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BULLISH ABOUT THE LONGER TERM

An eventful year of investing is drawing to a close: after the most dramatic collapse in stock prices ever (as measured both by the speed and the extent of the March decline), we also saw the quickest recovery on record. Who would have ever expected such a rapid rise in share prices, given a global economy in effective shutdown?

The simplistic explanation for this turnaround is that equity prices reflect consensus 'guessing' about a future state of reality. Moreover, the stock market is but a narrow representation of the real economy. Only the largest and strongest businesses in the world are members of stock exchanges, and while some of them may suffer for an extended period in a post-coronavirus world, a company like Microsoft will get through the crisis with an even stronger business than before. And the Microsoft share price reflects this: it has been one of the strongest performing equities this year.

Also bear in mind the impact of the US Federal Reserve, which has been acting in financial markets as a buyer of last resort. How the role of this institution has evolved over time is a topic for another day, but suffice it to say that it has never been a good idea to fight the Fed.

Just as well then that we never try to 'time' the market at Credo; for if we did, chances are we might have also blinked near the bottom in March this year, trying to 'keep powder dry' until there was more clarity about the pandemic playing out, as well as its economic consequences. We are only human, after all, affected by the same psychology of greed and fear as others.

What next, you might ask. While I have no view about how stocks might perform over the next year or two, I will always be optimistic about the prospects for equities over a longer timeframe.

What does equity investing really mean, after all? Unless you're a day trader, buying a share should never be seen as a simple 'bet' on the price going up; as Warren Buffett famously teaches us, we should always think about investing in terms of acquiring a piece of a business.

Stock markets enable you to invest alongside the founders of the greatest businesses in the world: if you buy into their companies, you effectively get the likes of Bill Gates and Elon Musk (and the teams reporting to them) to work for you on a 24/7 basis. You thus stand to benefit from all their creativity – and foresight, and hunger, and drive, and long hours, and business acumen, and management skills.

By investing in equities, you back the forces of human endeavour, animal spirits, free markets, and entrepreneurship. Over time, this powerful cocktail will always lead to economic growth and positive returns (even if some drawdowns occur along the way).

Which is why I will always be bullish about the longer term.