903, forever changing the landscape of transportation and opening the skies to human exploration. Their relentless pursuit of innovation and overcoming numerous challenges enabled humanity to take to the air and revolutionised the world in ways previously unimaginable. We aim to be the best wealth management business ever and aim to provide our clients with the best investment decision they have ever made.

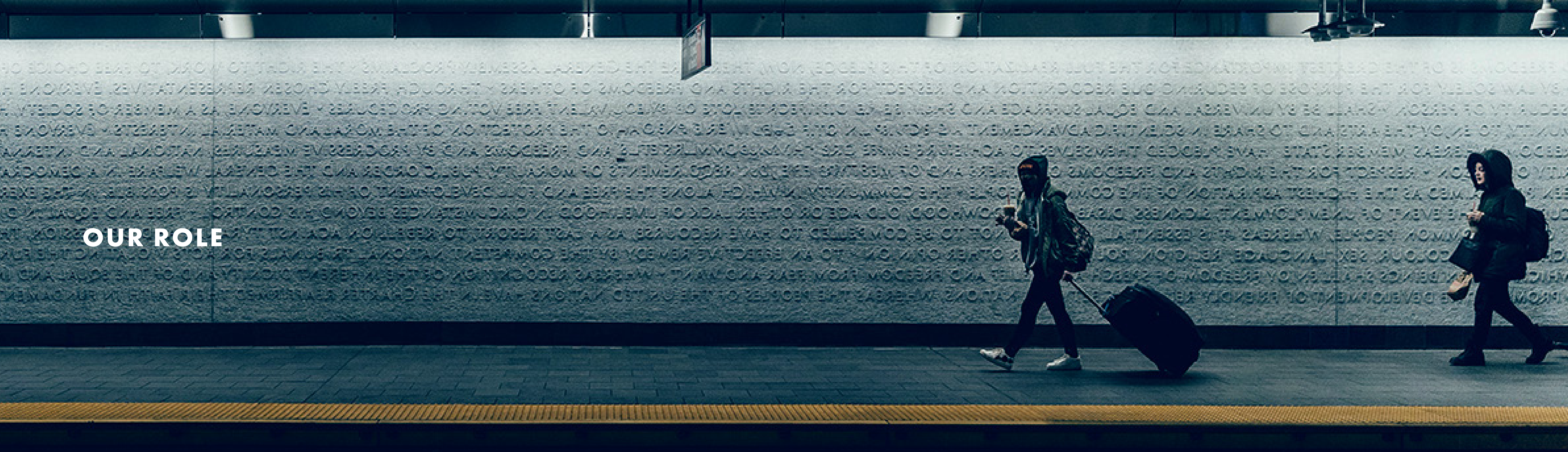
This is an ambitious goal and we need to clarify what we mean by best.

By best, we mean **guarding and growing clients' capital** in the most efficient way possible.

It may come across as odd that by best we don't necessarily mean the company achieving the highest return, certainly not over any short period of time or irrespective of how the returns are achieved.

There are managers that promise high returns but carry what we consider unacceptable risks. Some may chase trends, akin to the cryptocurrency boom of 2017, aiming to cash out before the bubble bursts. Others might use leverage or borrowed money to boost returns, which is fine until the strategy backfires and losses are amplified, or worse. It is crucial for investors to grasp this, especially as a client at Bellamont, because while other managers may chase fleeting investment trends, we do not. It is important to understand our focus: maximising returns for our clients by sticking to sound investment principles rather than following short-term trends. Equally important, we aim to prevent clients from withdrawing their investments to chase after passing investment trends. Frequent withdrawals can disrupt our investment strategy, there's also the significant likelihood that jumping in and out of investments will substantially reduce long-term returns.

Our mission is like a rowing crew, where each member must row in perfect sync to move forward efficiently. Committed cooperation as an investor is crucial. Just as a rowing crew must maintain a coordinated effort to stay on course, we need to stick to our investment strategy. Any deviation, no matter how reasonable it might appear, could throw us off course and hinder our progress.



OUR ROLE

About Bellamont Wealth Management

Bellamont Wealth Management is an independent wealth manager offering personalised investment management and financial planning services for South African and international clients.

Our Approach

We combine an institutional approach to investment management with comprehensive wealth planning. By listening to our clients and understanding their unique circumstances, we tailor our services to align with their ambitions. We believe in synchronising our interests and time horizons with those of our clients.

