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5 **insightful lessons** you could learn from the world's **most successful investors**

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Even for professional investors, consistently delivering above-average market returns on investments is challenging. Those who have delivered high returns over a long time frame are remembered among the world's greatest investors.

While you may not have the same resources that a professional investor may have at their disposal, you could learn valuable lessons from their work. Renowned investors might have unique philosophies and strategies, and sometimes they share their market wisdom.

Read on to discover five insightful lessons from some of the world's most successful investors.

Carve your own investment path

Despite investing traditionally being dominated by men, Nicola Horlick made a name for herself in the 1990s.

In the early 1990s, she was appointed managing director of UK investment business at Morgan Grenfell Asset Management. During the five years she was in charge, the amount of assets managed by the firm grew from £4 billion to £18 billion. Her success led to Horlick being dubbed "City superwoman" in the media as she balanced a career in finance with family life.

Even today, when barriers have been lowered, women are less likely to invest. Indeed, according to Aviva research, men are almost twice as likely to invest in a Stocks and Shares ISA, self-invested personal pension, or general investment accounts than women.

So, if you feel like you shouldn't invest, whether because you're a woman or for a different reason, review your own circumstances and risk profile to assess if it's right for you. You might find it could be beneficial, even if you aren't a stereotypical investor.

1. Learn the value of investing from Warren Buffett

Warren Buffett is considered to be one of the most successful investors of the 20th century. He was even named one of the most influential people in the world by *Time* magazine in 2012.

Buffett's lucrative career has led to him amassing a fortune of around $140 billion (£108 billion) as of July 2024, and he's often spoken about his approach to investing. One of his most interesting quotes highlights why you may want to consider investing in the first place:

> *"The arithmetic makes it plain that inflation is a far more devastating tax than anything that has been enacted by a legislature. The inflation tax has a fantastic ability to simply consume capital."*

If you're risk-averse, it may seem like a cash savings account is the safest place for your money. When your money is held in cash, it's usually readily accessible if you need it and it won't be affected by stock market volatility. Yet, that sense of safety might be misguided once you factor in inflation.

As the cost of goods and services rises, the spending power of your money held in a cash account is likely to fall in real terms. This is due to the rate of inflation often being higher than the rate of interest your savings are earning.

The period of high inflation between 2021 and 2024, has highlighted the potentially damaging effect it can have on your savings.

According to the Bank of England, if you placed £20,000 in an account in 2020, it would need to have grown to more than £24,650 by June 2024 just to maintain its spending power. As the interest earned is likely to be below this, the value has fallen in real terms. As Buffett explained, inflation can "consume" your wealth.

Investing provides a way to potentially grow your money at a pace that's faster than inflation. Of course, investment returns cannot be guaranteed, and you'll have to consider the risk of investments falling in value too. However, investing a portion of your wealth could be a long-term strategy that helps you reach your goals.

With a father who worked in an investment business, Buffett gained an insight into investing at an early age. In fact, he bought his first stocks when he was just 11 and filed his first tax return at 13, in which he deducted money for his bicycle.

It was the start of a lucrative career. Indeed, Buffett is one of the best-known investors in the world thanks to his huge success. As of July 2024, *Bloomberg* estimated his worth was $140 billion (£108 billion), making him the tenth richest person in the world.

More recently, Buffett became known as one of the founders of the Giving Pledge, where billionaires pledge to give away at least half of their fortunes. Buffett himself has pledged to give away 99% of his wealth.

2. Take the time to understand your investments like Peter Lynch

Investing can seem complex, but it's important to understand what investments you hold. Investor Peter Lynch said:

> *Know what you own, and why you own it."*

Having a clear investment goal can help you assess which investments might be appropriate for you and your risk profile.

With investing material often filled with jargon or acronyms, it can feel overwhelming for some investors. Taking a step back before you invest to understand each opportunity could help avoid potential mistakes, such as investing in stocks that are high-risk and don't suit your risk profile, or even avoid scams.

As financial planners, we can help you understand your investments and how they fit into your wider financial plan.

Lynch also recognised how emotions could affect your investment decisions and lead to you abandoning long-term plans:

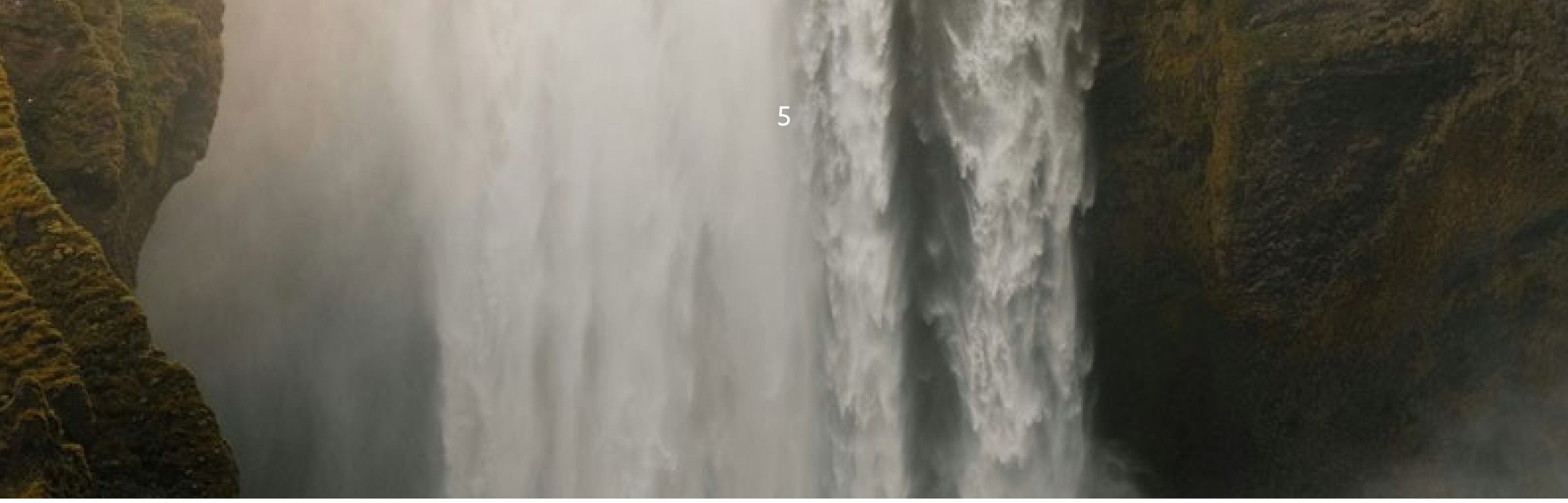
> *The trick is not to learn to trust your gut feelings, but rather to discipline yourself to ignore them. Stand by your stocks as long as the fundamental story of the company hasn't changed."*

Understanding your investments may help you feel more confident about your long-term investment strategy. So, when you experience emotions like fear or excitement, you could be in a better position to recognise the influence and have the confidence to stick to your plan.

Peter Lynch is an American investor, who was manager of the Magellan Fund at Fidelity Investments between 1977 and 1990. During his time there, Lynch averaged a 29.2% annual return and consistently achieved more than double the US S&P 500 stock market index.

Indeed, during his 13 years managing the fund, assets under management increased from $18 million (£13.9 million) to $14 billion (£10.8 billion).

One of his earliest investments helped pay for his education. While studying at Boston College, Lynch purchased shares in Flying Tiger Airlines for $7 (£5.42) each – they would later rise to $80 (£61.95) per share.



3. Be prepared for the ups and downs of the investment market like John Templeton

While it's true that markets and investments can be unpredictable in the short term, when you look at the bigger picture, you can often see a trend of peaks and troughs. This is something that British investor John Templeton was noting when he said:

> *The four most expensive words in the English language are 'this time it's different'."*

When there's a market downturn, it's natural to worry about what it means for the value of your investments and the knock-on effect it could have on your plans.

You might be concerned that instead of recovering in the medium- and long-term, you'll lose your money. So, instead of holding your investments with a long-term view, you sell them to avoid making perceived further losses. However, by selling investments, you turn paper losses into actual losses and potentially miss out on the market recovery.

Of course, investment returns cannot be guaranteed and there is always some level of risk involved. Yet, historically, markets have recovered over a longer time frame. So, following Templeton's advice and looking at how markets have responded in the past could help you keep emotions in check and invest with a long-term view.

John Templeton studied at Yale University and was a student of the "father of investing" Benjamin Graham.

Templeton was investing during a difficult period – the Great Depression between 1929 and 1939 saw the value of stocks in the US sharply decline and led to a period of economic depression. However, he followed his own advice.

In 1939, Templeton told his broker to purchase 100 shares of each company listed on the New York Stock Exchange that was then selling for less than $1 (£0.77). The second world war led to the US industry picking up and Templeton went on to make many times his initial investment.

Templeton became a billionaire by investing in globally diversified funds, and his firm was among the first American firms to invest in Japan in the mid-1960s.

In 1999, Money magazine said he was "arguably the greatest global stock picker of the century".

4. Embrace diversification like Thomas Rowe Price Jr

Managing investment risk is important, and it's often like a balancing act. One way to reduce the risk of your investment portfolio falling in value is to diversify.

Diversifying is a strategy where your portfolio contains a mix of investments. So, your portfolio might contain several different assets and investments in a range of industries or geographical locations. The rationale behind this is that should one area of your portfolio experience volatility, stability in another will help to balance it out.

Investor Thomas Rowe Price Jr said:

> *"When picking a list of growth stocks for long-term investment, broad diversification of the risk is the first and most important principle to follow. No one can look ahead five or 10 years and say what is the most promising industry or the best stock to own."*

By spreading your portfolio across different areas, you could potentially benefit from higher long-term returns and lower the risk you're taking.

