INSIGHT

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

BARNETT RAVENSCROFT
WEALTH MANAGEMENT

Good things come...

... to those who wait

'Patience is bitter, but its fruit is sweet'

Aristotle

Good things come to those who wait. This was the strapline once used by Guinness to refer to the 119.5 seconds it takes to pour a 'perfect' pint of their iconic stout[1]. In investing, the time periods we are concerned about are measured in years, rather than seconds. Looking at your investment portfolio too often only increases the chance that you will be disappointed. This of course can be challenging at times, particularly during tumultuous markets.

We can see from the figure below that monitoring markets on a monthly basis looks rather stressful, as they yoyo through time. Green areas represent times during which the market is growing its purchasing power (i.e. beating inflation) and red areas when it is contracting.

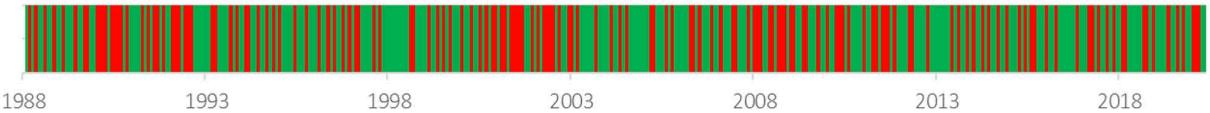

Figure 1: Monthly real growth/contraction of global equities, Jan-88 to Jun-20

Data source: Morningstar Direct © All rights reserved. MSCI World (net div.) net of UK CPI, before charges. Dividends reinvested.

The evident month-on-month noise captured by the figure above is a consequence of new information being factored into prices on an ongoing basis. Investors around the world digest this information, decide whether it will cause a change in a company's cashflows (or the risks to them occurring), and hold or trade the stock accordingly. These are the concerns of active investors casting judgements on individual stocks' prospects.

Over longer holding periods, the day-to-day worries of more actively managed portfolios are erased, as equity markets generate wealth over the longer term. The figure below illustrates that monthly rolling 20-year holding periods has never resulted in a destruction of purchasing power. A longer-term view to investing enables individuals to spend more time focusing on what matters most to them and to avoid the anxiety of watching one's portfolio movements.

Figure 2: Monthly rolling 20-year real growth/contraction of global equities, Jan-88 to Jun-20

Data source: Morningstar Direct © All rights reserved. MSCI World (net div.) net of UK CPI, before charges. Dividends reinvested.

This is not to say that investing is a set-and-forget process, however. The Investment Committee meets regularly on your behalf to kick the tyres of the portfolio, after reviewing any new evidence. Over time there may be incremental changes to your investments (there may not!) as a result, but the Committee shares the outlook illustrated in the figure above – we have structured your portfolio for the long term, and it is built to weather all storms.

Delving deeper

The figure below provides longer term market data in the US back to 1927. The result is the same. The cherry-picked 20-year example provided towards the bottom of the figure shows a time fresh in many investors' minds: the bottom of the Credit Crisis. In this (extreme) 20-year period, to Feb-09, equity markets had barely recovered from the crash of technology stocks in the early 00s, before falling over 50% in 2008/9, in real terms. These were scary times.

Despite the headwinds, investors had been rewarded substantially for participating in the growth of capital markets over the longer term. An equity investor viewing their portfolio for the first time in 20 years would have seen their wealth more than double, whilst at the same time the media was reporting headlines such as 'Worst Crisis Since '30s, with No End Yet in Sight'[2].

Have faith in wealth-creation through capitalism and try not to look at your portfolio too often. As the adage goes: 'look at your cash daily if you need to, your bonds once per year, and stocks every ten'.

