

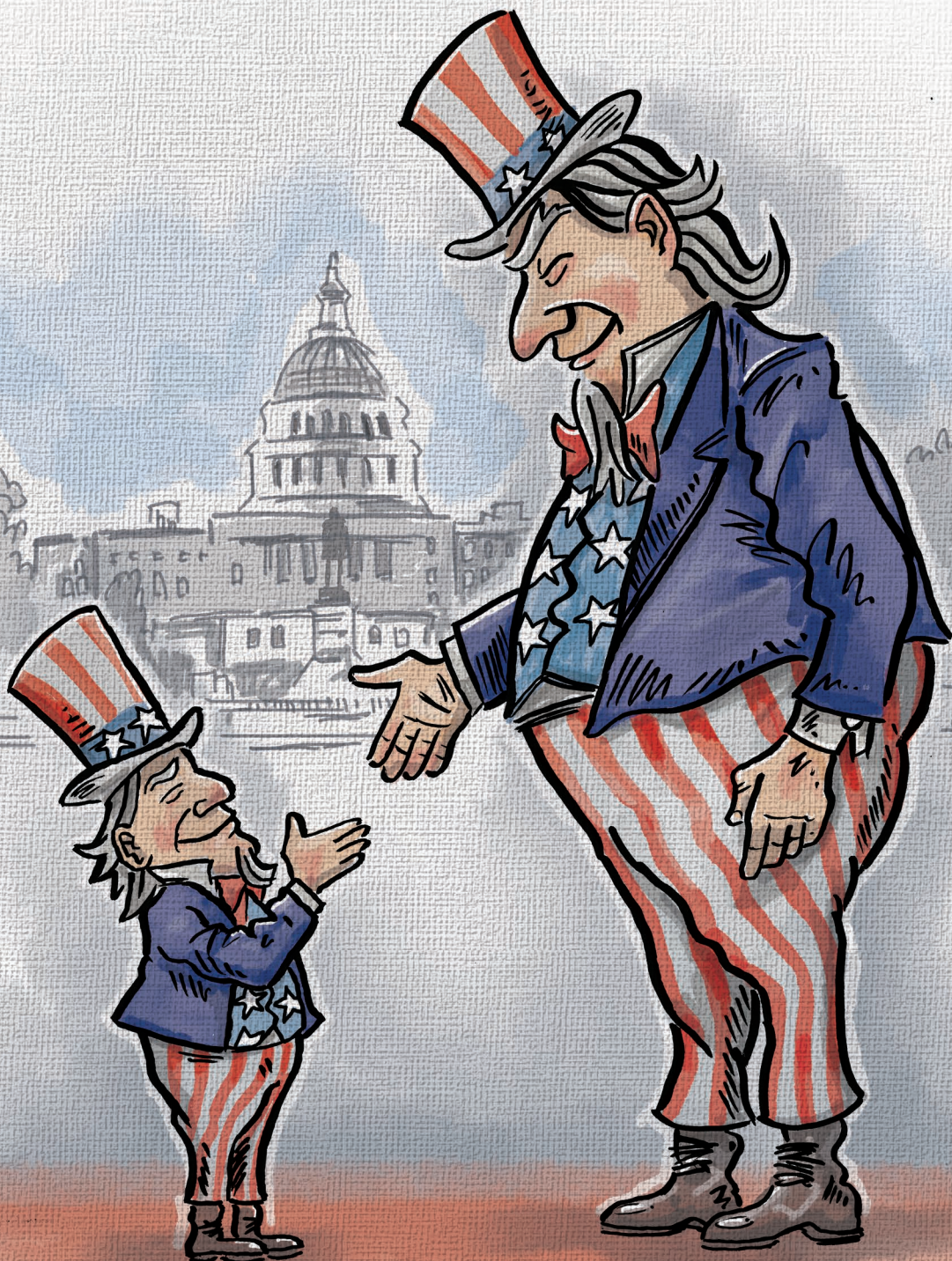
# INSIGHT

THE GREATEST WEALTH IS **YOUR PEACE OF MIND...**



BARNETT  
RAVENSCROFT  
WEALTH MANAGEMENT

## Diversifying in the US



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**As the year draws to a close, 2024 truly has been the year of elections. This year, it was forecasted that more voters than ever, across 64 countries, would head to the polls to cast their votes on the future leadership of their countries<sup>1</sup>.**

The Presidential election in the US, as a significant global power and a dominant exposure in investors' portfolios, naturally gathered a lot of attention. Donald Trump's resounding victory saw him not only claim the White House but the coveted trifecta – the presidency plus both chambers of Congress (the House and the Senate). Regardless of one's political or economic views, the world will be keeping a close eye on what comes next for the US.

In stock markets, investors are constantly casting their own 'votes' in anticipation of what they feel the future holds, some more optimistic, some more pessimistic. The aggregated view of all investors leads to a consensus in the form of the current market price. All known information has already been accounted for in today's market prices, and these prices will only move further on the release of new information which is, by definition, random.