Wealth planning goes beyond basic tax and investment strategies. We create clear and credible plans that empower our clients to feel financially liberated today while ensuring their long-term financial independence.

Our goal

Is to demystify complex financial topics, enabling our clients to make informed and confident decisions. This approach protects and grows family wealth for generations. We develop strategies that balance long-term ambitions with short-term needs, adhering to our core principle that financial planning should simplify the incomprehensible.

Working Together

Every client has unique needs. Some may be straightforward, while others are more complex. We recognise these subtleties and build flexibility into their finances to ensure each generation can make the most appropriate decisions.

Our Offering

Our wealth management service integrates ongoing financial planning with flexible and responsive investment management. We proactively collaborate with key client advisers to ensure a coordinated approach to tax, structuring, and other matters where teamwork can enhance client outcomes. Our framework covers all areas of wealth planning, including tax efficiency, cash flow analysis, risk management, protection, and wealth transfer.

When necessary, we leverage the expertise of specialists, including tax and legal experts. Once a strategy is developed, we build a structure supported by our rigorous investment process.

We are aware that legislation is always evolving. Our experienced team continuously monitors client portfolios to ensure that investment structures remain appropriate. Exceptional investment performance, proactive structuring, and well-informed decisions significantly impact client outcomes.

AROUND THE WORLD IN 80 DAYS

Imagine that your friend had been inspired by the tales of Phileas Fogg and challenged you to drive around the world in 80 days. Should you decide on accepting the challenge, one of the most pivotal elements in determining your success and safety on the road ahead would be your choice of car. Lets assume that you had three main options for cars

The Economical Car - This car is affordable, but upon closer inspection, it is clear it might break down frequently and lacks the necessary safety features.

The Speed Demon - This car is fast and promised a thrilling ride, but it is also volatile and prone to breakdowns on rough terrain.

The Reliable Cruiser - This car is a bit more expensive but offered a balance of speed, safety and reliability. Before finalising your choice of car, you are visited by several car dealerships. Each salesman assures that their car is the best option for your journey. However, you quickly realise that their recommendations seemed more about making a sale than truly understanding your needs. Following this you realise the importance of seeking unbiased advice and consulted an independent car expert, who recommends the reliable cruiser, which provides a balanced approach to best serve you and your family's needs.

Next, you are faced with the choice of driving the car yourself or hiring a professional driver.

Self-Driving - You could drive yourself, however you likely lack the experience and could easily make wrong turns or get lost, inevitably costing you more than partnering with a professional.

Professional Driver - Alternatively, hiring a seasoned driver who knew the best routes and could navigate through any challenges assures you of a smoother journey.

You chose to hire the professional driver, recognising the value of expertise in ensuring a successful journey.

Navigating the Route

Other travellers opt for various routes and vehicles. Some join the herd, causing traffic jams and navigating perilous cliffs along the route. Along the journey, you might face a few flat tyres and rough patches. Despite the temptation to change vehicles, the driver recommends making essential repairs and staying on track.

Just short of 80 days later, you and your family successfully finish the journey, grateful for the challenging decisions made before starting. Remaining committed to the professional driver and reliable cruiser ensured the journey's completion, which might have been uncertain otherwise.

Investing is a complex journey, especially when entrusting your hard-earned capital—essential for your family's well-being—to an investment manager. This task is further complicated by the constant flow of information from the investment industry, each advocating for their own investment philosophies. Sorting through this flood of data to make informed decisions can be daunting for investors, similar to the myriad of decisions faced when attempting to circumnavigate the globe in 80 days.

At Bellamont, we strive to be the voice of reason, advocating for investment decisions that genuinely align with our clients' best interests. We believe that investment success stems from consistent, diligent application over time, much like a reliable cruiser in the hands of a skilled driver is most likely to complete the journey within the set timeframe. Amidst the array of choices available, we trust that our approach is intuitive and effective, akin to selecting a dependable vehicle and an expert driver for a challenging journey.

Investing wisely and making sound investment decisions requires expertise, much like diagnosing medical conditions or automotive issues. Just as we wouldn't expect Bellamont professionals to diagnose patients in a doctor's office or troubleshoot why a car won't start, many investors lack the specialised knowledge needed to make informed investment decisions. Effective investing demands a thorough understanding of market dynamics, risk management, and financial analysis, much like how medical professionals rely on years of training and experience to diagnose ailments accurately or skilled mechanics use specialised tools to pinpoint complex automotive problems.

