NEW MINERVA REPORT

Long, Medium or Short?

What sort of investment view should we take? If our long, medium and short term views coincide, then the answer to the question becomes easy. If all three are bullish, then you stay fully invested. If your short term view becomes bearish, you have to question the cost of firstly altering your portfolio, and secondly the cost if your short term view is wrong. Generally investors in collective investments tend to ignore a short term view. Some don't, it all depends on temperament, and/or circumstances. Even the definition of short term can vary according to your disposition, but is normally between a week to 12 months. The medium term would overlap that, from three months to three years, and long term would range from two years to 20 years, or more. The reason we bring this to your attention is an article we read about Karl Sternberg, the Chief Investment Officer of Deutsche Bank Asset Management. It reminded us of something we alluded to previously. He said that the world is at the beginning of a bear market that could last 10, or even 20 years. His analysis was based on the last century, where there were definite periods of a bull market and definite bear markets. Remember the various cycles we identified in the last century? Very simply about every 17 to 19 years the market changes from being long term bullish to long term neutral. We told you about the period in the late 1960s when the Dow came up towards the 1,000 level, and it took until 1982 before it finally said 'goodbye' to the level. We had a similar period from the 1930s through to the end of the 1940s, when the Dow was capped by the 200 level. In our reckoning, the new cycle has started, and will run to 2019. To say it is a 'bear cycle' is being over gloomy. In June last year when we looked at the Dow from 1966 to 1982 in the ***Minerva Report***, we pointed out how M&G American produced very acceptable returns over part of that period, when the index did nothing.

There does seem to be a growing consensus of opinion that expects the market to just drift sideways. There are debates about whether we should be investing in 'growth' or 'income' stocks. The theory behind the latter is that you will need to have an income, as you will get no capital gain from funds when the overall index is moving sideways. As you know, we don't like to follow the consensus. It very rarely turns out to be right. Because many of these commentators look at the past, and note that the index never broke through 1,000, they assume that it just bobbed around near 1,000. In fact it was a lot more bumpy than that. Six months to one year moves of up or down more than 15% were quite common. We think that we will now experience that type of market. Funds that invest in an index will move like this, and if you want to trade, they can be used. Income funds will do relatively better overall, because, as they seek income, they will be switching into out-of-favour sectors on an ongoing basis. Finally, the new aggressive funds will be able to trade the peaks and troughs.

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