

What The Art of War tells us about investing in uncertain times

Investing in uncertain times can be scary, but Tony Conway says a book on strategy written over 2,000 years ago offers helpful advice.



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Investing can be broadly divided into two schools of thought: strategic and tactical. Today, increasingly, it makes sense to have a foot in both camps.

Strategic asset allocation focuses on long-term objectives. It involves assembling an optimal mix of assets on the basis of factors such as your time horizon, liquidity needs and attitude to risk. It is testament to the notion that time in the markets beats timing the markets.

Tactical asset allocation is much more rooted in a short-term outlook. Its primary purpose is to capture market gains by exploiting volatility. It demands that portfolios are closely monitored and regularly rebalanced in response to unfolding events.

As you may have noticed by now, as a former infantryman, I like to view matters such as these through the lens of military thinking. This brings us to arguably the most celebrated treatise of its kind.

Thought to have been written in the fifth century BC, Sun Tzu's *The Art of War* is widely considered the pre-eminent masterpiece on strategy and tactics. It has helped shape military theory around the world for well over 2,000 years.

Many business leaders have also become fond of this ancient tome in recent decades. So have some investors, with none other than the famously rapacious Gordon Gekko championing its insights in 1987's *Wall Street*.

I am not suggesting we should all follow Gekko's notoriously ruthless approach to markets. But I do think *The Art of War* contains an extremely useful message when investing in uncertain times, as we do today.

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Chaos and opportunity

The text of *The Art of War* is disarmingly elementary. The effect is especially striking when Sun Tzu's thoughts are translated into English and presented in bite-sized chunks.

Individuals of a particular vintage – yours truly, for example – might even be tempted to recall the classic *Fawlty Towers* scene in which Basil is flabbergasted by his wife's proclivity to state the self-evident. "Can't we get you on *Mastermind*, Sybil?" he asks. "Next contestant: Sybil Fawlty. Subject: the bleedin' obvious."

Remember, though, that the brightest ideas in any field are often refreshingly uncomplicated. *The Art of War* excels in this respect, which is why it is so easy to derive wide-ranging lessons from it. We should not mistake its simplicity for shallowness.

So which words of wisdom might we pluck from the pages with strategic and tactical investing in mind? There are several pithy observations that could be moulded to fit the bill, but I think the one that really leaps out is this: "In the midst of chaos there is also opportunity."

The point here is that every military leader has a plan – a reasonably firm grasp of what they want to achieve, how they might go about it and how long it could take. The same can be said of every sensible investor.

The challenge comes when circumstances change. Warfare and investing alike are subject to countless unpredictable variables and unexpected forces. There are two fundamental choices in the face of unforeseen developments: plough on regardless or adapt.

The Art of War advocates the latter. Crucially, it stresses that the plan itself need not be jettisoned. The tactics might have to be tweaked, but the underlying strategy can remain in place.

Profiting from turmoil

Perhaps more so than ever before, this sort of flexibility is becoming a defining feature of successful investing. While a long-term focus is still of supreme importance, the "new normal" of market volatility is encouraging us all to think on our feet.

This leads to two further choices: retreat or go on the offensive. *The Art of War* acknowledges there might occasionally be merit in turning tail and heading for the hills, but it also recognises the scope to profit from turmoil.

As I have stressed before, readjusting portfolios is central to an investment manager's job. Asset allocations must be routinely reviewed to ensure they continue to reflect clients' best interests.

This means volatility should not always be viewed as an enemy. In keeping with Sun Tzu's meditation on chaos, it can be a source of opportunity. It can give rise to attractive entry and exit points. It can actually be our friend.

The Art of War's underpinning credo is often summed up as follows: "The only constant is change." This is also a pretty neat encapsulation of investing in uncertain times.

Ultimately, of course, Sun Tzu was not a fan of conflict. He hoped to *avoid* it. "To win without fighting is best," he wrote. "The greatest victory is that which requires no battle."

Alas, building a secure financial future is very seldom so straightforward. But by embracing strategic and tactical investing alike we can at least make every effort to claim victory over the long run.

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