

Short-Termism

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“Short-termism”: the disease that’s eating your long-term performance

Last week Andrew Hardy wrote about investors’ biases towards buying high and selling low and how we aim to protect our clients against this by keeping them invested. There is another self-inflicted bias that investors struggle with, it is called “short-termism”.

Short-termism (noun)

“Concentration on short-term projects or objectives for immediate profit at the expense of long-term security.”

Short-termism is everywhere and as per the definition, it is unhealthy over the long-term. This is true for parents, giving a child a sweet or an iPhone every time you need them to behave; for Central Bankers, lowering interest rates whenever things get tough and kicking the can down the road one more time; and for investors, changing portfolio positioning every time an investment underperforms and chasing the outperforming investments. No matter what we do, short-termism is something we need to fight against, as eventually we will have to face the real challenge, and the longer we wait the bigger the problem becomes. Children need to learn discipline or they might end up in trouble; bankers have to address ballooning debt levels or they will be pushing economies in an ever bigger financial crisis and investors must help clients’ achieve their financial goals or face the consequences of losing clients.

So, why do people keep making decisions that are so costly over the long-term? Sometimes, it is simply a misalignment of interests; CEOs getting paid bonuses on short-term performance or politicians focusing on their re-election rather than the long-term good of their electorates. In other cases, humans are emotional beings and there are lots of temptations: greed, lust, fear and laziness to name just some that impinge our ability to reason.

In investing, there are two common errors that investors often make due to short-termism. They will avoid doing what is right because of fear of underperformance over the short-term. Here, the investor will probably have a bias toward benchmark-hugging and/or peer-herding. The second mistake is the extrapolation of recent news or investment returns into the future. This, for example, can lead to hiring fund managers after a period of good performance and firing managers after a period of bad performance, essentially locking in losses by buying high and selling low. We know that fund manager performance is hard to predict and even the best managers will go through periods of significant underperformance dependant on their investment style and market conditions.

Money managers’ ability to take long-term decisions can be their biggest competitive advantage. Long-term investing requires patience, self-discipline, a robust investment process that keeps emotions in check and clear investment objectives i.e. financial outcomes. It also requires a client base that shares a long-term philosophy and trusts in the investment manager’s ability to make the right decisions even if they are sometimes difficult, rather than merely window dressing portfolios based on short-term performance. With these conditions in place investment capital will inevitably be more engaged and productive.

We at Momentum are very fortunate to have a number of long-term clients and partners that understand our process and have trusted us with their capital for many years, in some cases decades. We have built a robust investment process based upon over-the-cycle return expectations to ensure that our investment decisions have long-term perspectives. Lastly, all of our strategies have suggested minimum investment-horizons with the aim to help clients maintain a long-term focus and not lose sight due to short-term events.

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Market Focus

- » Brent crude rose 8.2% to 72.6 a barrel
- » Gold rose 1.1% to 1,346 an ounce
- » Global stocks weather escalating geopolitical tensions
- » Safe haven assets gained and steadied

US

- » The Dow Jones rose 1.8% to close the week at 24,360
- » Core CPI rose 2.1% bringing the three-month annualised gain to 2.9%
- » The Nasdaq 100 rose 3% to 6,628
- » Trump mulls the possibility of re-joining the Trans-pacific partnership (TPP) and continues negotiations on the North America free-trade agreement (NAFTA)
- » The S&P 500 index rose 2% to 2656

UK

- » UK factory output shrank for the first time in nearly a year during February declining 0.2% rather than gaining 0.2% as expected. Overall industrial production rose 0.1% , again below expectations
- » The UK joined the US and France in a series of coordinated airstrikes against targets linked to recent chemical weapon attacks in Syria
- » The FTSE 100 rose 1% to 7,265

Europe

- » Russian investors sell the ruble as US Sanctions bite bringing it to a 16-month low. Emerging Market ETFs with exposure to Russia saw large outflows
- » The Euro Stoxx 50 index rose 1.2% to 3448
- » Economists downgrade their Eurozone growth forecasts as consumer spending and factory outputs show signs of slowing. The economic fundamentals are still strong

