How to become a lazy investor (and yes, it's a good thing)

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Highlight: Set-and-forget investing can get good results over long periods, but you'll need to overcome the temptation to trade.

Body

Shani Jayamanne is a self-confessed "lazy investor". It's an unusual admission for someone whose day job is director and investment specialist at financial services firm Morningstar, but Jayamanne says she "doesn't particularly enjoy the art of investing".

"I don't enjoy poring through company reports on a Friday night," she says.

Jayamanne learnt early in her investing journey that stock picking wasn't for her - owning shares directly in individual companies made her "incredibly nervous".

"I tend to try to seek out as much information as I can, confirming that I've made the right decision all the time, and that's quite exhausting," she says.

Instead, she has adopted a no-hassles, "lazy" approach to her portfolio, investing in managed equity funds and exchange-traded funds (ETFs).

Lazy investors lean into diversification, low-cost products and a long investment horizon.

Ashley Owen, who runs a consulting business called Owen Analytics and writes a weekly newsletter about investing, says the biggest barriers to lazy investing are an inability to tune out noise and ignore emotions, and avoiding the temptation to chase returns, all of which can be costly.

"Human nature is the killer of buy and hold," he says. "You literally have to learn to control yourself to ignore frenzied booms and the frenzied busts, and that's very hard to do. Controlling your emotions is the hardest part of investing."

Vanguard founder John Bogle and legendary investor Warren Buffett both advise that individual investors can get by with a simple portfolio consisting of just two index funds - one covering US shares and one covering US bonds.

But a lazy Australian investor might have 70 per cent invested in growth assets like Australian and global shares, with the global shares usually 50 per cent hedged, Owen says.

The remaining 30 per cent could be in defensive assets such as Australian and global fixed rate investment grade government or corporate bonds, with the global component fully hedged.

Owen's own long-term investment portfolio features 10 ETFs, none of which are invested in long-duration bonds, which Owen believes won't deliver the same returns over the next 20 years as they have over the past 30 years.

He adds that if someone is establishing *a set-and-forget portfolio today*, they should also be aware that they're "going to be buying shares *at a very expensive point in the cycle*", with future returns to be lower than average.

ETFs and managed funds

Jayamanne isn't invested in bonds, either. Her portfolio consists of four managed funds and three ETFs tracking broad market indexes across Australian and international equities.

Owen says someone with a standard growth portfolio mix - 70 per cent invested in Australian and global shares and 30 per cent in bonds - achieved a return of about 11 per cent after fees in the 2023-24 financial year. This is the asset mix most large superannuation funds use as their "default" option.

"Even after inflation of 4 per cent, a lazy return of 11 per cent is still a very healthy 7 per cent real return for the year," he says. "I say 'lazy' because any passive investor would have achieved these returns without trying to chase hot stocks or funds or themes or fads, or fiddle with opaque alternatives, or whacky 'new' asset classes, or listened to perennial doomsayers prattling on about recessions or political crises or world wars."

Investors using a buy-and-hold strategy need to accept that there will inevitably be periods of outperformance and underperformance, Jayamanne says.

But on average, you will perform better compared to someone who tries to time the market by switching in and out of investments, she says.

Besides incurring the transaction costs associated with buying and selling, market data for the past 30 years shows that if you missed the S&P 500's 10 best days, your returns will be cut in half, Jayamanne says.

"And if you missed the best 30 days ... your return would be 83 per cent lower," she says.

Jayamanne takes the emotion out of her investment decisions by adhering to an investment policy statement, a document that outlines exactly what she's investing for and how her investments connect to her financial goals.

"Those sorts of guidelines allow you to sit back and think about why you're making a decision, whether it's emotionally driven, whether you're feeling like you're missing out on something, or you're doing it in line with your portfolio, your financial goals, and what will benefit you over the long term."

Jayamanne's investment policy statement also includes parameters for when she will buy and sell investments.

Buying at the right price

These are the two most critical time points for lazy investors, Owen says. In particular, buying investments at the right price is key, as buying when investments are overvalued can destroy returns from a set and forget portfolio for decades, he says.

Link to Image

"You make your money when you buy. You've got to be aware of when things are expensive and you've got to be aware of when things are cheap."

Eric Marais, an investment specialist at Orbis Investment Management, agrees that little matters more than the buy-in price.

Orbis invests based on an active management philosophy of seeking out undervalued companies, and Marais points to investors who bought into successful tech companies like ***Cisco*** Systems and Microsoft before the dotcom crash of the early 2000s, as an example of those who got the buy-in price wrong.

"***Cisco*** is a business that has actually been extremely successful. It's continued to grow its revenue and its profits, but it has yet to recoup its peak price 25 years later." In the case of Microsoft, Marais says recovering to its pre-dotcom share price took 16 years.

For lazy investors who don't want to follow the markets closely enough to time their entry, *the solution is dollar cost averaging*, which is the approach Jayamanne uses. Dollar cost averaging is the process of investing the same sum at regular intervals, regardless of market movements.

"You're just putting $100 in every week, and you buy all the way through the booms and busts and that works quite well," Owen says.

When to review

Despite her hands-off approach, Jayamanne does monitor her portfolio.

"You always have to monitor and maintain your portfolio because markets will always change, economic conditions will change," she says. "There's no set-and-forget portfolio that you can just leave and let it run and be confident that it's still aligned with your goals over the long term."

Jayamanne reviews her portfolio every six months. "I think that's a pretty good cadence for lazy investors," she says.

Owen agrees that some tweaking does make sense from time to time as conditions change, adding that "about once or twice per decade there is a major market rupture that requires some serious thinking and major changes".

Yield Financial Planning managing director James McFall agrees staying invested when markets fall suddenly and waiting for the recovery is part of a successful investor's mindset.

He advocates a more active approach, suggesting investors should "actively switch among asset classes where the greater risk or opportunity is at different points in the market cycle".

While the thesis that there are some companies that you can buy and hold forever might be considered central to lazy investing, Marais calls this idea "dangerous".

"Over time, it has tended to be the case that most businesses get disrupted, so the idea that there is a good-enough company that *you can buy and hold forever* is sort of redundant."

He says rather than an annual or biannual review, the right time to review your investments "should be based on what's changing in the market".

Graphic

Investment specialist Eric Marais

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