



**Positive Wealth Creation Ltd**

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**Positive Wealth Creation Ltd is authorised & regulated by the Financial Conduct Authority: 481182.**

## **May 2020 Investment Commentary**

**Pandemic continues:** Since the final week of February there have been significant stockmarket and other asset falls globally, albeit with some recovery in April, as economies have had to shut down in part to prevent the spread of the virus. The falls are because of the expectation of a considerable impact on corporate profitability and the ability of companies to repay debts and maintain rental and other commitments. Therefore, markets fall in advance of the technical definition of a recession. With Governments and Central Banks providing significant fiscal and monetary support, tax rises and or spending cuts in the future seem likely.

### ***Why most people do not need to take action:***

Time in the market, rather than timing the market, is often the key to successful long-term investing. **If you sell today, then when do you buy back?** We believe investments should be held for the medium to long-term. Portfolios are generally spread and so not overexposed to one asset class and this means you are highly unlikely to be fully invested in shares. Whilst natural diversification has been less effective than expected owing to the nature of the pandemic, **headline media falls are very unlikely to be the falls experienced within your portfolio.**

If you remain a medium to long term investor, whose attitude to risk and circumstances have not changed **it is not advisable generally to alter a diversified portfolio because of short term volatility:**

- Fidelity International published data on returns from the FTSE All Share from **the beginning of 2005 to the end of 2019**, which shows the effect of short term volatility. The effect of missing out on the **ten best days** in the market is that **returns are cut from 7.6% per annum to 3.3% per annum**. Missing the best thirty days makes returns negative at -1.3%.
- Therefore, consistently timing the market whether out or in is incredibly difficult. Nobel Laureate William Sharpe found that 'market timers' must be right **82%** of the time to match the return realised by long term investors.
- This underpins our belief that investments should be held for the medium to long-term. Since 1899 the UK stockmarket has outperformed cash in around 75% of five year periods and around 90% of ten year periods.

### ***Who needs to take action, and if so, what action:***

- **Investment risk** refers to the range of possible returns, with the greater risk taken leading to the greater range of returns both positive and negative. If you feel your risk tolerance might have changed, or you want us to check the ongoing suitability of the portfolio based on your risk tolerance, please ask us for a **fresh Risk Profile Questionnaire**.
- If you a short-term investor, which means you are **approaching taking benefits from your pension in 2020, or have a known or emerging need to take a capital withdrawal** from your portfolio, you need to contact us so we can assess your options.
- If you take **fixed regular withdrawals** from your pension or investments, sharp market movements are to be avoided and it might be necessary to review the ongoing sustainability of these payments.

In light of the pandemic mitigation steps imposed by its Government, the Official Chinese Purchase Managers Index (PMI) declined to an all time low in February 2020, indicating economic contraction but returned to expansion in March 2020, indicating that economic recovery can happen quickly with appropriate measures. However, it fell back in April because of lower global demand. Deleveraging and dealing with bad debt continues to be required, as does an easing of tensions in Hong Kong.

The decisive UK general election result means that the UK has left the European Union. The EU-UK trade deal has to be negotiated by the end of 2020 to avoid a hard trade exit. Unless this deadline is extended because of the pandemic, it may lead to further volatility if negotiations falter or fail.

In addition, UK investors must not overlook macroeconomic conditions in the USA, as well as the US Presidential election in November. Historically, US market volatility has been higher in election years. Like the Bank of England, the US Federal Reserve has slashed US interest rates in response to the pandemic and re-ignited Quantitative Easing. All it takes is an incendiary comment or tweet from Trump to lead to market convulsions.

Index / Asset Class	Return Period	Change
<b>FTSE 100</b> (UK shares)	Year to 30 April 2020	<b>-17.6%</b>
<b>FTSE 100</b>	Rise from post financial crisis trough (6 March 2009)	<b>74.4%</b>
<b>FTSE 100</b>	Fall from most recent peak (22 May 2018)	<b>-22.4%</b>
<b>S&amp;P 500</b> (US shares)	Year to 30 April 2020	<b>-1.4%</b>
<b>Nikkei 225</b> (Japanese shares)	Year to 30 April 2020	<b>-10.9%</b>
<b>Hang Seng</b> (Hong Kong shares)	Year to 30 April 2020	<b>-19.6%</b>
<b>UK CPI</b> (inflation)	Year to March 2020	<b>1.5%</b>
<b>UK GDP</b> (economic growth)	Q4 2019	<b>0%</b>
<b>UK 10 year Gilt</b>	Yield change year to 30 April 2020	<b>-80.5%*</b>
<b>UK 10 year Gilt</b>	Yield change month to 30 April 2020	<b>-17.9%*</b>
<b>Residential Property</b> (Nationwide House Price Index)	Year to April 2020	<b>3.7%</b>
<b>Residential Property</b> (Nationwide House Price Index)	Rise from pre financial crisis peak October 2007	<b>19.4%</b>
<b>Gold</b>	Fall from peak September 2011 to 30 April 2020	<b>-11.9%</b>

\*A decrease in yield means a rise in capital.

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