Asia

- » China plans a 'big bang' opening of its financial sector including easing foreign ownership caps and increasing the quota of stock available to \$8.3 Billion. This could help to ease trade tensions and the move has been praised by the US
- » The Hang Seng index rose 3.2% to 30,808.4
- » The Nikkei 225 rose 1% to 21,779

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 13 April	Month to date	YTD 2018	12 months
Developed markets equities					
United States	USD	2.0%	0.6%	-0.3%	15.6%
United Kingdom	GBP	1.2%	3.1%	-4.4%	2.6%
Continental Europe	EUR	0.9%	1.7%	-1.9%	2.7%
Japan	JPY	0.6%	0.8%	-3.9%	20.3%
Asia Pacific (ex Japan)	USD	1.8%	1.2%	0.6%	21.6%
Australia	AUD	0.7%	1.2%	-2.7%	3.3%
Global	USD	1.8%	1.2%	-0.1%	16.1%
Emerging markets equities					
Emerging Europe	USD	-6.2%	-6.0%	-4.1%	15.2%
Emerging Asia	USD	1.6%	0.6%	1.4%	27.2%
Emerging Latin America	USD	0.0%	-0.1%	7.9%	19.3%
BRICs	USD	0.4%	-0.6%	1.6%	29.0%
MENA countries	USD	-0.7%	-0.3%	6.4%	6.7%
South Africa	USD	0.0%	-0.7%	-4.8%	19.0%
India	USD	1.0%	3.5%	-2.2%	14.8%
Global emerging markets	USD	0.7%	0.0%	1.4%	24.3%
Bonds					
US Treasuries	USD	-0.3%	-0.4%	-1.7%	-0.9%
US Treasuries (inflation protected)	USD	0.2%	0.2%	-0.7%	0.3%
US Corporate (investment grade)	USD	-0.1%	0.0%	-2.4%	1.5%
US High Yield	USD	0.8%	1.1%	0.2%	4.5%
UK Gilts	GBP	-0.3%	-1.1%	-0.8%	-1.3%
UK Corporate (investment grade)	GBP	0.0%	-0.4%	-1.9%	0.4%
Euro Government Bonds	EUR	-0.1%	-0.2%	1.2%	2.3%
Euro Corporate (investment grade)	EUR	0.1%	0.2%	-0.2%	1.2%
Euro High Yield	EUR	0.6%	0.7%	0.2%	4.9%
Japanese Government	JPY	0.2%	0.2%	0.7%	0.9%
Australian Government	AUD	-0.4%	-0.7%	0.4%	1.4%
Global Government Bonds	USD	0.1%	-0.3%	1.9%	6.2%
Global Bonds	USD	0.1%	-0.1%	1.1%	6.3%
Global Convertible Bonds	USD	0.9%	0.5%	2.2%	8.0%
Emerging Market Bonds	USD	-0.1%	0.2%	-1.9%	1.2%

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

Currency returns					
Asset class/region	Currency	Week ending 13 April	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	-0.7%	-1.0%	-9.3%	-8.3%
Australian Property Securities	AUD	-1.3%	0.2%	-7.1%	-10.1%
Asia Property Securities	USD	1.9%	1.9%	2.5%	16.1%
Global Property Securities	USD	0.5%	0.6%	-2.9%	6.2%
Currencies					
Euro	USD	0.5%	0.1%	2.7%	16.2%
UK Pound Sterling	USD	1.2%	1.5%	5.4%	13.9%
Japanese Yen	USD	-0.3%	-1.1%	4.8%	1.6%
Australian Dollar	USD	1.1%	1.1%	-0.6%	2.4%
South African Rand	USD	-0.3%	-2.1%	2.6%	11.4%
Swiss Franc	USD	-0.1%	-0.9%	1.2%	4.5%
Chinese Yuan	USD	0.4%	0.0%	3.6%	9.5%
Commodities & Alternatives					
Commodities	USD	3.5%	2.4%	4.6%	9.9%
Agricultural Commodities	USD	0.6%	1.2%	4.1%	0.1%
Oil	USD	8.2%	3.3%	8.5%	29.9%
Gold	USD	1.1%	1.5%	3.1%	4.7%
Hedge funds	USD	0.7%	0.4%	-0.6%	3.8%

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

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