Monthly US market growth/contraction. Jan-26 to Jul-20

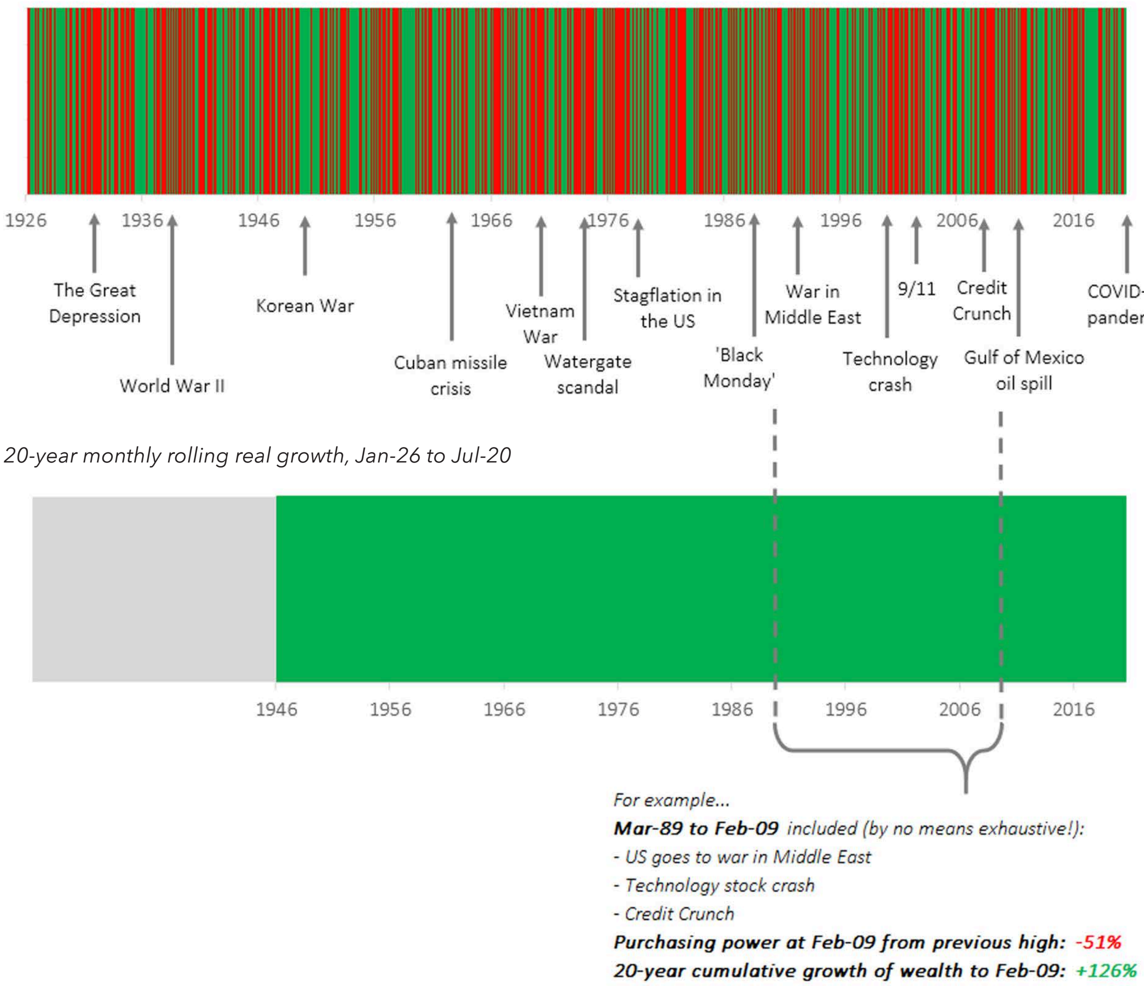

Figure 3: Long term US stock market growth in purchasing power

Data source: Morningstar Direct © IA SBBI US Large Stock Infl Adj TR Ext in USD. Market events: https://eu.usatoday.com/

End notes

1. https://www.guinness-storehouse.com/en/guinness-academy

2. Wall Street Journal, September 18, 2008

Other notes and risk warnings

Use of Morningstar Direct© data

Risk warnings

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The registered office address of the Firm is 13 Portland Road, Edgbaston, Birmingham, B16 9HN

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WEALTH MANAGEMENT

Barnett Ravenscroft Wealth Management
13 Portland Road
Edgbaston
Birmingham
B16 9HN
UK

Tel: +44 (0)121 454 0910
Fax: +44 (0)121 410 5619
Email: info@brwm.co.uk
Web: www.brwm.co.uk