At Bellamont, we champion the idea of aligning with independent investment professionals who prioritise your best interests. Our goal is simple yet profound - to generate a consistent real return that enables your portfolio to grow steadily, meeting both your immediate needs and long-term aspirations for you and your family.

THE ART OF INVESTING

In the world of finance, investing shares surprising parallels with the strategies of warfare. Beyond the corporate offices and trading floors, investors employ tactics akin to those of ancient generals, navigating markets with strategic planning, risk management, and adaptability.

Enter Sun Tzu's The Art of War, a revered text offering timeless wisdom and strategic insight. While written for a different time, its principles resonate deeply in the realm of investing. Beneath its martial imagery lie lessons in competition, foresight, and achieving success against the odds.

In this exploration, we uncover these parallels, drawing upon Sun Tzu's wisdom to illuminate the strategic landscape of investing. From disciplined planning to patience and discipline, we reveal the fundamental principles driving success in both warfare and finance.

01 Strategy and Planning

Just as a general meticulously plans their campaign, investors must develop an investment proposal that encompasses all their investable assets with a clear investment strategy aligned with their financial goals and risk tolerance. Developing a proposal involves assessing market conditions, identifying opportunities, and formulating a well-defined plan of action. By setting clear objectives and crafting a strategic roadmap, investors can navigate the complexities of the financial landscape with purpose and direction.

An iconic Formula One story that exemplifies the importance of strategy and planning took place during the 2007 Brazilian Grand Prix. The championship battle between Lewis Hamilton and Fernando Alonso came down to the wire, with both drivers vying for their first world title.

As the race unfolded, rain began to fall, creating treacherous conditions on the Interlagos circuit. With the championship on the line, the teams faced a critical decision: when to switch to wet tyres.

McLaren, the team of Lewis Hamilton, opted for a conservative approach, bringing Hamilton into the pits for wet tyres early in the race. Meanwhile, Ferrari, the team of Fernando Alonso, chose to keep him out on dry tyres, gambling on the possibility that the rain would subside.

As the rain intensified, Alonso struggled to keep his car on the track, losing precious time with each passing lap. Meanwhile, Hamilton, equipped with the appropriate tyres, maintained his composure and steadily worked his way through the field.

In the final laps of the race, Hamilton's strategy paid off as he overtook enough cars to secure the championship by a single point. Alonso, who had led the championship for much of the season, finished a distant third.

In the world of investing, much like in Formula One racing, success isn't solely determined by speed or skill; it's about strategy and planning. Just as McLaren meticulously crafted their plan to conquer the ever-changing track conditions, successful investors must carefully formulate their strategies to navigate the unpredictable terrain of the financial markets.

02 Leadership and Decision-Making

Sun Tzu emphasized the role of leadership and decision-making in achieving victory, stating, "The general who wins the battle makes many calculations in his temple before the battle is fought." In investing, effective leadership translates to sound decision-making based on careful analysis and strategic foresight. Investors must cultivate a disciplined approach to decision-making, weighing risks and rewards, and acting decisively when opportunities arise. By making calculated decisions grounded in research and analysis, investors can navigate the complexities of the market with confidence and precision.

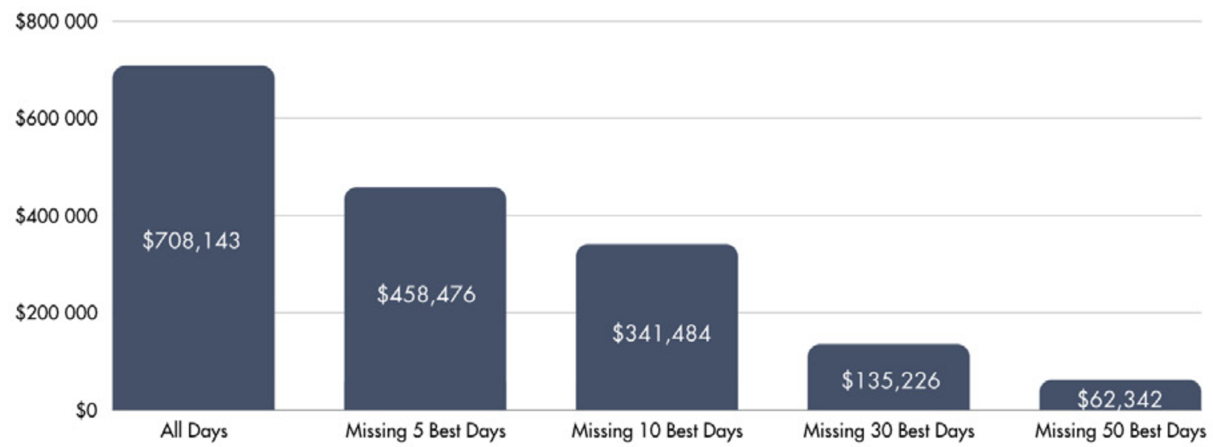
Investing is often influenced by fads and cycles. A notable example is the Dotcom mania, where Technology, Media, and Telecommunications stocks soared to irrational valuations. While avoiding these companies might have led to underperformance compared to the benchmark during their peak, at Bellamont, we do not invest based on trends or temporary popularity. Eventually, these bubbles burst, often with significant losses.

