MILLEN CAPITAL

STRAIGHTENING OUT WEALTH MANAGEMENT™

Markets fell in 2018 – but keep this in perspective

December 2018 dished up a rather distasteful present for the holiday period. Many lines were written in the broadsheets about the global equity market falls, but were they really anything out of the ordinary? The challenge for investors today is that they have been spoiled by the run of strong returns since the Credit Crisis, with only one down year since 2008 until, that is, 2018. Investors need to remind themselves that they have been lucky and that experiencing down markets about one in three years is more the norm. The key is to sit tight and ride out any turbulence ahead. In the longer-term investors will be rewarded, whatever this year brings.

> ***"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."***
>
> Peter Lynch - one of the few great stock pickers during his time at Fidelity

2018 may have been a disappointing year for equities, but this shouldn't have been a surprise

Christmas eve delivered a present that most investors were not hoping for – the biggest fall on that specific day in history (at least in the US) of -2.7%. That capped a fall in global markets of around -4% for the year. That is hardly an investing disaster, especially as high-quality bonds held their own, as did global property. It probably felt a lot worse a) because of the relentless negative news coverage of things like the risk of a US-China trade war and the knots that Parliament has tied itself in over Brexit and b) because the peak-to-trough fall was considerably more than this at around -11%. From some of the newspaper headlines, one might think that we were experiencing calamitous times in the equity markets:

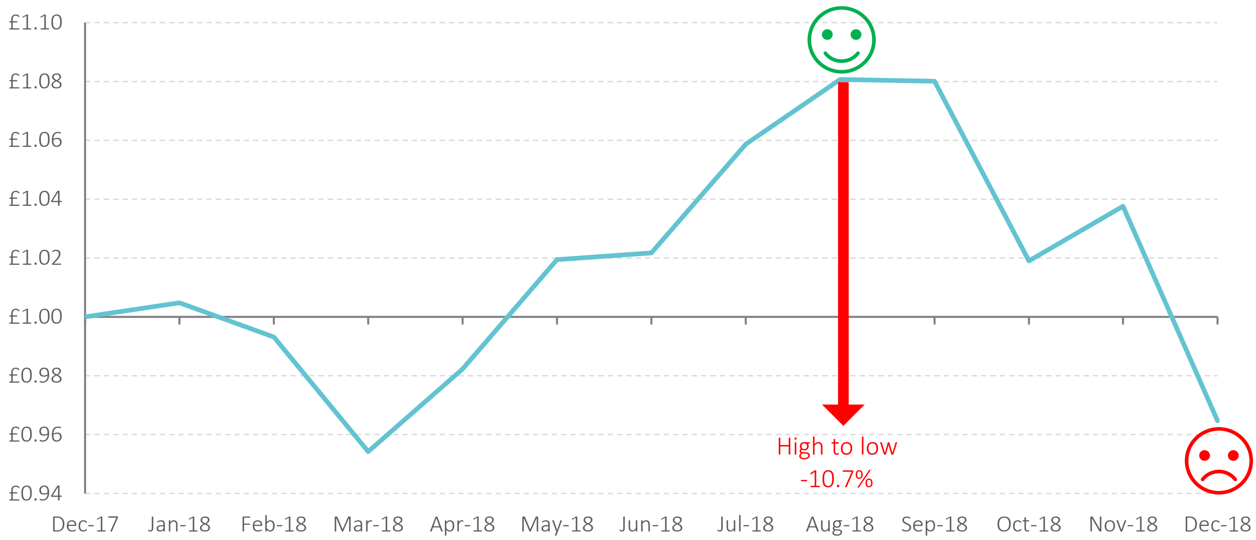
> 'Global stock markets suffer worst losing streak for five years'. **The Guardian (26th October 2018)**

Or:

> ***'Stock market slide in 2018 leaves investors bruised and wary'*** **The Financial Times (31st December 2018)**

Take a look at the chart below. Looked at in isolation, one could easily get sucked into this kind of rhetoric that is aimed at selling newspapers (or these days, attracting clicks).

