

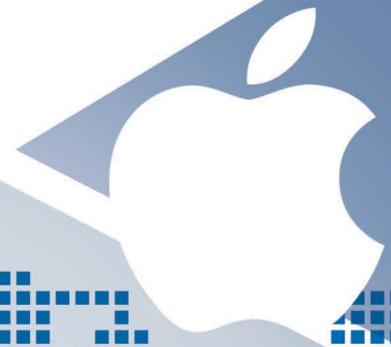
INSIGHT

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



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Not all US stocks have gone up in 2020



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If the history of bubbles teaches us anything, it's to be humble... Fama doesn't think we can predict bubbles. Shiller thinks we can but doesn't think we can ever know when they'll collapse. What we need, but I know we'll never get, is more of this type of thinking. I'm holding out for a humility bubble 

[Fama and Shiller both received Nobel Prizes for economics for their diametrically opposed views on markets! – Ed.]

Morgan Housel - Author¹

Well, 2020 has been a strange year so far for equity investors; the early gains of global equity markets in the first couple of months turned into material – and rapid falls – in all equity markets. Yet, as we sit here in the early days of Autumn, global markets are more or less back where they were at the start of the year, although the UK is a laggard. Thank goodness for diversification. Across the pond, the US market has rebounded strongly and the tech stocks such as Apple, Google, Amazon, and the electric vehicle firm Tesla have appeared to defy gravity. Hands up all who wishes they owned more US tech stocks?

Sometimes the disconnect between what is happening in the economy and what is happening on Wall Street is hard to reconcile in one's mind. However, we need to remember that the market looks beyond well beyond our current challenges and discounts all future earnings into prices. To those who believe markets work, this represents the best guess of the value of a company today, given the information we have available to us. To others it may feel like bubble territory and a big momentum play into a few companies getting lots of media attention and investor dollars.

We also need to remember that trading in the markets – buying Apple – is not as simple as saying that Apple is a good company, so the price should go up – but a process of estimating whether the market has over- or underpriced just how good Apple is. Did Apple's market value double from US\$1 trillion in August 2018 to \$2 trillion in August 2020 because the discounted earnings were expected to be far larger than the market thought, or are we in bubble territory? If you are hoping for an answer, then you will be disappointed; no-one really knows.

If we look beyond these gravity-defying stocks, we see that the returns from the vast majority of US companies is less than stellar, perhaps reflecting more closely how many feel about the current economic environment; in fact 335 stocks in the S&P 500 sit below the market average for the year of around 12%. Half of all stocks have actually lost money, as we can see in the chart below. Maybe some of them will be future winners.

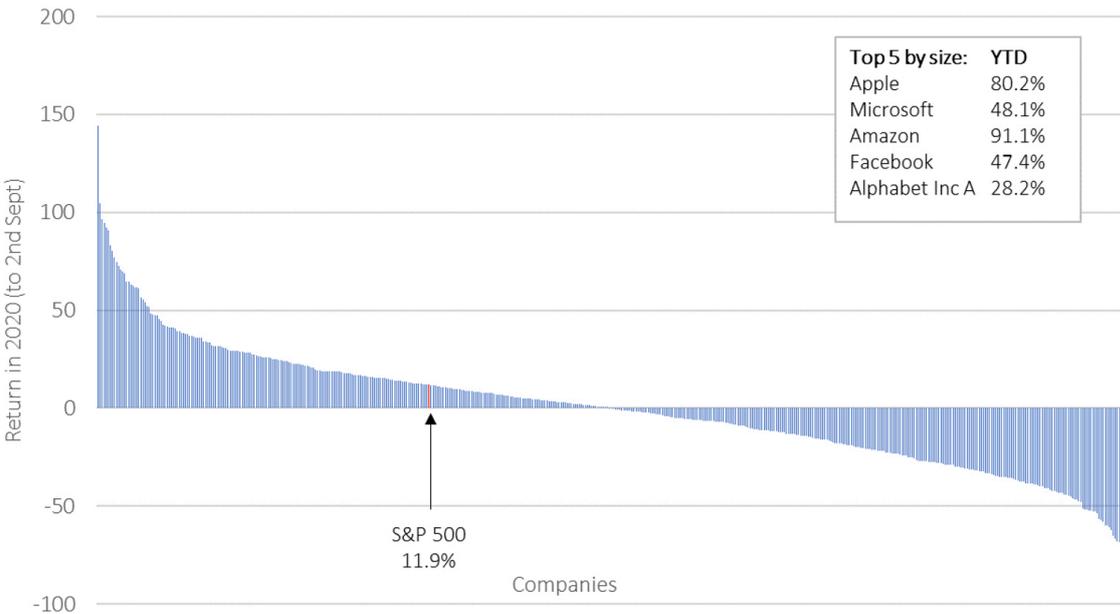


Figure 1: Returns of US S&P500 stocks in 2020 (to 2nd Sept)
 Data source: Morningstar Direct © All rights reserved (see footnote).

Fortunately, as systematic, long-term investors, we have avoided the full brunt of the UK’s woes and picked up some of the benefits of owning US tech stocks. Could we have predicted this outcome? Do we know what happens next with any certainty? Let’s be honest, we don’t know, you don’t know and nor do any professional fund managers. All we can really do is to remain well diversified, try to avoid the feelings of wishing we had more in the US tech stocks, and be patient. Investing using the rear-view mirror is never advisable. If history tells us anything, it is that today’s winners are rarely tomorrow’s winners. With a longer-term perspective and a disciplined approach, we can sit back confident in the fact that we will participate in tomorrow’s winners as we own them today, somewhere in our richly diversified portfolios.

End notes

1. The Psychology of Money (to be published on 9th September 2020). Review: 'Morgan Housel's new book clarifies – with razor sharp and accessible insight - that building wealth is a mindset problem, not an investment problem. This is the first book any investor should read; in conjunction with a good index fund, becoming wealthy lies within everyone's grasp.' Tim Hale, MD at Albion Strategic Consulting, and author of Smarter Investing: Simpler Decisions for Better Results

Other notes and risk warnings

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