Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

21 June 2024

Overview

Look at how the world is doing this year, compared to say a bad year. Also notice the downside correlation – yeah, so much for the lie the ignoramus IFA tells you about global diversification.

Name	Price% 6 months ago	Price% between 2/1/22 and 31/12/22
I - NASDAQ 100	19.73	-32.97
I - Nikkei 225	16.72	-9.37
I - S&P 500	15.98	-19.44
I - S&P BSE 100 Index (Mumbai)	12.88	4.54
I - FTSE China 50 Index	11.44	-21.60
I - FTSE All-World	10.99	-19.26
I - FTSE 100 Index - Total Return	9.78	4.70
I - FTSE 350 Index - Total Return	9.34	0.80
I - DAX Xetra (Germany)	7.86	-12.35
I - FTSE 100	7.47	0.91
I - Swiss Market Index	7.25	-16.67
I - FTSE 350	7.11	-2.72
I - Hang Seng (Hong Kong)	6.69	-15.46
I - FTSE 250 Index - Total Return	6.69	-17.39
I - Euronext 100	5.98	-9.57
I - CSI 300 Index (Shanghai)	5.83	-21.63
I - FTSE AIM All-Share - Total Return	5.68	-30.67
I - FTSE All-World Index - Europe ex UK	5.00	-21.28
I - FTSE 250	4.95	-19.71
I - Dow Jones Industrial Average	3.95	-8.78
I - SSE Composite Index (Shanghai)	2.49	-15.12
I - CAC 40 (Paris)	-0.33	-9.50
I - Bovespa Stock Index (Brazil)	-8.49	4.68

Geopolitical Events and Stock Market Reactions – Given We Are in WW3

This table provides a comprehensive overview of significant geopolitical events and their corresponding impact on the S&P 500 Index. Each event, ranging from the Pearl Harbor attack in 1941 to the Iranian General's killing in 2020, is detailed with metrics including the one-day market reaction, total drawdown, and the calendar days required for recovery. The data reveals that, on average, geopolitical shocks lead to a one-day market drop of 1.2% and a total drawdown of 5%, with recovery typically taking 47 days.

Notably, events like the Pearl Harbor attack and the Iraq invasion of Kuwait caused the most substantial market disruptions, with drawdowns of 19.8% and 16.9%, respectively. This historical perspective underscores the resilience of markets despite periodic turbulence, highlighting the importance of maintaining a long-term investment strategy amidst short-term volatility.

Geopolitical Events And Stock Market Reactions

		S&P 500 Index		Calendar Days To	
Market Shock Events	Event Date	One-Day	Total Drawdown	Bottom	Recovery
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.2%**	**-5.0%**	**22**	**47**

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/06/20

The chart below, sourced from Mark Armbruster of the CFA Institute, provides a comprehensive overview of capital market performance during times of war from 1926 to 2013. It compares returns and risks associated with various asset classes, including large-cap stocks, small-cap stocks, long-term bonds, five-year notes, long-term credit, cash, and inflation. Notably, the data highlights that during all wars, small-cap stocks yielded the highest average return of 13.8%, albeit with a higher risk of 20.1%. In contrast, large-cap stocks offered a solid return of 11.4% with relatively lower risk. Bonds and notes, while providing lower returns, demonstrated stability with significantly lower risk. World War II and the Korean War periods showed exceptional returns for equities, particularly small-cap stocks, indicating periods of robust economic activity despite the geopolitical turmoil. This analysis underscores the potential resilience and opportunities within equity markets even in wartime, though with an accompanying increase in risk.

Capital Market Performance During Times of War

	Large-Cap Stocks	Small-Cap Stocks	Long-Term Bonds	Five-Year Notes	Long-Term Credit	Cash	Inflation
1926-2013							
Return	10.0%	11.6%	5.6%	5.3%	5.9%	3.5%	3.0%
Risk	19.0%	27.2%	8.4%	4.4%	7.6%	0.9%	
All Wars							
Return	11.4%	13.8%	2.2%	3.7%	2.8%	3.3%	4.4%
Risk	12.8%	20.1%	6.4%	3.5%	5.5%	0.7%	
World War II							
Return	16.9%	32.8%	3.2%	1.8%	3.0%	0.3%	5.2%
Risk	13.8%	21.0%	1.9%	0.8%	1.1%	0.0%	
Korean War							
Return	18.7%	15.4%	-1.1%	0.7%	0.3%	1.5%	3.8%
Risk	11.1%	12.7%	3.0%	1.7%	3.2%	0.1%	
Vietnam War							
Return	6.4%	7.3%	1.9%	4.7%	2.7%	4.9%	4.1%
Risk	12.1%	21.1%	8.1%	4.4%	6.9%	0.3%	
Gulf War							
Return	11.7%	-1.2%	12.5%	12.5%	12.1%	7.0%	4.7%
Risk	19.4%	27.5%	8.4%	3.8%	6.7%	0.2%	

Source: Mark Armbruster/CFA Institute.

