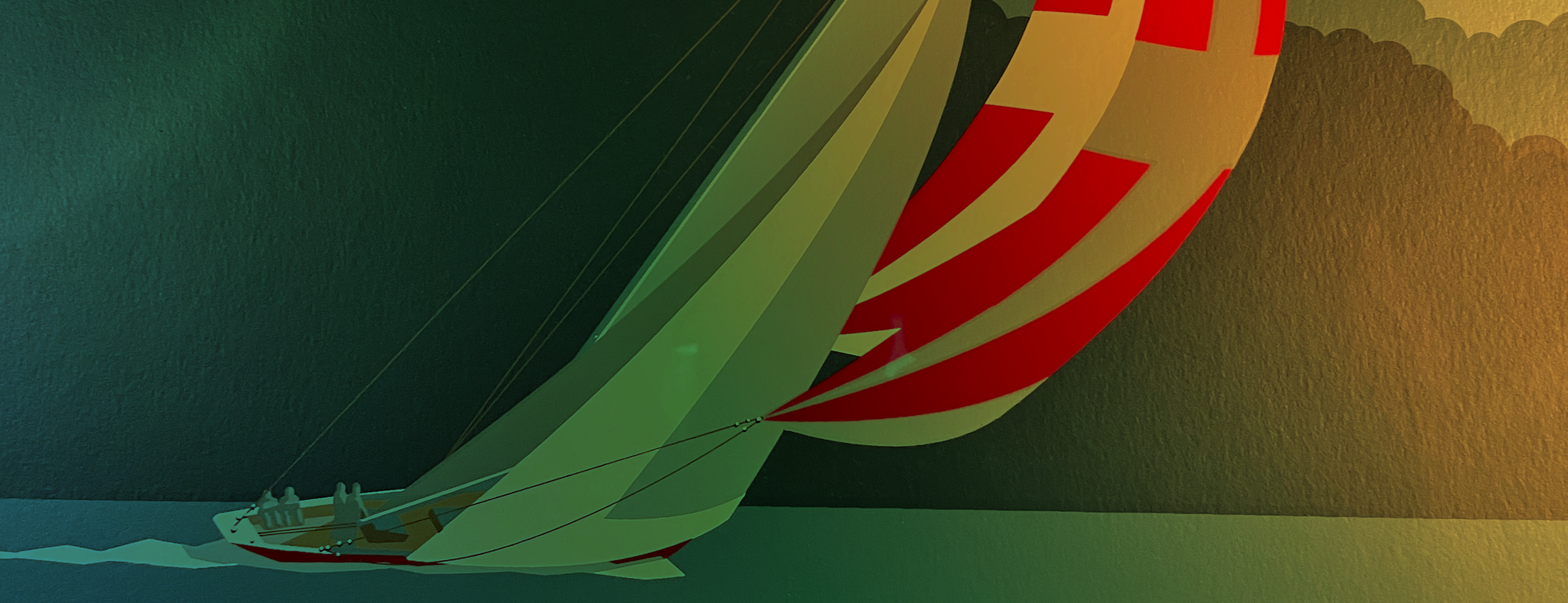

Seven Lessons for Private Investors

Jonny Lach and Sara Hamilton

Having observed private investors at work over many years, we see some clear patterns separating the most successful family investors from others. We offer some of the lessons we've learned. Family investors have some big advantages, but they have challenges too.

1. **Beware overconfidence.** Overconfidence bias is so common that it is studied extensively in behavioral finance and psychology. Most people are demonstrably overconfident in several ways especially including forecasting skills. Family offices are particularly susceptible, and the wealth creator is often the most vulnerable. It is natural that folks who have been hugely successful in creating wealth figure they can do many other things well. Often they can.
   Investing well is one of those things that seems easy, but is not. It is an extremely competitive endeavor with mountains of money searching the globe for even small advantage. Further, the great riches available in finance are magnets for talent, intelligence and computing power. These resources are not highly visible, but they are hard at work at vast scale. If you think investing well is easy, either you're in a lucky patch (e.g. a bull market) or you probably aren't investing well. One common symptom of overconfidence bias is excessive concentration in one strategy or asset class, often because it is familiar to the Chief Investment Officer or wealth owner, who made a fortune there.

2. **Create or hire a first-rate investment team and process.** Insource or outsource excellence, but whatever you do, source it! This sounds obvious, but many family offices do not have excellent investment resources. World-class resources will pay for themselves many times over on a sizable portfolio. You can build a great staff if your asset base makes that economic. You can hire investment consultants to search the world and support your investing with global scale resources. Alternatively, you can rent investment management by outsourcing your investment function to a fine firm. Relatedly, if you are unqualified to be the Chief Investment Officer, or not interested in the role, get a qualified, experienced and engaged CIO to drive the boat.

3. **Set clear investment goals and track your progress.** This is something institutions tend to do better than private investors. Is your goal to outperform inflation after spending? Double real net worth per capita in the next generation? Give assets worth x dollars to your foundation in ten years? Setting measurable goals is, always, an invaluable first step to achieving them. Goals will tend to dictate required returns, which dictate required risk. Yes, this is Investing 101, but it is often not done.

4. **Make your firm an attractive limited partner and access great funds.** Private investors often have better access to capacity-constrained funds than they expect. General partners often welcome families and wealthy individuals, sometimes over larger institutional investors. For one thing, they identify personally and may connect; many GPs are first generation wealth creators like private investors. Private investors tend to be "loyal" investors, not quick to exit at the first sign of trouble. Finally, private investors can be strategically constructive with the expertise and networks they bring. Invest time in building relationships with excellent general partners.

5. **Educate unsophisticated stakeholders.** Some family members have little investment training or experience. No problem there unless they want to make investment decisions. The solutions here are education, inclusion as appropriate and excellent communication with and reporting to all stakeholders. Many business founders like to get their children engaged in direct investing so the rising generation can learn to appreciate how hard it is to be an entrepreneur and to grow a business. Teach them to invest well by bringing them on the journey.

6. **Fortune favors the bold.** If your investment horizon truly is long and your performance goals are ambitious, you should selectively take significant, attractive investment risk. There are extraordinary opportunities out there. There are deals that make fortunes. There are strategies which create massive wealth. Private investors can pounce on these and endure the bad outcomes with an excellent diversified portfolio. As institutional investor capital has swamped one proven investment strategy after another, it's harder to find rich opportunity for alpha. Private investors can be early and bold – Carpe diem!

7. **If the course is sound, stay the course.** Probably the most important thing an investor can do is to avoid the temptation to sell low and buy high. Price, at entry and exit, matters a lot. It is human nature to expect tomorrow's market weather to be like today's, to love the recent winning positions and hate the losers. Warren Buffett said it well: "Be fearful when others are greedy and be greedy when others are fearful." Always take in new information, but act rationally, largely ignoring today's passing weather.

Jonny Lach is a long-time investor, Chief Investment Officer, investment consultant, entrepreneur and investment banker. Before 12 years at Albourne, a leading alternative investments consultancy, Jonny founded and ran a healthcare investment firm. Jonny serves on a family office investment committee and a hedge fund advisory board. **jonny.lach@gmail.com**.

Sara Hamilton is Founder and Board Chair at Family Office Exchange (FOX), which is the premier peer community for successful multi-generational family enterprises and their family offices located in 24 countries. Sara is an author, thought leader, and advisor to families who are facing complex transitions in their family enterprise and its governance. FOX believes family education and thoughtful advisor selection are central to the success of the family and their vision for the enterprise. **shamilton@familyoffice.com**.