Some managers achieve high returns by taking what we consider unacceptable risks. They may chase fads, like the Dotcom bubble, hoping to sell before the crash, or use leverage to boost returns—an approach that can amplify losses dramatically when markets turn.

Understanding our approach is crucial for investors. At Bellamont, we are unlikely to follow fleeting investment trends. Although staying invested and resisting fads may seem straightforward in theory, it can be challenging in practice. The decision to stay the course is an active one, and long-term commitment is key to generating success. Continuously repositioning to chase the latest trend can be detrimental.

This principle is illustrated in the graph below, showing the value of $10,000 invested in the S&P 500 index from 1980 to 2018, with different periods of market inactivity. Missing just five of the best days of returns during this 38-year period could result in sacrificing approximately 35% of overall returns. This highlights the risk of chasing investment fads and underscores the importance of a disciplined decision making process.

GROWTH OF $10,000 SINCE SEPTEMBER 1980



Source: The Simple Dollar. Data as at 31 December 2018.

03 Information Advantage

In warfare, intelligence is a critical asset. Sun Tzu emphasized the importance of gathering information and understanding the enemy's strengths and weaknesses, stating, "If you know the enemy and know yourself, you need not fear the result of a hundred battles."

Imagine for a moment that a new drug comes onto the market. It's super-addictive, and in no time everyone's hooked. Scientists investigate and soon conclude that the drug causes a misperception of risk, anxiety, lower mood levels, learned helplessness, contempt and hostility towards others.

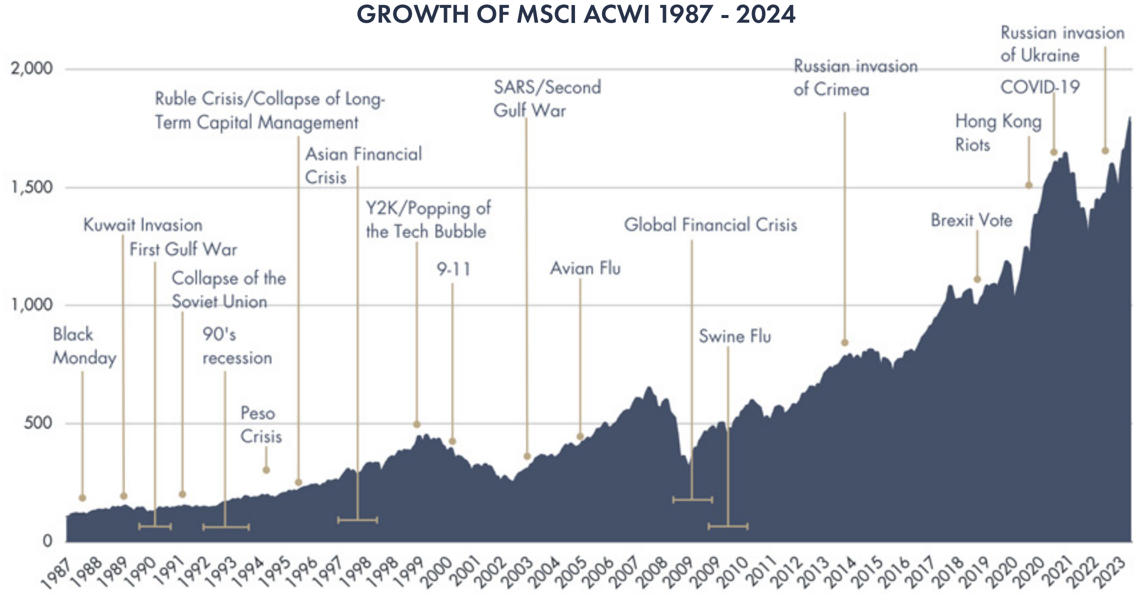
Would we use this drug? Would our kids be allowed to try it? Would government legalise it?
To all of the above: yes.