Shocking IFA/Pension Fund Poor Performance

The table illustrates the performance of various investment funds over a three-year period, highlighting their respective sectors, sizes, and returns. St. James's Place Global Quality leads in terms of fund size at £11.47 billion, yielding a value of £114 from a £100 investment after three years, despite a 24% underperformance. The St. James's Place Global Growth fund follows, with a size of £7.49 billion and a 28% underperformance, yielding £109. Notably, the Artemis US Select fund, focused on North America, shows strong performance with a return value of £125, although it underperformed by 17%. Scottish Widows UK Growth, although smaller at £1.82 billion, provides one of the highest returns at £120 with the least underperformance of 14%.

	Fund	IA Sector	Size (£bn)	Value of £100 invested after 3 years	3-year under performance (%)
1	**St. James's Place Global Quality**	Global	11.47	114	-24
2	**St. James's Place Global Growth**	Global	7.49	109	-28
3	**St. James's Place International Equity**	Global	7.09	101	-36
4	**St. James's Place Growth European Progress**	Europe Excluding UK	1.85	113	-17
5	**Scottish Widows UK Growth**	UK All Companies	1.82	120	-14
6	**Artemis US Select**	North America	1.53	125	-17
7	**Columbia Threadneedle Responsible Global Equity**	Global	1.41	120	-17
8	**abrdn UK Smaller Companies**	UK Smaller Companies	1.11	90	-18
9	**Troy Asset Management Trojan Income**	UK All Companies	1.00	105	-29
10	St. James's Global Emerging Market	Global Emerging Markets	0.87	85	-20

Source: IFA Magazine, Aug 2023

Good Year By the Looks of It

The chart from Carson Investment Research illustrates the historical performance of the S&P 500 Index following a positive January and February. It examines returns for March, the final ten months of the year, and the next twelve months. Historically, when the S&P 500 posts gains in the first two months, March sees an average return of 1.4%, with the final ten months averaging a robust 12.2% return, and the next twelve months averaging 14.8%. Notably, in years like 1954 and 1995, strong early-year gains preceded significant annual returns of 40.6% and 37.6%, respectively. The data indicates a positive trend, with 71.4% of the observed years showing gains in March and 92.9% and 96.4% posting gains in the final ten months and the following year, respectively. This trend suggests that a strong start to the year could signal continued bullish momentum, providing an optimistic outlook for investors.

A Higher January and February Could Mean The Bull Continues

S&P 500 Performance When Higher in January and February

Year	March	S&P 500 Index Returns Final 10 Months of the Year	Next 12 Months
1950	0.4%	18.6%	26.6%
1951	-1.5%	9.0%	6.7%
1954	3.0%	37.6%	40.6%
1955	-0.5%	23.7%	23.3%
1961	2.6%	12.8%	10.3%
1964	1.5%	8.9%	12.4%
1967	3.9%	11.2%	3.0%
1971	3.7%	5.4%	10.1%
1972	0.6%	10.8%	4.8%
1975	2.2%	10.5%	22.2%
1983	3.3%	11.4%	6.1%
1985	-0.3%	16.6%	25.2%
1986	5.3%	6.7%	25.2%
1987	2.6%	-13.1%	-5.8%
1988	-3.3%	3.7%	7.9%
1991	2.2%	13.6%	12.4%
1993	1.9%	5.2%	5.4%
1995	2.7%	26.4%	31.4%
1996	0.8%	15.7%	23.5%
1997	-4.3%	22.7%	32.7%
1998	5.0%	17.1%	18.0%
2004	-1.6%	5.8%	5.1%
2006	1.1%	10.7%	9.9%
2011	-0.1%	-5.2%	2.9%
2012	3.1%	4.4%	10.9%
2013	3.6%	22.0%	22.8%
2017	0.0%	13.1%	14.8%
2019	1.8%	16.0%	6.1%
2024	?	?	?
Average	1.4%	12.2%	14.8%
Median	1.8%	11.3%	11.6%
% Higher	71.4%	92.9%	96.4%
Average Year			
Average	1.1%	8.1%	9.3%
Median	1.4%	9.0%	12.0%
% Higher	64.9%	73.0%	71.6%