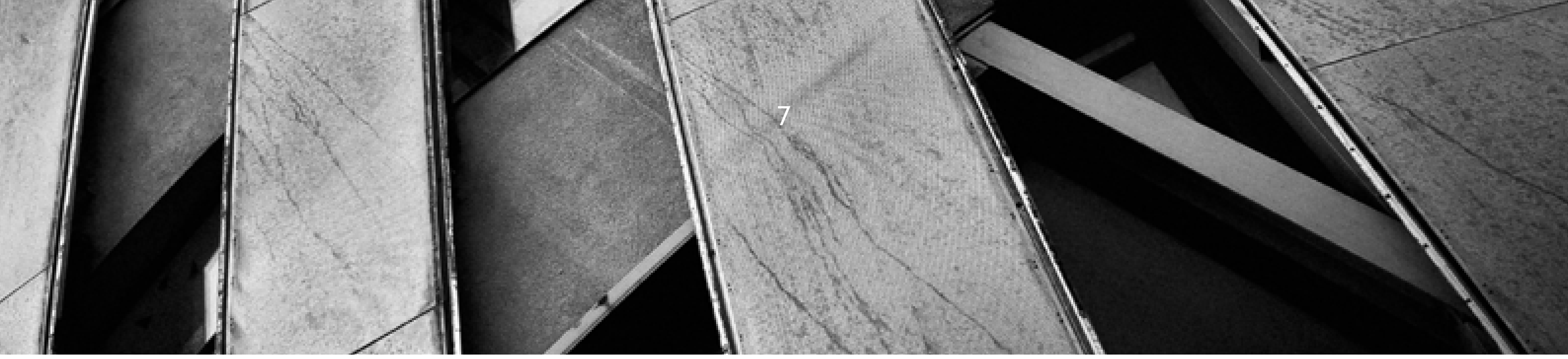
As a result, when you're investing, it's often important to look at your portfolio as a whole. You might have found a technology stock that you believe will deliver good returns, but if your portfolio is already heavily invested in the sector, could it mean you're taking more risk than is appropriate for you?

Reviewing your portfolio and wider financial plan before you make changes to your investments could help you make decisions that reflect your circumstances and goals.

Thomas Rowe Price Jr is an American investor who was an early proponent of the growth investing strategy. This strategy requires a lot of research as it looks for companies that exhibit signs of above-average growth, even if the share price appears expensive.

Price's work defining and promoting the concept of growth stocks led to him earning the moniker "the father of growth investing". Underpinning his strategy was an approach of using diversification to reduce risk. This principle has remained part of the investment firm he founded, T Rowe Price, which went public in 1986.

Price also took a different approach to charging fees. At the time he established his firm in the 1930s, it was common to charge a commission. Instead, he charged a fee on the assets under management, which linked the success of the investment firm to the returns of the portfolio. It's a structure that many financial service firms use today.



5. Include a margin of safety like Benjamin Graham

As a proponent of value investing, Benjamin Graham advocated for buying stocks or shares at a discount to the business's intrinsic value.

In simple terms, if Graham believed the value of a stock was £2, his goal was to buy it for £1.50. This would provide a margin of 25% which provides a useful safety net in case the business turns out to be worth less than initially expected.

In theory, the higher the margin of safety, the less risk you're taking. However, the intrinsic value of a business isn't concrete and it's often subjective. So, it could vary widely between different analysts, even if they're using the same information.

Speaking about his approach to investing, Graham said:

> *An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."*

Using a margin of safety when you're investing means you're considering risk and how a potential downturn could affect your financial plan. Rather than thinking about how much a particular investment opportunity could rise, you start by calculating how much it could fall.

The key benefit of this approach is that it allows for some losses but without having a huge negative effect on your overall portfolio. However, remember that the margin of safety doesn't guarantee a successful investment and even Graham lost money at times.

British-born American investor Benjamin Graham is widely known as "the father of investing", as he laid the groundwork for value investing that many other investors built on to great success, including Buffett.

His two books, published in 1934 and 1949, defined many investment principles that are still used today, including the importance of emotional detachment when making investment decisions and distinguishing the price of a stock from the value of the business.

One of his favoured metaphors was "Mr Market", which Graham used as a way to describe the irrational traits of the market and the risk of following the crowd.

In the allegory, you're asked to imagine that you're a business owner with a partner, Mr Market. This partner offers to sell their share or buy your share of the business every day, with the estimated value varying from very pessimistic to wildly optimistic. You're free to decline the offer, and you know Mr Market will be back with a new offer, with an entirely different value tomorrow.

The moral is to not regard the whims of the market, but focus on the value of the business. You can wait until an offer allows you to buy Mr Market's share of the business that provides an opportunity for returns.

Contact us to talk about your investments

If you'd like to start investing or would like help managing your investment portfolio, we're here to help.

As financial planners, we could offer support to help you:

- Assess if investing is the right option for you
- Determine how investing fits into your wider financial plan
- Set out your investment goals and time frame
- Understand your risk profile and how to create a diversified portfolio
- Incorporate changes to your circumstances if appropriate
- Review your investments to keep you on track.

Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

Please contact us to talk about your financial plan and find out more about how we could work together.

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