INTUITION
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Can anyone understand markets?

Trying to understand the world markets is probably harder than rocket science. The number of moving parts likely exceeds that of the most complex piece of machinery known to man. On every trading day, you have speculators, investors (a completely different animal to the speculator), staff, hedge funds, pension funds, and even the company itself all trading in the same share, each with their particular strategy and reasoning for either their buy or sell. Markets are considered efficient, and in most instances, they probably are. But to the average man in the street, they look like the movements of a lunatic. Very few things can spread fear in the general public faster than falling markets and a shrinking balance sheet is a sure-fire recipe for depression! However, like most things that affect our emotions, it is good to take a step back and look at the bigger picture to try and get some context.

SPEED READ

- **The South African market is down around 15% from the start of the year while US markets are down 21%. The UK has fared slightly better –it is only down around 7%. The Rand has lost just over 15% over the same period against the Greenback (US Dollar). None of it makes for happy reading.**
- **Emotions severely impact our ability to think clearly. We watch this on our TV screens as golfers, tennis players, rugby professionals and even referees cave under the pressure and make decisions they know to be wrong outside of the cauldron of competition.**
- **We cannot switch off our emotions but we can learn to manage them. Refocusing on why we do things can be the best strategy for this when it comes to investing.**

Robin Gibson

I am unashamedly a Springbok Rugby supporter. I have had the privilege of watching them live on several occasions. I even attended the 2019 World Cup hosted in Japan – a phenomenal experience. Referees, on the other hand, I don't like so much, although I largely blame the complexity created by World Rugby which has led them to a no-win situation. Over this last weekend, I experienced two instances while watching live sport on television when seasoned professionals were aghast at the actions of their peers in the field.

The first was the Springbok v Argentina rugby match where the referee made several outrageous calls even with the benefit of a slow-motion replay. The mind boggles as to how he could do that, but then to be fair, I wasn't watching events with the pressure of 55,000 spectators, 30 players and countless others watching via television cameras pointed at me. The second was at the Italian Open golf tournament when a player in contention for the title chose a shot at a key time that had the commentators (all former playing professionals themselves) becoming severely animated at the unnecessary risk being employed and the dire consequences thereof. The result was as they warned. The disaster dropped him down the leaderboard and eliminated him from the prospect of lifting the trophy.

It is so easy to be critical of these individuals from the comfort of our couch with a cool drink in our hand and all our discerning faculties working as they should. Not so when our body is in 'flight mode' and adrenalin surges through our veins. It is why we can all very calmly explain

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how we should behave through a market crisis when there isn't one. Yet many people can rise to the occasion in the greatest heat. Adrenaline fuels them rather than destroying them. Research will tell you the only way to grow in this area is by practicing under similar conditions.

Investment markets at present are probably making us all feel like that referee or golfer. Maybe we are a hair's breath away from a decision we may regret for a long time. At times like these it's good to step back and consider a few key priorities that can help us cope with our feelings.

1. Do I understand why this is happening?

We have written and spoken at length about the rise of inflation caused by too much cash distributed by governments, silent resignations and the cost of employment in key markets, broken supply chains creating cost pressures, all exacerbated by the knock-on effects of the Russian invasion of Ukraine. These are all knowns, but what isn't known is how it will all play out and how long and bad it may be. This all translates into one word – uncertainty. When uncertainty pervades sentiment then markets retreat and investors run for cover. Where to? The US 10-Year Bond, which is considered the ultimate gold standard (excuse the pun but it is used quite intentionally) in investor safety. It doesn't help that its yield is at a level not seen for over a decade – and attractive at that. This is the reason why the Dollar is so strong against almost every world currency, not just the Rand.

In tough markets, buyers retreat while sellers may increase. This can only lead prices one way, yet often they create the biggest mismatches in value versus price as irrational transactions occur that impact the price for everybody.

2. How does it affect my investments?

There is no doubt that it affects the market value of your portfolio. This has the effect of creating feelings of fear and loss. These are very real emotions. However, as the owner of a share, it is unlikely that the share is any less valuable to you if you intend to live on the dividends that the share generates (a key pillar of our philosophy). Even through the Covid pandemic we collected 60% of dividends paid the prior year despite banks being restricted from paying by the Reserve Bank and many property stocks withholding dividends as they repaired balance sheets. Despite share prices being under pressure, dividends continue to recover and increase, in some cases to new pre-Covid highs.

If you are a growth investor the picture is even rosier, largely because the ability to reinvest dividends into additional shares being offered for a deep discount because of sentiment and caution will underpin inflation-beating returns for many years to come. Like previous events, this

Playing in front of a huge crowd, under pressure, is very different to sitting at home and calmly assessing things.

period of volatility will look tiny on a graph because of the scale of the graph into the future. Markets have worked this way for more than 200 years.

3. How should I react?

The biggest predictor of investment success remains the asset class chosen. That is, and always has been, equities and property. Yes, the volatility is higher, but to quote the pharmacists, it is a side effect. For portfolios drawing income, the biggest predictor of success is the level of income drawn relative to the level of income generated. If you draw more income that what is generated by your capital then you are destroying capital (and the income that capital generated) making volatile markets scarier. This is a malaise from which no asset manager can protect you. The race here is against time.

We cannot dictate what people choose to do. Telling an individual he doesn't have enough money for the lifestyle he has chosen is about as popular as suggesting their hairstyle doesn't suit them. It generally offends. Of course, that doesn't make it any less true (or painful to hear). By the same token, it is unreasonable to expect the money manager to perform some form of unrealistic miracle to redeem the situation. The best that can be hoped for is sound advice with an honest expression of concerns. We like to believe this is a Harvard House core value. Engaging with your financial consultant is a good idea if you are unsure.

Markets are likely to remain volatile as new normality emerges. The excesses of the past will unwind (as they did with mining stocks, property, and now tech stocks) and the world will move forward. Maintaining composure is not only an asset in the heat of a sports field but also within your investment portfolio. As the famous saying goes "This too shall pass".

The topic of our next Insight Seminars shall be confirmed

in due course.

Harvard House is on Facebook

Harvard House is on YouTube

Topic: **TBC**

Natal Midlands	
Date:	To be confirmed
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	To be confirmed
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

CONTACT DETAILS:

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