Source: Carson Investment Research, FactSet 2/26/2024
@ryandetrick

CARSON

The chart below from Bloomberg, spanning data from 1950 to mid-2023, illustrates the frequency of rolling two-year returns for the S&P 500. The analysis reveals that the S&P 500 posted positive returns 88.5% of the time, with an average positive return of 32%. Conversely, negative returns occurred 11.5% of the time, with an average decline of 18% and the worst recorded return being -45%. This data underscores the long-term resilience of the S&P 500, indicating that investors have a high probability of realizing gains over a two-year period. This historical performance emphasizes the benefits of maintaining a long-term investment perspective, as the likelihood of achieving positive returns significantly outweighs the risk of losses.

The table showcases sterling-based annual returns from major asset classes from 2017 to the first quarter of 2024. It highlights the dynamic nature of asset class performance, with different classes leading each year.

Emerging Markets (EM) stocks topped the charts in 2017 with a 21.1% return and again in 2020 with 15.9%. Global stocks consistently performed well, ranking high in multiple years, including a notable 22.6% in 2019 and 14.3% in 2021. Commodities also had standout years, particularly in 2022 with a 30.7% return.

Multi-Asset categories showed resilience, often maintaining mid-tier positions. Cash and Gilts, while providing stability, typically had lower returns, reflecting their risk-averse nature. This diversified performance over the years underscores the importance of a balanced portfolio, as leading asset classes can vary significantly year to year. It also highlights that no single asset class consistently outperforms, emphasizing the need for strategic allocation and diversification to manage risk and optimize returns.

Table 1: Sterling-based annual returns from major asset classes 2017 – Q1 2024

Year	2017	2018	2019	2020	2021	2022	2023	YTD
1	EM Stocks +21.1%	Property +7.5%	Global Stocks +22.6%	Global Stocks +14.3%	Commodities +28.3%	Commodities +30.7%	Global Stocks +16.0%	Global Stocks +9.3%
2	Global Stocks +14.0%	Cash +0.6%	UK Stocks +19.2%	EM Stocks +11.9%	Global Stocks +20.0%	Cash +1.0%	UK Stocks +7.9%	UK Stocks +3.6%
3	UK Stocks +13.1%	Gilts +0.6%	EM Stocks +15.9%	Gilts +8.3%	Property +19.9%	UK Stocks +0.3%	Multi Asset +6.9%	EM Stocks +3.4%
4	Property +11.2%	Multi Asset -1.6%	Multi Asset +10.0%	Multi Asset +4.9%	UK Stocks +18.3%	EM Stocks -6.4%	Cash +4.4%	Commodities +3.1%
5	Multi Asset +6.3%	Global Stocks -3.1%	Gilts +6.9%	Cash +0.3%	Multi Asset +8.3%	Multi Asset -7.3%	Gilts +3.7%	Multi Asset +2.7%
6	Gilts +1.8%	Commodities -5.7%	Commodities +3.5%	Property -1.0%	EM Stocks +1.0%	Global Stocks -7.8%	EM Stocks +2.9%	Cash +1.3%
7	Cash +0.3%	EM Stocks -7.6%	Property +2.1%	Commodities -6.1%	Cash +0.0%	Property -10.1%	Property -0.1%	Property +0.3%
8	Commodities -7.1%	UK Stocks -9.5%	Cash +0.7%	UK Stocks -9.8%	Gilts -5.2%	Gilts -23.8%	Commodities -13.1%	Gilts -1.6%

