

INSIGHT

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



BARNETT
RAVENSCROFT
WEALTH MANAGEMENT

Operating in a noisy environment



Operating in a noisy environment



Do not enter markets unless wearing ear defenders

In most industrial settings, health-and-safety rules demand that appropriate protective gear be worn, including the donning of ear defenders in high decibel environments. Yet, when it comes to our investing health and safety, we have little by the way of regulatory guidance except the obligatory phrase 'Past performance is no guide to future performance' to protect ourselves from the noise of market outcomes, particularly when investing without the guidance of an advisor.

Investing in markets is a very noisy business and some form of ear defenders are required. Given that markets do a pretty good job incorporating information into prices, they tend to move randomly on the release of new information. Many investors are probably wondering today what returns will be like from equities in the final months of 2020 and perhaps next year too. Nobody knows (and do not believe anyone who claims to know). The chart below illustrates the monthly returns every year, from January 1970 to August 2020. As you can see, there is a lot of noise in the data.

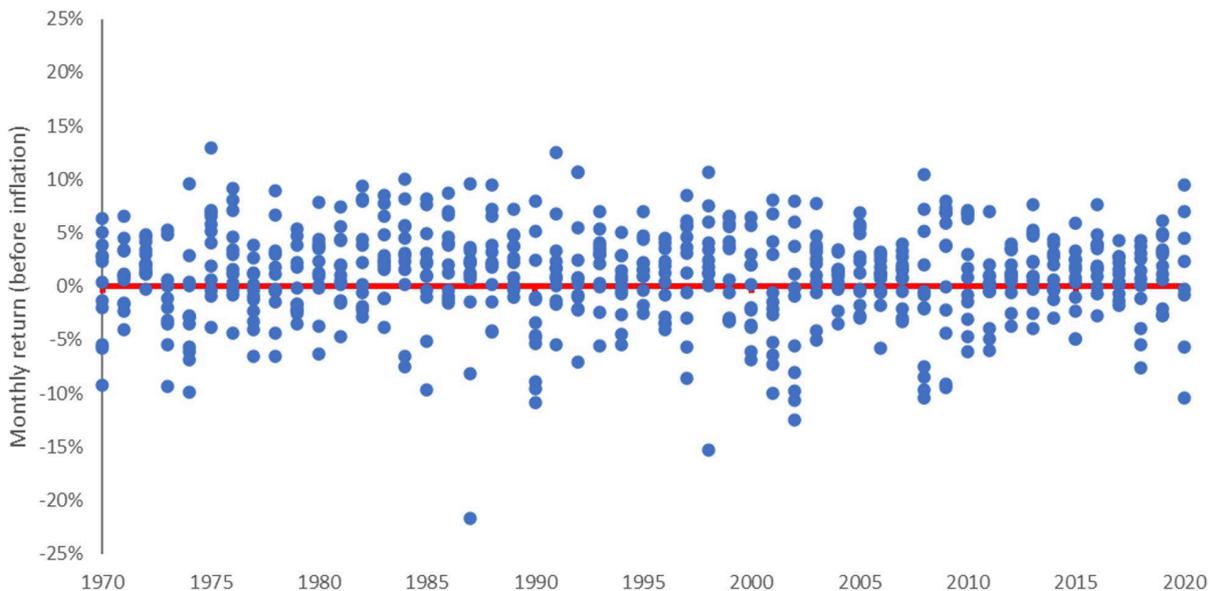


Figure 1: Monthly returns of global developed market equities are very noisy

Data source: Morningstar Direct © All rights reserved (see endnote). MSCI World Index (gross) in GBP terms.

The only ear defenders that we have are behavioural. We must keep our true investment horizons – 20 to 30 years or more, in many cases - at the forefront of our minds, accept that investing is a two steps forward and one step back process and not look at our investment portfolios too frequently. The chart below shows that even on a yearly basis, returns from equities are noisy. The blue dots represent the calendar year returns and the red triangles represent the annualised return for the decade. Even the returns of decades are a bit noisy. Patience and fortitude are prerequisites for success.

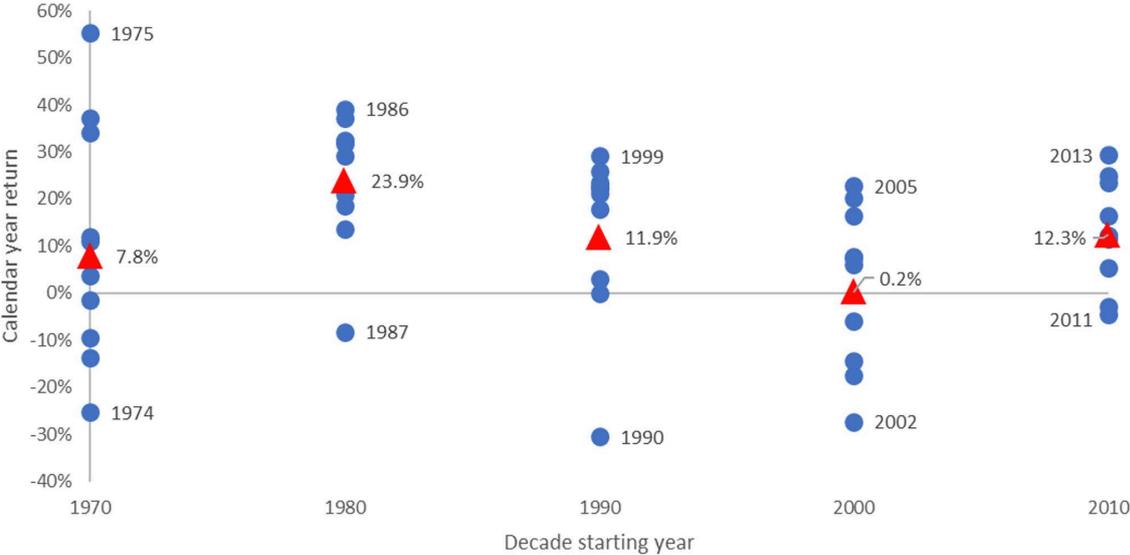


Figure 2: Annual returns of global developed market equities are noisy too
 Data source: Morningstar Direct © All rights reserved (see endnote). MSCI World Index (gross) in GBB terms.

Yet, over this period, global developed equity markets have delivered a return of 10.9% on an annualised basis before inflation and 6.5% after inflation (but before costs). Put another way, investors who stayed the course doubled their purchasing power every 12 years. With those sorts of longer-term returns, try not to let the noise of the markets keep you awake.

Other notes and risk warnings

Use of Morningstar Direct® data

© Morningstar 2020. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

Risk warnings

This article is distributed for educational purposes only and must not be considered to be investment advice or an offer of any security for sale. The reference to any products is made only to make educational points and must, in no circumstances, be deemed to be any form of product recommendation.

This article contains the opinions of the author but not necessarily the Firm and does not represent a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed.

Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

Errors and omissions excepted.

Barnett Ravenscroft Wealth Management is a trading name of Barnett Ravenscroft Financial Services Ltd which is authorised and regulated in the United Kingdom by the Financial Conduct Authority FRN: 225634 and registered in England and Wales under Company No. 04013532.

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

INSIGHT
**Operating in
a noisy
environment**



**BARNETT
RAVENSCROFT**
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