Positive Wealth Creation Ltd

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

September 2020 Investment Commentary

Pandemic continues: There is a slow recovery in the value of UK shares and other assets since the nadir of lockdown on 23 March 2020. Markets fell in advance of the confirmation that the technical definition of a recession had been met (two consecutive quarters of negative GDP growth), and recovery starts long before recession ends. Ongoing volatility is expected as a result of local spikes and partial lockdowns. Whilst Government and Central Banks support is helpful, in time this may serve to restrain spending in the recovery. **As a result, economic improvement is likely to be gradual and stop-start.**

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 is necessary to review the ongoing sustainability of these payments. If you are spending less, then withdrawal reductions might be affordable.
- Whilst it is important to keep a buffer of six to twelve months of outgoings in cash deposits, **cash interest rates have decreased sharply.** Your options need to be reviewed.

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 has since returned to strong expansion, indicating that economic recovery can happen quickly with appropriate measures. Deleveraging and dealing with bad debt continues to be required, as does an easing of tensions in Hong Kong.

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.

Historically, US market volatility has been higher in Presidential 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. Political tension might rise as politicians seek to apportion blame for the crisis.

Index / Asset Class	Return Period	Change
FTSE 100 (UK shares)	Year to 31 August 2020	**-17.3%**
FTSE 100	Rise from post financial crisis trough (6 March 2009)	**70.1%**
FTSE 100	Fall from most recent peak (22 May 2018)	**-24.3%**
S&P 500 (US shares)	Year to 31 August 2020	**20.3%**
Nikkei 225 (Japanese shares)	Year to 31 August 2020	**12.2%**
Hang Seng (Hong Kong shares)	Year to 31 August 2020	**-1.7%**
UK CPI (inflation)	Year to 31 July 2020	**1.0%**
UK GDP (economic growth)	Q2 2020	**-20.4%**
UK 10 year Gilt	Yield change year to 31 August 2020	**-22.7%***
UK 10 year Gilt	Yield change month to 31 August 2020	**240.0%***
Residential Property (Nationwide House Price Index)	Year to July 2020 (August data not available at time of publication)	**1.5%**
Residential Property (Nationwide House Price Index)	Rise from pre financial crisis peak October 2007	**18.8%**
Gold	Year to 31 August 2020	**30.7%**

*A decrease in yield means a rise in capital.

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