There are, of course, those that will disagree with today's market price and try to reposition a portfolio to harness perceived opportunities. Unfortunately, the evidence suggests few possess any ability to do so successfully and consistently through time<sup>2</sup>.

Diversification – that is, spreading eggs across baskets - is a central pillar to our investment philosophy. We ensure that diversification is not only achieved across countries but also within them. Exposure to any particular region, including the US, extends beyond the biggest companies in the market through the use of systematic tilts to smaller companies and value companies (those with low prices relative to their fundamental measures such as book value or sales).

Different areas of the market perform strongly at different times – unfortunately there is no way of knowing which will be next, in advance. In the US, the past decade has been dominated by large tech-based stocks. The next decade may be entirely different. Or it may not.

The 'lost decade' of 2000-2009 highlights this point well, known as a time period where the US stock market delivered little back to investors. The decade saw the S&P 500 deliver a period of negative returns, as highlighted in the chart on the following page. The Dot-Com Crash of the early 00s, followed by the Global Financial Crisis meant for tough times.

That being said, it was not all doom and gloom. Those with incremental tilts to smaller and value companies benefitted from the diversification these exposures offered, as parts of the market that delivered materially positive returns. Those driven to omit large US companies from their portfolio on the basis of this poor performance would have missed out on the strong performance that has come to pass since.

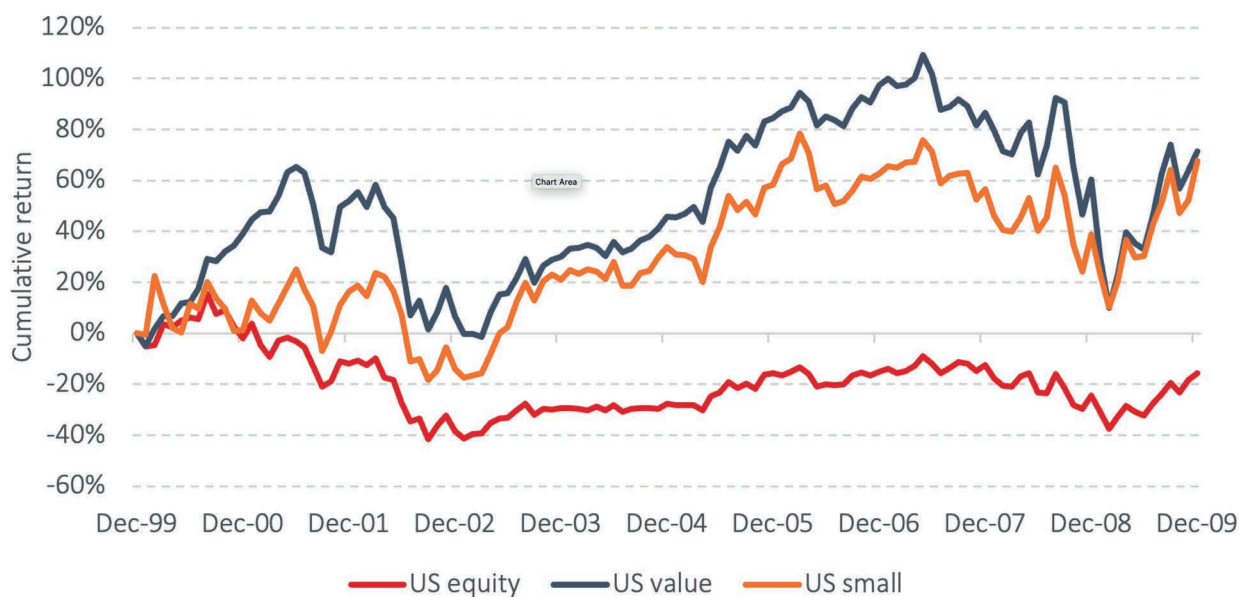


Figure 1: The lost decade, where not all was lost

Source: Dimensional Returns web: US value: Fama/French US Value Research Index and US small: Fama/French US Small Cap Research Index. Morningstar: US equity: Vanguard U.S. 500 stk idx \$ Acc. Returns in GBP.

Large US stocks are typically the dominant part of investors' portfolios. The fact that this part of the market has delivered strong returns is therefore good news and has helped investors experience returns that lend well to being able to achieve one's financial goals. Pining after more return on seeing strong stock market performance in regions such as the US is best avoided and can lead to wealth-destroying behaviour such as performance chasing.

No-one truly knows what the future holds. Keeping focused on the long-term, remaining diversified and having consistent exposure within each region continues to be the best line of defense – and provides the best opportunity - for whatever lies ahead.

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## End notes.

1.

Time.com

2.

Albion's latest GAME study highlights this point with only 3% of active managers managing to outperform their benchmark over the last 20 years. Albion Governance Update 28. Period of 20 years ending June 2024. Global equities asset class.

## Other notes and risk warnings

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