Swallow Financial Planning

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INVESTMENT NEWS

Covid Crisis (2)

This is our second Investment update in as many weeks. Clients who have been on our mailing list for several years will know that this is unprecedented. It is however at times like these that we believe clients will want us to explain our views and ongoing advice in a very fluid position.

Where Are We Now?

The FTSE 100 was at 7,462 on Wednesday 19th Feb. It closed today (16th March) at 5,151 a drop of 31%. During the same period collective funds within Swallow Financial Planning's management dropped by 15.75%. Different markets fell at different rates however during the same period the FTSE yield went from 4.2% to 6.48%. Remember the current yield does not reflect what the yield may be in 12 months' time.

Should You Cut your Losses?

As we said in our January bulletin, the markets were overdue a correction. It is for this reason that we have been taking protective measures such as increasing cash on deposit and buying Gold.

I can see another 10% off markets as the lemming-like activities of investors means there are few buyers and many sellers. The price of anything is of course only as much as someone is willing to pay. Coronavirus will run its course but its end still leaves the other issues in global markets.

If a market valuation of FTSE 100 @ 7,800 seems too high, a figure of 5,500 or less looks way too cheap ***in the long term***.

The problem occurs in the timing of when to buy back again. Markets tend to recover ***really*** quickly and selling now to miss the bottom of the market can often lead to also missing the bounce and in effect losing money by buying back in at higher levels.

Is Now A Time To Buy?

If John Lewis pronounced that they had a flash 30% off sale in all departments I am sure that there would be a long line of takers for the bargains on offer. It is always a surprise to me that investors don't take a similar view. Again, picking the best time is an impossible call, but certainly if you are contemplating long term asset backed investments then now looks to be a great time to do so.

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Asset Allocation

The fact assets have fallen in paper value doesn't preclude reorganisation to get the most out of any recovery.

We remain of the view that cash is better than fixed interest when we need to reduce volatility. The companies which will recover quickest from the lost sales and productivity will be those with the biggest pockets, Value is therefore very much in favour from our perspective.

Government stimulus will favour funds that invest in infrastructure companies. Whilst we have used property as a less correlated investment to the equity market we are reducing the exposure slightly in favour of equities ongoing.

Despite the recent wobble in Gold and Silver prices we still believe commodities represent a useful less correlated asset for our clients to hold.

Summary

I always use the FTSE 100 for UK clients as it is a measure which everyone understands. Back in October 1998 the FTSE 100 stood at 5,438 with a yield of 3.29%. In terms of capital gains therefore there has been a 22 year period of stagnant returns.

It is difficult to see the next 10 years providing much better overall returns. We do believe that from this starting point the market is very attractive. Whether it is more attractive next week is anyone's guess!

Whilst gains will be in short supply over the coming months and income will also fall with the effects of Coronavirus, if you want to maximise the long term returns from your savings then you have little option but to "hold on tight" and (try to) enjoy the ride!

The information and statistics provided in this bulletin have been taken from several sources and are available upon request. The figures are approximations and conjecture and should not be relied upon. You should not act on any comments made herein without a personal consultation and discussion with your financial adviser. Figures given today will change tomorrow. ADLS 16/03/2020.

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