view from the Thames by Deon Gouws

Two-timing the market

Let me tell you about Tom*. He is a client, a high net worth individual who has been an entrepreneur all his life. He's a self-made man.

Tom is a smart guy; when he talks, I listen.

He does lots of business with China. He travels there at least once a year.

Tom has taught me a lot about the country though I have never been there.

At the end of January, Tom's business in Europe started to experience stock shortages when its Chinese counterparts first defaulted on deliveries.

The Hubei province (where some of the factories he deals with are based) had gone into lockdown. Other regions were soon to follow.

At the time, I had no real understanding of what lockdown meant (or any inkling of the fact that I would experience one of my own less than two months later – in London, of all places).

If anyone understands how important China is to Western supply chains, Tom does. He did some thinking, put two and two together, and came up with the conclusion that the global economy was in deep trouble.

More importantly, stock markets around the world were sure to crash and burn.

Tom called. He told me what he was seeing in China and hearing from his contacts over there on a daily basis. As a result he wanted to sell all his shares.

I told Tom what I would tell any client in this kind of conversation.

First, I don't believe in market timing. I've had similar discussions many times. The context may differ, but the substance is always the same: whether the *risk du jour* is swine flu or bird flu or SARS or Ebola or the millennium bug or a fiscal cliff or Grexit or Brexit or Donald Trump or Jeremy Corbyn.

People always find stuff to worry about, but the market seldom goes down anywhere near as much as they fear (if at all). Over time, it has always paid to stay invested, to roll with the punches.

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As Peter Lynch once said: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

Having said all of that, the last point that I made to Tom was that this was his money after all, and if he really wanted to sell, that's what we would do.

He thanked me for my input and said he would think about it.

A couple of hours later, Tom called again. He had thought about it. Please sell, he said. We sold all of his holdings that afternoon.

This was the first week of February. For the next 14 days, the market held steady. By the 19th of the month, equities peaked at a level a few percentage points higher than where Tom had sold. He was undaunted.

Then news broke that the coronavirus was rife in Italy. Suddenly it was no longer "only a Chinese problem".

In the month that followed, global stock markets experienced the quickest and steepest drawdown in history as the whole world went into lockdown. Tom was smirking ... who could blame him?

We spoke a few times as events unfolded. Was it time to get back into the market? No, Tom thought, the pain was far from over.

Besides, stock markets had rallied all through April and were suddenly much too expensive to be fairly valued, given the economic destruction bound to result from Covid-19 and the resulting lockdowns.

Fast forward to today. The S&P 500 (which peaked exactly half a year ago this week) is now back to approximately the level at which Tom originally sold. Tom still hasn't re-entered the equity market. Perhaps he never will.

That's the thing about market timing: it doesn't help to be right only once – for example, Tom's excellent sell in February. It's crucial to be right a second time (in this case, starting to buy equities again, practically any time since the end of March).

Fidelity once did a study that analysed which group of clients had performed best over time.

The winning cohort? Those who'd forgotten that they had accounts with the firm (including a number of individuals who had since passed away).

The lesson from this is clear: the key to successful equity investing over the long term often boils down to inactivity, which is essentially what I tried to tell Tom in February. Except that he was right at the time, and I was wrong.

And what of the future? The jury is out. Speaking for myself though, I'm happy to stay not only invested ... but also relatively inactive. x

*** For client confidentiality reasons, Tom's name has been changed**

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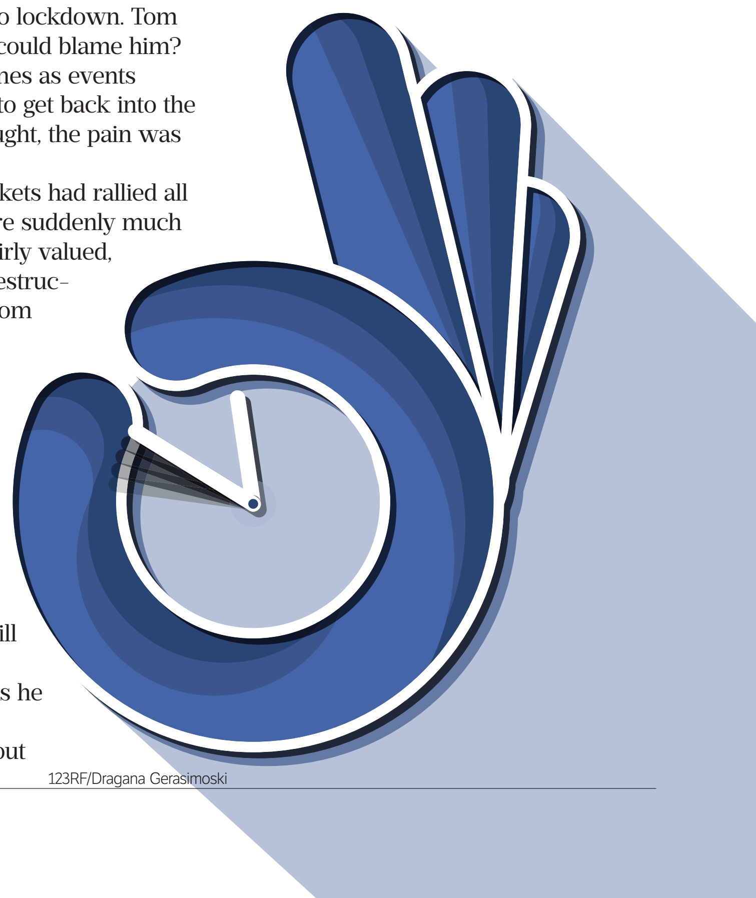

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