MARKET INSIGHT

A Return to Normality -
Sorting the Wheat from the Chaff

For the past nine years we have been in the grips of a steady, if not rampant, Bull market in financial products. The financial disaster of 2008 seems long gone...and it is. For almost six years now, it has also been a story of almost unquenched, steady growth in financial assets and benign volatility. Making money on a consistent and steady basis is never so straightforward. So much so, we read article after article declaring "the new norm". 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...it is simply not that easy!

The fall in the US in the past two trading days has raised fears of the demise of steady returns, and to be fair, that is likely for the short term. Our recent note entitled "Figures Never Lie, Do They?" highlighted that markets would revert to type, volatility was likely to spike and the ability for simple gains to be made was pending some tests. This setback will sort the wheat from the chaff. Those with over-extended equity positions will feel short-term pain causing them to question their abilities, and as always, the doomsters will be out in force. The passive inflation and good growth has turned into the potential for stagflation almost overnight...the "bears" calling a top of this equity market (some for many years) will be out in force. 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 quite frequently they 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 portfolios.

Perspective is the first thing one needs at this point. A 6% fall in the US equity market or an extension to 10-12% is well overdue. Indeed, at this point, we are only really back to where the US started at on January 1st, before excessive confidence drove markets to once again, breach 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 it actually happening. 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. Sure, as eggs are eggs, a rapid expansion in volatility will, in itself, create pockets of opportunity.

The fear factor for advisers and clients is that 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 veteran (if I may be allowed to use that word) of markets, 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 are close to benchmark weighting and we picked up 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 ensuing damage to funds 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. Watch this space!

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