Figure 1: Global equity markets in 2018



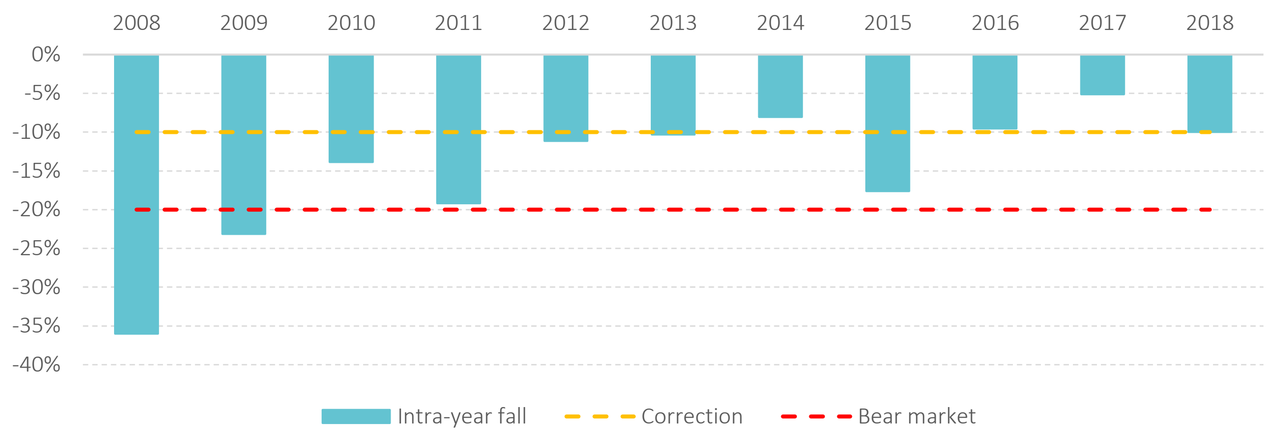
Source: Financial Express © 2019. MSCI ACWI (net div.) in GBP 1/2018 to 12/2018.

Yet we need to keep a perspective on this.

First, over the 10 years since 2009 (the bottom of the market during the Credit Crisis) global markets have delivered positive returns in eight out of the ten calendar years. The last negative year for equities was back in 2011, when the markets were down around 7%. Over the history we have available to us – on average – one in three years deliver negative returns. Investors have, of late, been extremely lucky.

Second, over that period, in every single year, investors have suffered a fall from a previous market high and many of these were larger than 10%. However, even being invested from the start of 2008 and suffering the 35% peak-to-trough fall in 2008, an equity investor over that 11-year period would have turned £100 into £230, i.e. 8% compounded over 11 years, if they had been disciplined and patient (two areas of human weakness!). It's at those times good advisers really come into their own, refusing to panic and rebalancing portfolios if needs be, buying equities when they are down – something that most investors won't find easy emotionally, even though logic dictates that it makes good sense.

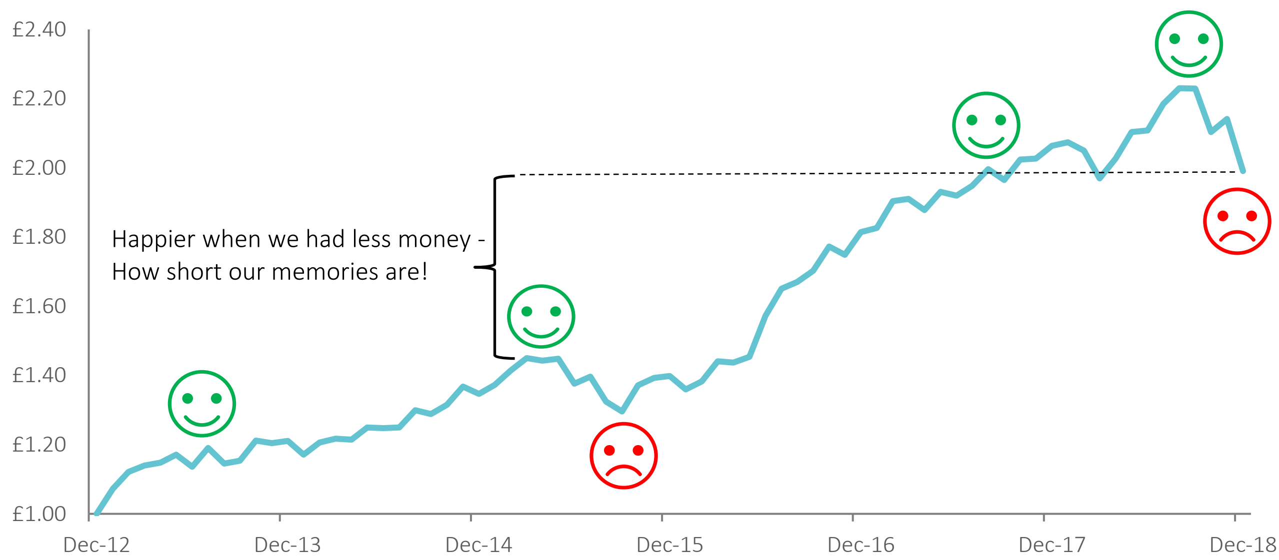
Figure 2: Every year, markets fall at some point – 2008 to 2018



Source: Financial Express © 2018. MSCI ACWI (net div.) in GBP 1/2008 to 12/2018.