Because what we're talking about is already one of the biggest addictions of our times. A drug we use daily, that's heavily subsidised and is distributed to our children on a massive scale. That drug is the news.

Unfortunately, much of the financial media prioritises attracting visitors to their websites or selling financial products over providing sound financial advice.

As mentioned earlier, it is crucial to carefully curate the financial information we consume. Constantly absorbing every headline or news article can lead to panic, overreactions, and a sense of helplessness. Despite frequent claims from financial media that "this time is different," history shows that such statements are rarely true. The graph below illustrates how the market has weathered countless doomsday events and continued to progress year after year. By being selective with the financial media you consume, you can gain an information advantage and make more informed investment decisions.

GROWTH OF MSCI ACWI 1987 - 2024



Source: MSCI. Data as at 31 May 2024.

04 Maintaining Confidence

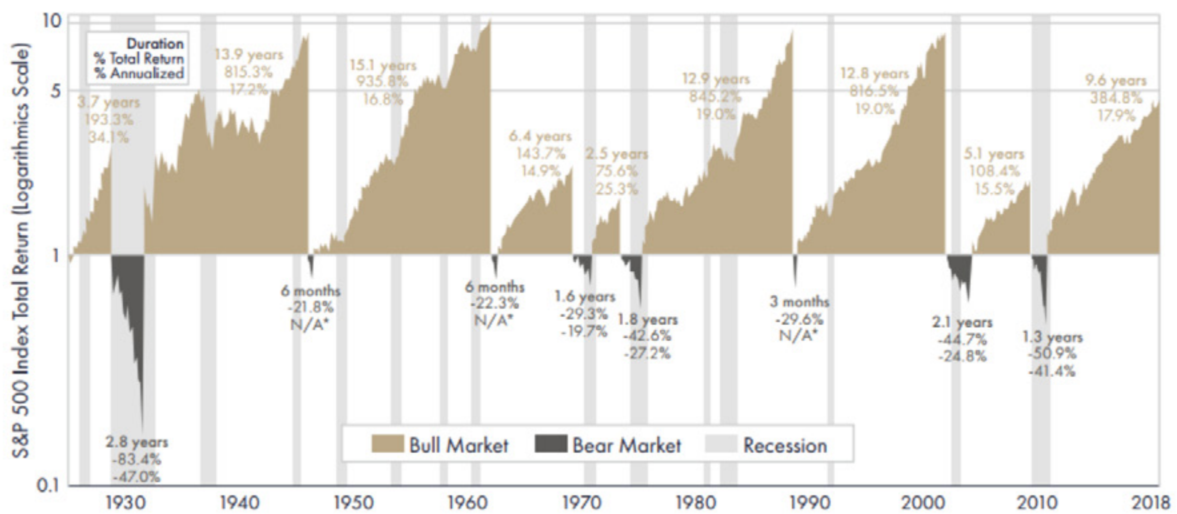
Confidence is a cornerstone of success in both warfare and investing. Sun Tzu stressed the importance of maintaining morale and confidence in the face of adversity, stating, "When one treats people with benevolence, justice, and righteousness, and reposes confidence in them, the army will be united in mind and all will be happy to serve their leaders."

Similarly, investors must maintain confidence in their investment strategy, even during periods of market uncertainty. By staying focused on their long-term goals and maintaining trust in their investment plan, investors can navigate market fluctuations with resilience and determination. The chart below outlines the historical performance of the S&P 500 index throughout the US bull and bear markets from January 1926 to September 2018.

What is clear is that bull markets last far longer than bear markets, the average bull market lasts 9.1 years compared to the average bear market of only 1.4 years as well as the fact that comparative losses experienced during bear markets are much smaller than the gains experienced during bull markets, with bull markets delivering an average cumulative gain of 480% compared to bear markets experiencing an average cumulative loss of 41%.

Markets are inherently volatile and do not move in a straight line, presenting inevitable periods of difficulty for investors. During these challenging times, it is crucial for investors to maintain confidence in their investment strategy and avoid turning paper losses into realised losses. Historically, market downturns tend to be short-lived. Therefore, investors will benefit more by focusing on ensuring their portfolios are well-positioned to maximise returns during bull markets, rather than excessively trying to minimise losses during bear markets.

