

Why we do not forecast

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Happy New Year!

Last year was another good year for UK investors, with most growth assets rising in value again in 2017. In this environment, we are pleased that all Tacit strategies provided positive absolute and 'real' returns in 2017 driven by our focus on long term valuations.

At Tacit, we do not construct our strategies using annual forecasts as many of our peers do. In fact, our gut was for a more muted return in 2017 as interest rates finally began to rise in the US and investors readjusted from more expensive areas of the markets to cheaper sectors. How wrong we would have been if we had followed our gut!

Instead, we have focussed on the objective for each of our strategies and adjusted our positioning to increase the probability of our clients achieving their objectives. For some of our strategies this lead to double digit returns, but for others returns were more muted. It is important to remember muted does not mean low: achieving a 'real' return is not guaranteed. In fact, achieving a 'real' return whilst interest rates remain near zero and inflation averaged 4% (UK RPI) would be deemed a solid result.

Not being forced into predetermined asset allocation benchmarks and positions relative to this has been key to delivering for our clients over the past seven years. As we have said many a time before, Investment Committees at most houses spend much of their time comparing relative valuations. Do equities look cheaper than bonds? Do Mining stocks look cheaper than Insurance stocks? Very few professional investors focus on absolute valuations: does this investment look attractive in its own right in the current environment and, most importantly, will it still look attractive if the environment changes?

As always, looking ahead, we must focus on the risks taken to generate returns and not get complacent after years of rising markets. We believe that generating positive 'real' returns will be significantly more difficult this year than in any of the past seven years. It is our belief that 2018 will be a materially more difficult period for investors, our approach included. We say this because the assets have become more expensive as they have risen in value and investors put little or no value on liquidity. These two factors when combined are historically signals of a late investment cycle rather than early.

We cannot guarantee returns over any particular period, but we deem it our duty to manage risks when valuations become elevated in the investments we like (favour). Tacit strategies are positioned to reflect this environment to help give our clients the best possible chance of maintaining the 'real' value of their portfolios whilst inflation remains elevated in the UK and interest rates remain near zero.

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