



Sorting the 'Wheat from the Chaff'?

Global equity markets have fallen and volatility has spiked. We ask if this will sort the 'Wheat from the Chaff'?

For nine years we have enjoyed a steady, if not rampant, Bull market. The disaster of 2008 seems long gone...and it is. For almost six years now, it has been a story of almost unquenched, steady growth in financial assets and benign volatility. Many investors have been lulled into an almost catatonic state of assuming consistent and steady gains, month after month. Indeed, with equity markets constantly setting new highs with little or no drawdowns it is understandable why. But, as we all know, there is no such thing and markets will always be at the vagaries of buyers and sellers. In short, they revert to type. The real world has returned...investment it is simply not that easy!

The fall in the US over the past two trading days has raised fears of a market correction, and to be fair, that is likely for the short term though we expect it to be modest at worst. We recently highlighted that market volatility, at unprecedented lows, indicated growing complacency which at some point would end. This week's setback will sort the 'wheat from the chaff' as those with over-extended equity positions will

feel short-term pain causing them to question their outlook, and as always, the doomsters will be out in force. Suddenly we start reading that mild inflation and good growth has turned from being a key market driver to offering the potential for stagflation almost overnight...the 'bears' calling a top of this equity market (some for many years) will certainly be out in force. Of course, they have, at this point, nothing to lose by shouting I told you so! Indeed, wait for the siren call of 'the chartist' (where did they go in the past 6 years?) as they uncannily appear after the event to tell you the trend is the same direction the market is travelling. The point is, much rhetoric will forebode the demise of the market.

One needs perspective at this point. A 6% fall in the US equity market or even an extension to 10-12% is well overdue. Indeed, at this point, we are only effectively back to where the US started the beginning of the year before excessive confidence drove markets to further all-time highs. Markets do not go up in straight lines, but need fear, worry and release of the pressure to remain healthy and vibrant. The fact we have not had such a setback for so long is more worrying than the event itself. Showing one's mettle at this point is waiting for the initial dust to settle and picking off value as it presents itself, because in our opinion, nothing has fundamentally changed in terms of the global economic outlook to justify the weaker financial prices.

The fear factor for advisers and clients will be high as this type of scenario has not happened for a while, in fact a very long while. What is happening is normal if you take the last 6 years out of the equation. Volatility and release of the upside pressure for markets is a part of life...the last up leg (2014-2017) has been the most unusual. As a 40-year market veteran I can ensure you that the truism is the fact the more we think there is change, the more it stays the same. Markets revert to type!

Portfolios at TAM remain diversified across some excellent active managers and close to benchmark weighting which resulted in some strong relative performance right across the book in January. After a few desperate days of huffing and puffing and high volatility, it is likely that we will have the ability to move portfolios to take advantage of any opportunities available to us. We are ready to take advantage.

Volatility leads to opportunity, and to be clear the long-term trend is still intact. There is some realistic fear that managers with limited experience may extend the losses in some panic, and the fact that the general public has sought refuge in cheap and cheerful index trackers may cost them dear. However, we remain pragmatic that it takes all sorts to make a market. Index tracking is going to get hurt, whereas structured portfolio adjustment at such times, we believe, will keep TAM comfortably ahead of the pack. It will be a worrying time for clients as some losses accrue in the short-term, but investment is not that game. Risk profiling appropriately into longer term strategy is the key to winning the end game.

In some respects, through the short-term pain, we are comfortable that markets have reverted to norm and that this will open a new layer of opportunity for the diligent manager to exploit. Our piece last year entitled "Serve and Protect" is worthy of a re-read, as when all about us were expounding the virtues of ongoing easy gains, we highlighted the core philosophy of as much of our time was spent seeking to protect against the severity of losses, as it was seeking out extra gains.

In conclusion, normality has returned and it is not to be feared. We believe it will provide the backbone of gains to be made over the coming 12 months.

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