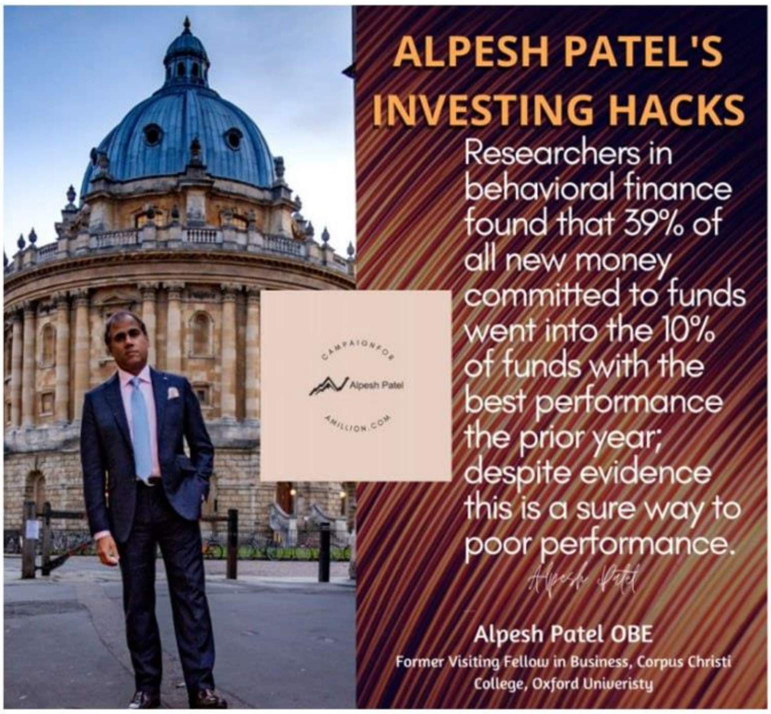
Past performance is not a reliable indicator of future results. Source: RLAM, Refinitiv Datastream as at March 2024; property as at February 2024. 'Multi Asset' returns are based a mixture of 8.12% UK equities, 21.13% in global equities, 3.25% in EM equities, 7.5% in property, 5% in commodities, 5% in global high yield, 6.25% in UK IG credit, 2.5% in global IG credit, 10% in UK SD IG credit, 2.5% in UK linkers, 1.5% in UK SD linkers, 3.5% in global SD linkers, 6.75% in gilts, 2% in overseas government bonds, 5% in SD gilts and 10% in cash. Indices used are FTSE All Share, FTSE World, MSCI Emerging Markets ESG Leaders, MSCI/AREF UK All Balanced Quarterly Property Fund, Bloomberg Commodity Index, BoAML BB-B Global Non-Financial High Yield Constrained Index, iBoxx Sterling Non-Gilt Index, Bloomberg Barclays Global Aggregate Corporate Index, FTSE Actuaries UK Index Linked Gilts, Bloomberg Barclays UK Government Inflation Linked Bond 1-10 year Index, Bloomberg Barclays World Government Inflation Linked Bond (ex UK) 1-10 year, FTSE Actuaries UK Conventional Gilts Index, JPM Global ex-UK Traded Index, FTSE Actuaries UK Conventional Gilts up to 5 Years Index, SONIA. Total returns in sterling terms.

Always Be Mindful of History Though

The chart from Schroders illustrates the biggest stock market declines in each of the past 50 calendar years, based on the MSCI World Index in USD terms. It highlights that in the last half-century, the index breached the -10% threshold 29 times and the -20% threshold 13 times. The most severe declines occurred during major financial crises, such as the 2008 global financial crisis, where losses approached 50%, and the dot-com bubble in the early 2000s.

This historical data underscores the inherent volatility of stock markets, emphasizing the importance of long-term investment strategies and risk management. Investors are reminded that past performance is not indicative of future results, but understanding these patterns can help in preparing for potential market downturns.

