

Things rarely turn out as you expect

Published on: 20 December, 2019 | Author: Investment Team

At the turn of the year, most of the investment industry and financial press play out the role of Sisyphus from Greek mythology, forced to repeatedly roll a boulder up a hill only to have it roll back down once it reaches the top. This metaphor symbolises the fruitlessness and inevitability of forecasts.

Our strongly held views of not worrying about market or political forecasts has once again been vindicated. At the start of the year, who could have forecast another general election, a strong Conservative majority or record levels of private equity buyouts of UK public companies?

A precise knowledge of how future events will unravel is not only unknowable but can be harmful if acted upon. As the physicist Richard Feynman said- “the first principle is that you do not fool yourself, and you are the easiest person to fool”.

People overvalue confidence and precision in investing but what matters more is probabilities (i.e. what is more likely or less likely to happen) and having a margin of safety in case you are wrong. Our margin of safety comes from our stabilisers and our exposure to equities with low valuations.

The best performing major equity market from the start of 2019 for UK investors has been UK smaller companies which returned 28.6%*. The next best performing market was the USA which returned 26.6%*. However, only the stellar performance of the latter has been widely talked about in the press.

No one could accurately forecast that UK smaller companies would post such great returns over this period. While we did increase our exposure to UK smaller companies with low valuations at the start of the year, it wasn't because we expected, with certainty, that they would outperform every major market. We did it because the low valuations in UK smaller companies created a room for error if we were wrong – a margin of safety. With so much negativity priced into UK equities, a whiff of less than terrible news is often the only catalyst required to generate returns.

At Tacit, we avoid the Sisyphian struggle and adhere instead to the timeless and rational principles of the stoic philosopher Marcus Aurelius. We try to focus on what we can control and what is knowable. Adopting a stoic approach to investing prevents us from being tossed around by the highs and lows of the manic-depressive market and will once again be our anchor going forward.

*Returns calculated from 01/01/2019 – 18/12/2019

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