We will survive … again

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It's time for some reflection. In early 2020, the FM editor offered me an opportunity to contribute a column, which I was always going to grab with both hands, even though I had no idea what I might be writing about regularly. Where would one find material to come up with 750 fresh words every single month?

Then Covid arrived.

My first piece was published five years ago, almost to the day. As I was writing it, financial markets were falling out of bed, with traders and fund managers having no real idea of how to handle a world going into lockdown.

For someone with a bias towards equity investing and an approach that boils down to the glass being half full, this presented serious complications. What to say while practically every investor in the world seemed to be dumping stocks?

In response, I mustered all the optimism I could find despite the many adverse headlines and put forward the bull case for equities. I did this, not because I had any inkling that stock prices were about to turn, but simply because I believe in human endeavour and animal spirits (which underpin stock market gains over time), even in the face of the greatest adversity. I will thus always be bullish about the longer term.

As I said in that maiden piece: "The biggest danger to investors' wealth is never the next correction or bear market, but their own behaviour when one of these events inevitably happens" — will they blink at the bottom, sell out at what proves to be exactly the wrong time, and end up suffering the inevitable opportunity cost as a consequence?

It turned out that the publication of that first column coincided with the actual 2020 stock market bottom. Talk about a lucky escape!

For a firm like ours, which operates within the financial services industry in the UK, the Covid-induced market crash was also interesting from a timing point of view, as it happened shortly after the introduction of some new rules under the MiFID 2 regulatory framework. One of these rules required us to immediately notify each client when their portfolio dropped by 10% or more compared to its value at the end of the previous quarter. Additionally, further notification was required for each additional discrete 10% drop in value.

In March 2020, this requirement kept us pretty busy. My e-mail archives indicate that some of our more adventurous clients (those with full equity exposure) received three of these notifications (representing a decline in portfolio value of more than 30%) over the same 10-day period I was writing that first column.

In the covering note that accompanied one of those messages, I wrote the following: "We do not need to tell you that coronavirus fears and fallout are dominating headlines. We cannot and do not pretend to know better than any other commentators, but in accordance with our philosophy, we continue to keep an eye on the long term and believe that the dust will eventually settle (even though we also recognise the economic fallout is likely to be significantly worse than previously anticipated)."

Thankfully, this client remained fully invested and enjoyed the gains that followed soon after.

Weathering the storm

Fast-forward to today, and the stock market is once again under pressure. The S&P 500 has suffered an official correction (defined as a drawdown of over 10%). Even worse, the much-hyped Magnificent 7 technology stocks find themselves in official bear market territory, having declined more than 20% on average since reaching record highs in December last year.

Five years ago, we knew exactly which virus to blame for market volatility; this time, the argument is somewhat more nuanced. Yes, you can argue that share prices had been trading at unsustainably high multiples for too long, and there was way too much AI hype in the market until recently.

But there is little doubt that US President Donald Trump and his erratic approach to tariffs — potentially leading to a recession in the US later this year — also have a lot to do with it.

When the pandemic hit just over five years ago, I wasn't 100% sure that the world would survive it. But we did. No doubt we will survive Trump as well. x

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