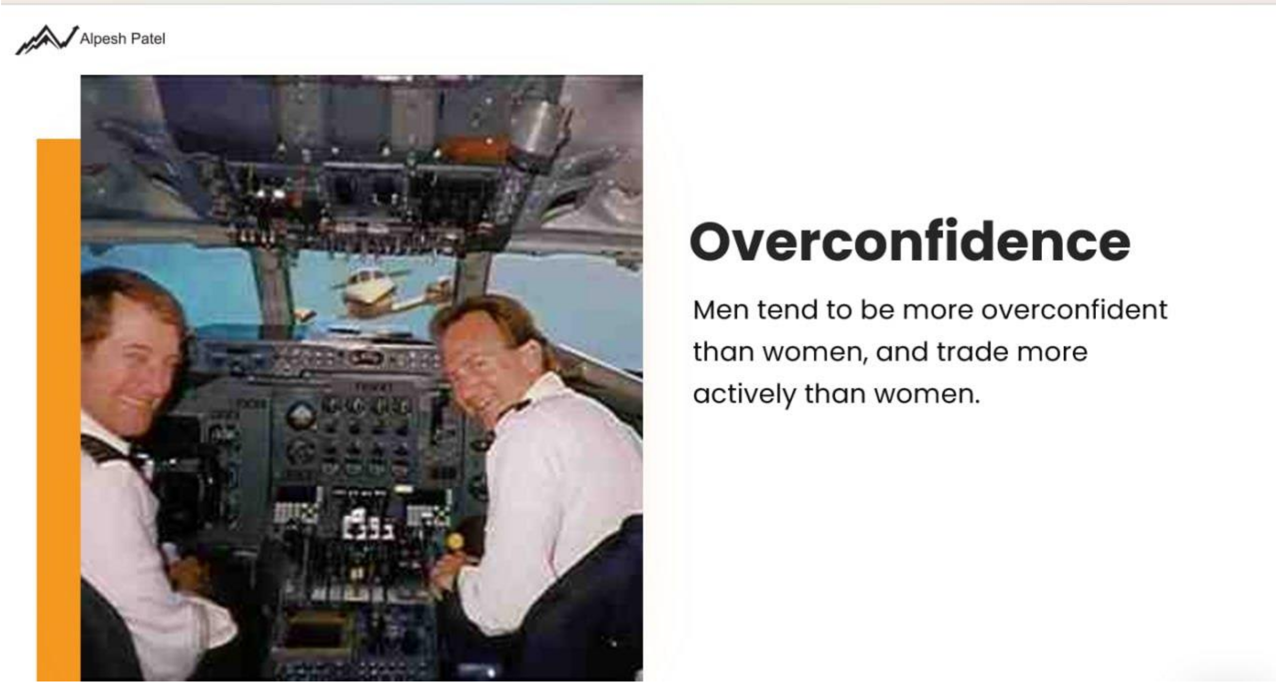
In the latest instalment of my Investing Hacks, I highlight a crucial insight from behavioural finance research. Studies have found that 39% of all new money is directed towards the top 10% of funds with the best performance from the previous year, despite substantial evidence that this strategy typically leads to poor performance.



Nobel Prize Winners:

Eugene Fama
Daniel Kahneman
Richard Thaler

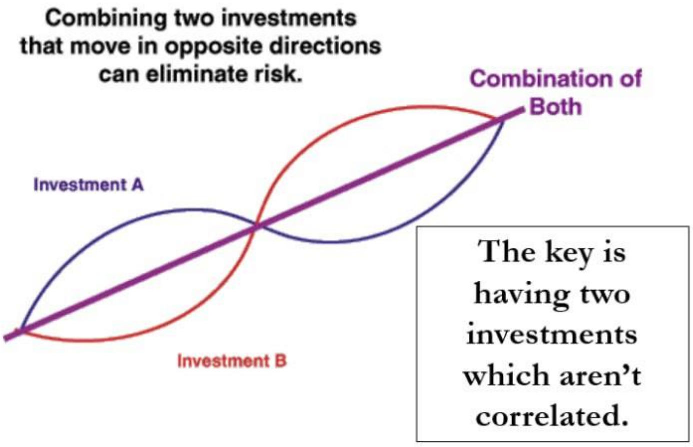
The concept of overconfidence in investing is worrying, particularly highlighting the tendency of men to exhibit this trait more than women. The image humorously juxtaposes this idea with a cockpit scene, perhaps suggesting the high stakes and critical decisions involved in both piloting and investing. Research shows that men often trade more actively than women, driven by a belief in their own predictive abilities. However, this overconfidence can lead to excessive trading, higher transaction costs, and ultimately, lower returns. Patel's message serves as a reminder for investors to maintain humility, rely on solid research, and avoid letting overconfidence drive their investment decisions. This balanced approach can help mitigate risks and improve long-term financial outcomes.



So What's The Ideal Then?

The concept illustrated in the image challenges the notion that adding an additional investment doubles the risk. Instead, it demonstrates that combining two investments that move in opposite directions can significantly reduce risk. This principal hinges on the idea of non-correlated assets—when one investment rises, the other falls, and vice versa, effectively balancing the overall portfolio. By strategically selecting assets with inverse or low correlation, investors can create a more stable investment portfolio. This strategy, known as diversification, is crucial for risk management, as it mitigates the impact of market volatility on the entire portfolio. Thus, instead of doubling the risk, two well-chosen, non-correlated investments can enhance stability and potentially improve long-term returns.