Finally, as humans, we tend to have a strange view of what invested wealth represents and how we feel about it at any point in time. We tend to be happy as wealth – at least on paper - goes up to some value at a specific point in time and unhappy when we reach that value again, if it is achieved after a market correction. The figure below makes this point.

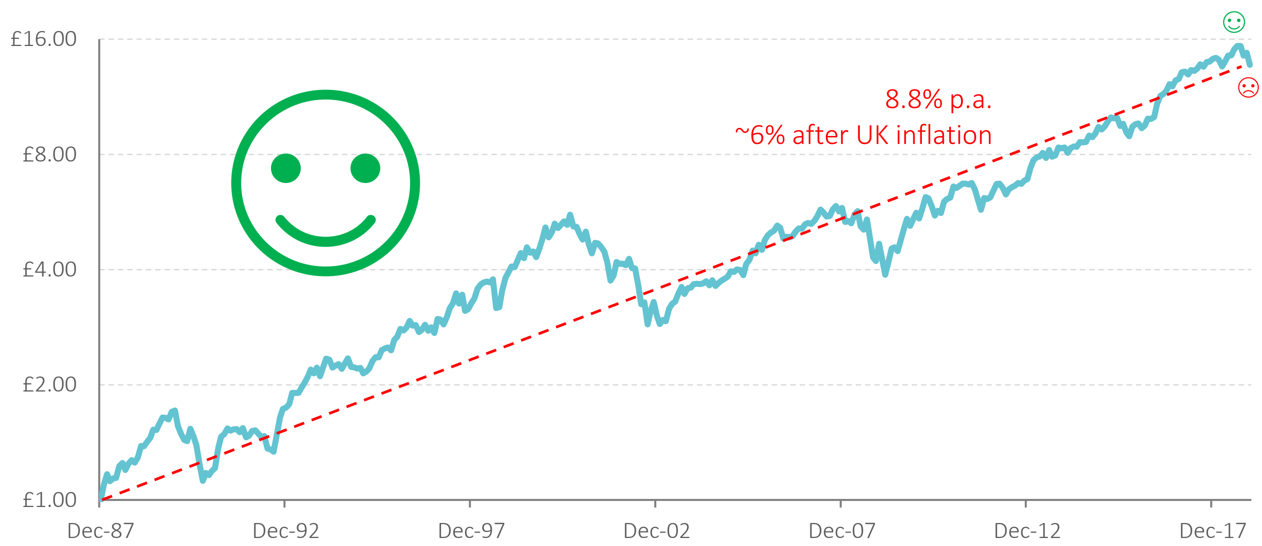
Figure 3: Human inconsistency around wealth



Source: Financial Express © 2019. MSCI ACWI (net div.) in GBP 1/2013 to 12/2018.

Remember, the true meaning of wealth is having the appropriate level of assets that you require, when you require them, to meet your financial and lifestyle goals. In the interim, movements in value are noise, somewhat meaningless and part and parcel of investing. When you invest in equities, you should try to avoid mentally banking the money you (appear to) make on the undulating, and sometimes precipitous, road you are on. Remember too that the headline equity market numbers are unlikely to be your portfolio outcome, as most investors own some sort of a balance between bonds and equities.

Figure 4: Taking a longer-term view – discipline and patience are needed (1988-2018)



Source: Financial Express © 2019. MSCI ACWI (net div.) in GBP 1/1988 to 12/2018.

Keeping things in perspective

Investing in equities is always going to be a game of two steps forward and one step back. What equities deliver from one year to another is of little consequence to the long-term investor, who does not need all of their money back today.

As far as 2019 is concerned, no one who is honest knows what will happen in the markets. The global economy is still set to grow by 3.5% above inflation this year, according to the IMF, which is not that bad. Today market prices reflect the aggregate view of all investors based on the information to hand. If new information comes out tomorrow, prices will adjust to reflect the impact this has on company valuations. As the release of new information is, by definition, random so too must price movements be random, at least in the short-term. Over the longer-term they reflect the real growth in earnings that companies deliver through their hard work, executing the delivery of their business strategies. In the longer-term, investing in the stock market is a game worth playing, at least with part of your portfolio.

As Benjamin Graham – a legendary investor in the early 20th Century once said:

> ***In the short run, the market is a voting machine but in the long run it is a weighing machine"***

We could not agree more.

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Other notes and risk warnings

Use of FE Analytics Data

 Past financial performance is no guarantee of future results.

Risk warnings

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