weekly digest

momentum

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Staying invested

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We regularly mention our goal of 'keeping clients invested', but what do we mean by this? It comes down to trying to overcome the biggest obstacle preventing investors from achieving long term objectives - themselves! We are all prone to mental pitfalls which make us our own worst enemy when it comes to investing. Understanding the many behavioural risks is a valuable step in the right direction but we can never eliminate the biases.

> *"We are all prone to mental pitfalls which make us our own worst enemy when it comes to investing."*

DALBAR, Inc.* provide some sobering statistics around the impact of investor behaviour on returns. They estimate outcomes for the average equity investor by collating 30 years of data on subscriptions, redemptions and returns across all US mutual funds. The conclusion? Investors earned an average return of 3.98% per annum over the 30 year period ending December 2016, compared to the S&P 500 return of 10.16% per annum!

Several factors contribute to this outcome, including the impact of fees, other expenses, cash needs and differences in portfolio composition. However, by far the most significant driver appears to be voluntary investor behaviour and although the magnitude of the shortfall is astonishing, the underperformance makes sense. We know investors tend to pile in around market peaks and then get shaken out at the lows - equity funds saw huge inflows around the highs of the year 2000 and massive outflows around 2008 during the financial crisis, for example. The DALBAR statistics capture the effect this has on returns. The odds seem to be always against investors - average investor returns were lower than equity indices for 22 of those 30 years.

> *"Timing markets is extremely difficult and missing upswings can have a huge impact on long term returns"*

This suggests that investors tend to make irrational investment decisions, driven by herd instincts and the emotions of greed and fear. They aim to buy low and sell high but evidence suggests that most do not practice this. Timing markets is extremely difficult and missing upswings can have a huge impact on long term returns; for example JP Morgan calculated that missing only the best ten days over the last twenty years reduces UK equity market returns from 6.3% per annum to 2.8% per annum.**

The best defence is to avoid trying to time markets and instead increase one's time horizon as far as possible. This can be difficult given the nature of modern media, the typical economic and market debates and the structure of the finance industry, all of which leads to a short term focus. Remembering that the odds are in your favour should make the task considerably easier though; in Jeremy Siegel's book "Stocks for the Long Run" he notes that one dollar invested in US equities in 1801 would be worth a million dollars in 2014, a return of over 7% a year above inflation.

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At Momentum it is one of our stated aims to keep our clients invested. We think the best way we achieve this is through reducing the volatility of returns. Risk for investors is the probability of not achieving their specific investment outcomes, not volatility, but volatility is the factor that is most likely to precipitate irrational decisions. We seek to smooth the journey for investors through careful diversification and detailed due diligence on all investment decisions. By offering a range of risk profiled portfolios we also enable investors to select a portfolio that is appropriate for their objectives and circumstances.

* 23rd Annual Quantitative Analysis of Investor Behaviour ("QAIB").

** JP Morgan Asset Management Guide to the Markets, Q2 2018.

Market Focus

- Global markets are optimistic that a trade war can be averted
- Brent crude fell 4.2% to $66.95 per barrel
- Gold rose 0.3% to 1,331.5 an ounce
- Volatility-linked securities outperform all others

US

- The Dow Jones was down 0.7% to end the week at 23,932
- US payrolls rose to 103,000 versus an estimated 185,000. Jobless rate remained at 4.1% pointing to a sustainable jobs market in line with projected further rate hikes
- The Nasdaq 100 fell 2.3% to 6,433
- Spotify makes its stock market debut, valued at ~$27 billion
- The S&P 500 index fell 1.4% to 2,604.5

UK

- The UK services index dropped the most in nearly two years with expansion standing at 0.3% compared with 0.4% at the end of 2017. Bad weather and economic uncertainty were the driving factors
- The UK Composite PMI fell below expectations at 52.5 versus 54
- The FTSE 100 rose 2% to 7,183

Europe

- Eurozone inflation data forecast at 1.4% in March, up from 1.2%
- Euro Area unemployment 8.5% in February is the lowest since December 2008, overall EU unemployment at 7.1%, the lowest since September 2008
- The Euro Stoxx 50 index rose 2% to 3408
- US sanctions hit Russian tycoons with Rusal and En+ among the big names hit

Asia

- China will respond to any tariffs imposed by the US against alleged violations of intellectual property rights with the same scale and intensity, said its US ambassador Cui Tiankai. This could amount to as much as 25% on 106 different US products
- The Hang Seng index rose 0.5% to 30,229
- The Nikkei 225 rose 0.5% to 21,567

Past performance is not indicative of future returns.
Source: Bloomberg, returns in local currency unless otherwise stated.

