

JUSTIN'S COMMENTARY

SEVEN 
Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



INVESTOR ERRORS?

Trying to time the market and the fear of failure that forces selling.

There are some interesting statistics about the S&P500 Index. It seems that over the past 30 years it has managed an annualised return of 11.6%, which most right thinking people would regard as really rather spectacular over such a long period of time. This is put in better perspective if you consider that over that time inflation averaged 2.7%. So what is then more startling is the figure that shows that the average investor in the USA managed a return of a paltry 3.79%.

So what is the cause of such a shortfall in returns? Well potentially some weak performance by active managers could have some impact, along with the underlying costs and fees dragging down value. However it seems that the main culprits are the investors themselves and their fear of failure and losses.

This fear is perfectly demonstrated in times of market stress when investors panic and sell out at the worst times of the market. Examples are relatively few but the dramatic falls of Black Monday 1987 scared many after the binge of Big Bang the previous year. Then the Asian crisis of 1997 and the Russian crisis the following year which finally put paid to the huge and fashionable hedge fund LTCM. To that you can add the TMT bust of 2000 - although that was a more extended decline. Of course most recently we can go back to the Lehman collapse 2008 where the S&P dropped by 16.8%.

All of these were scary moments at the time, and obviously scary enough for investors to get out. But what we find from history is that such events are often followed by strong rebounds and recoveries. As an example, if you look at 1987 from January to December the index ended up higher, so you would think that there had been no crash at all - but that was not what it felt like at the time.

So it's back to that old adage of trying to time the market when, for longer term investors, the best action - or rather inaction - is time in the market - not trying to time it. Slow and steady over time and looking straight through the sudden lurches to the longer term seems to be the better answer. Having said that you would still be best to have a broad range of asset classes and geographies, as the reliance just on one asset class and index like the S&P - with all the risks of currency exposure - is not an extra risk you need to take. So we need to take the emotion out of investing and not be frightened into bailing out just as the markets are about to turn. It's just rational common sense when we think about it - but rational behaviour in the investment market seems to be a bit of a rarity.

Poland & Russia.

This is another area of sensitivity where a NATO member nation butts up against Russia, whether it is on the Russian enclave of Kaliningrad on the Baltic, or some of the antics of certain Russian motorcyclists. Recently Poland has announced plans to build six observation towers along the Kaliningrad border. These are apparently being funded by the EU's External Borders Fund - which is something I had never actually heard of until now.

However, for the Polish Prime Minister, it is the proposed plans of a Russian motorcycle club, "The Night Wolves" that are of a greater concern to him. This is an ultra-nationalist group very loyal to President Putin, and it is their intention to retrace the path of the WW2 Red Army as they fought their way across the country against the Nazi forces. The bikers have shown their colours in their support for the annexation of Crimea and opposing the Ukrainian government.

Such a parade of these bikers is very controversial within Poland and to some seen as a clear provocation, and of course it may well develop further if they wish to follow through on the westward path of the invasion straight through to Berlin.

When is a trade war not a trade war? The answer is if you are Kazakhstan where, as a result in a drop of the Russian Rouble, there has been an imposed unofficial trade ban on Russian goods. The Kazakh authorities have called it a "conventional ban" (whatever that means) on the importing of Russian oil, but added that several tonnes of Russian poultry has been seized, along with mayonnaise, butter and sunflower oil from Russia which have also been withdrawn. However despite these actions, both sides deny any such trade disagreements!

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And finally...a story where I can firmly sympathise with the individual. A man in the US city of Colorado Springs faces police action after becoming so frustrated with his computer that he took it outside and shot it eight times.

"He was having technology problems, so he took it to the back alley and destroyed it," a police spokesman said. The computer aggressor Lucas Hinch was briefly detained for discharging a firearm within the city.

"He got tired of fighting with his computer for the last several months," said the police spokesman. The local reporting paper said that Mr Hinch "shot the darn thing" when ctrl+alt+delete - the traditional method used to re-boot computers - "consistently did not work" one evening.

"He was able to wreak the kind of revenge most of us only dream about," the paper said. "The computer is not expected to recover."

Frankly I think this is a marvellous concept and perhaps we could propose it as an Olympic sport? Or the maybe the new modern discus equivalent - throwing the iPad?

Have a good week.

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