HISTORICAL PERFORMANCE OF THE S&P 500 INDEX THROUGHOUT THE US BULL AND BEAR MARKETS FROM JANUARY 1926 TO SEPTEMBER 2018.



Source: The First Trust Advisors, L.P., Bloomberg, 1926 through September 30, 2018.

05 Risk Management

Sun Tzu famously said,

> The **art of war** is of vital importance to the state. It is a matter of life and death, a road either to safety or to ruin.

Similarly, in investing, risk management is paramount. Investors tend to focus on short term volatility and as a result of short term market gyrations often feel that they cannot control or moderate their investment risk.

However, the reality is that volatility is often noise, reflecting worries that won't have any lasting or appreciable effect in a company's operations. In these cases, volatility risk should not leave the realm of paper losses.

Investors should rather focus on shortfall risk and the ability of their portfolio to provide for their long term investment objectives, not market movements today, next week or next year. Shifting focus appropriately to the long term will allow investors to realise that exposure to short term market volatility and risk is necessary to generate the return required to provide for their long term investment objectives.

Standard deviation is the most widely used risk measure in the investment management industry. However, we at Bellamont believe that the longer the investment horizon the less important standard deviation becomes as a measure of risk.

Gauging risk through daily price movements becomes irrelevant over an investment horizon that spans multiple decades.

> We believe that emphasis should be placed on the **risk** of **permanent capital loss** and shortfall risk as measures of risk.

Often investors can be lured into a false sense of security by having portfolios that minimise standard deviation but in reality have magnified risks of permanent capital loss and have insufficient capital to provide for their objectives.

06 Patience and Discipline

In the heat of battle, patience and discipline can mean the difference between victory and defeat. Likewise, in investing, success often requires a steadfast commitment to long-term goals and a disciplined approach to decision-making. Investors must resist the temptation to react emotionally to market fluctuations, instead maintaining focus on their investment strategy and objectives. By exercising patience and discipline, investors can weather short-term volatility and capitalise on long-term opportunities.

Someone once said,
"The greatest battle you will ever face is yourself. Once you conquer that, nothing can stop you."
This quote holds particularly true in the world of investing, where cognitive and emotional biases can lead to poor decisions and potential financial ruin.

Most investors fall prey to classic mistakes that hinder their ability to achieve optimal investment performance. Driven by greed and fear, they often buy at market peaks and sell at market troughs. It requires significant emotional discipline to buy when others are fearful and to sell when others are greedy. Additionally, maintaining composure and doing nothing amidst market volatility demands extraordinary self-control.

Warren Buffett, arguably the greatest contemporary investor, once reflected on this challenge: **"Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: he lost a bundle in the South Sea Bubble, complaining later, 'I can calculate the movement of the stars, but not the madness of men.' If he had not been traumatised by this loss, Sir Isaac might well have gone on to discover the Fourth Law of Motion: For investors as a whole, returns decrease as motion increases."**

This principle of low activity underscores the deceptively simple task of buying the right shares initially and holding onto them for the long term—actions that are easier said than done. Achieving this requires a significant amount of patience and discipline, highlighting the importance of mastering one's emotions and impulses to succeed in investing.

Conclusion

There are numerous similarities between investing and warfare, with countless strategies applicable to both the battlefield and one's portfolio, ultimately leading to satisfactory outcomes. Just as Sun Tzu's core beliefs brought him success in warfare, we at Bellamont have identified key principles that we believe will deliver success for our clients. Our success is intrinsically linked to theirs, and these guiding tenets form the foundation of our investment approach.

"The big money is not in the buying and the selling, but in the waiting."

– Charlie Munger

We **thank you** for your consideration and ongoing support.

We extend our gratitude to all potential and current clients who have chosen Bellamont Wealth Management as their trusted investment manager.

Your decision to partner with us is a testament to our shared commitment to financial excellence and personalised service. At Bellamont, we are dedicated to delivering tailored investment management and comprehensive financial planning that aligns with your unique goals and aspirations.

Your trust in our expertise is invaluable, and we look forward to building a long-lasting partnership focused on safeguarding and growing your wealth for the future. Thank you for consideration and placing your confidence in Bellamont Wealth Management.

BELLAMONT
WEALTH MANAGEMENT

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