Currency returns					
Asset class/region	Currency	Week ending 06 April	Month to date	YTD 2018	12 months
Developed markets equities					
United States	USD	-1.4%	-1.4%	-2.2%	12.0%
United Kingdom	GBP	1.9%	1.9%	-5.6%	1.8%
Continental Europe	EUR	0.8%	0.8%	-2.8%	1.4%
Japan	JPY	0.2%	0.2%	-4.5%	18.6%
Asia Pacific (ex Japan)	USD	-0.6%	-0.6%	-1.1%	19.8%
Australia	AUD	0.5%	0.5%	-3.4%	3.2%
Global	USD	-0.6%	-0.6%	-1.9%	13.3%
Emerging markets equities					
Emerging Europe	USD	0.2%	0.2%	2.3%	18.8%
Emerging Asia	USD	-1.0%	-1.0%	-0.1%	25.3%
Emerging Latin America	USD	-0.1%	-0.1%	7.9%	17.9%
BRICs	USD	-0.9%	-0.9%	1.3%	27.1%
MENA countries	USD	0.4%	0.4%	7.2%	7.0%
South Africa	USD	-0.7%	-0.7%	-4.8%	26.2%
India	USD	2.5%	2.5%	-3.1%	12.5%
Global emerging markets	USD	-0.7%	-0.7%	0.7%	23.3%
Bonds					
US Treasuries	USD	-0.2%	-0.2%	-1.4%	0.1%
US Treasuries (inflation protected)	USD	0.0%	0.0%	-0.9%	0.6%
US Corporate (investment grade)	USD	0.0%	0.0%	-2.3%	2.3%
US High Yield	USD	0.3%	0.3%	-0.6%	3.8%
UK Gilts	GBP	-0.8%	-0.8%	-0.5%	-0.4%
UK Corporate (investment grade)	GBP	-0.4%	-0.4%	-1.9%	0.8%
Euro Government Bonds	EUR	-0.1%	-0.1%	1.3%	2.6%
Euro Corporate (investment grade)	EUR	0.0%	0.0%	-0.3%	1.5%
Euro High Yield	EUR	0.1%	0.1%	-0.4%	4.4%
Japanese Government	JPY	0.0%	0.0%	0.5%	1.1%
Australian Government	AUD	-0.3%	-0.3%	0.8%	2.5%
Global Government Bonds	USD	-0.4%	-0.4%	1.8%	6.9%
Global Bonds	USD	-0.2%	-0.2%	1.0%	6.8%
Global Convertible Bonds	USD	-0.4%	-0.4%	1.3%	6.8%
Emerging Market Bonds	USD	0.3%	0.3%	-1.8%	2.0%

Source: Bloomberg. Past performance is not indicative of future returns.

Currency returns					
Asset class/region	Currency	Week ending 06 April	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	-0.3%	-0.3%	-8.6%	-6.7%
Australian Property Securities	AUD	1.6%	1.6%	-5.8%	-6.0%
Asia Property Securities	USD	0.0%	0.0%	0.6%	16.1%
Global Property Securities	USD	0.1%	0.1%	-3.4%	7.2%
Currencies					
Euro	USD	-0.4%	-0.4%	2.1%	15.3%
UK Pound Sterling	USD	0.4%	0.4%	4.1%	12.9%
Japanese Yen	USD	-0.8%	-0.8%	5.1%	3.5%
Australian Dollar	USD	0.0%	0.0%	-1.6%	1.8%
South African Rand	USD	-1.8%	-1.8%	2.8%	14.4%
Swiss Franc	USD	-0.8%	-0.8%	1.4%	4.6%
Chinese Yuan	USD	-0.3%	-0.3%	3.2%	9.3%
Commodities & Alternatives					
Commodities	USD	-1.0%	-1.0%	1.1%	7.1%
Agricultural Commodities	USD	0.6%	0.6%	3.5%	0.1%
Oil	USD	-4.2%	-4.5%	0.4%	22.3%
Gold	USD	0.3%	0.3%	1.9%	6.3%
Hedge funds	USD	0.2%	0.2%	-0.8%	3.4%

Source: Bloomberg. [e] Estimate Past performance is not indicative of future returns.

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