DOES THE RISK DOUBLE WITH TWO INVESTMENTS?

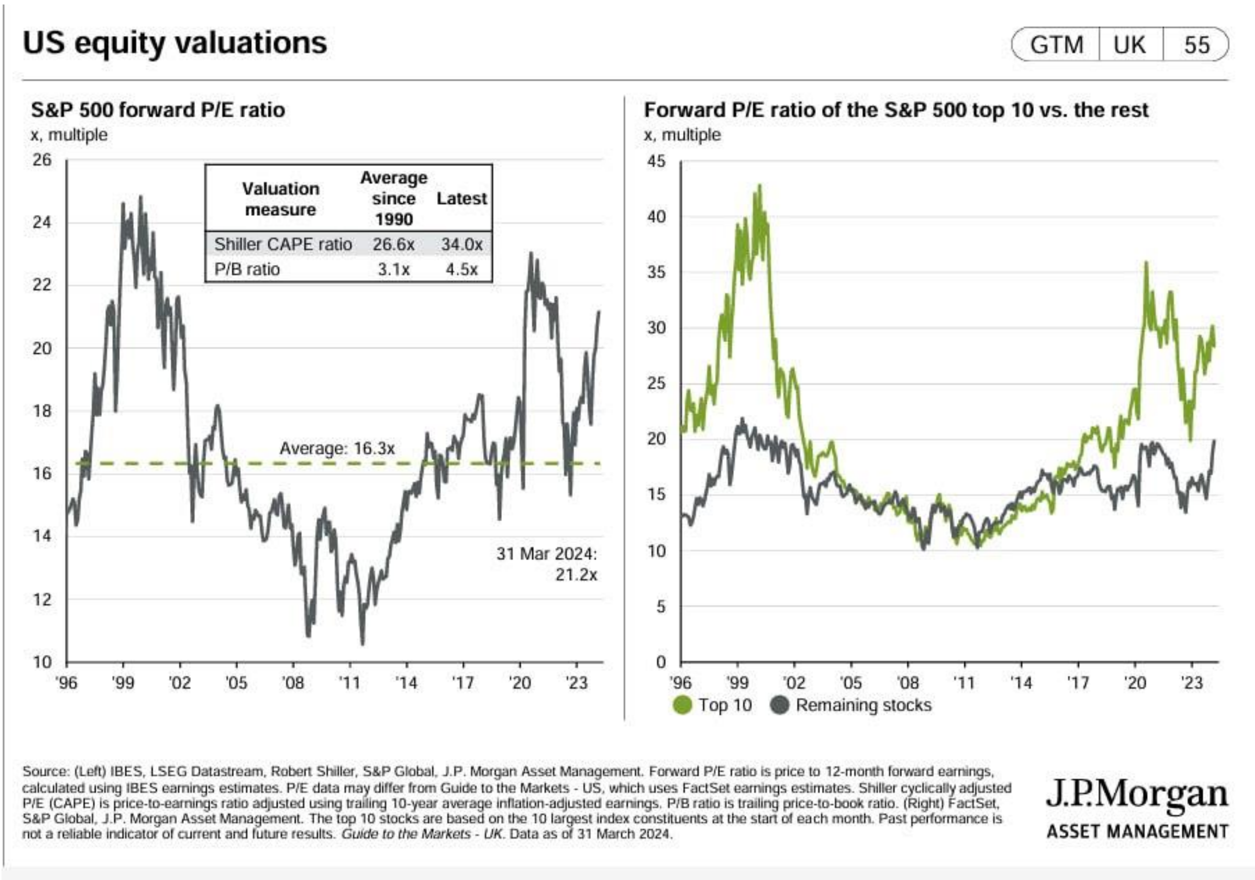


Are We Too Expensive?

The charts from J.P. Morgan Asset Management provide a detailed analysis of U.S. equity valuations, focusing on the S&P 500 forward P/E ratio and the comparison between the top 10 stocks versus the rest. As of March 31, 2024, the S&P 500 forward P/E ratio stands at 21.2x, significantly above the historical average of 16.3x, indicating that the market is currently overvalued by historical standards.

The Shiller CAPE ratio also highlights this overvaluation, sitting at 34.0x compared to the long-term average of 26.6x. The price-to-book (P/B) ratio further emphasizes this trend, at 4.5x against an average of 3.1x. The second chart shows the forward P/E ratio of the top 10 S&P 500 stocks, which have historically been higher than the rest of the index, underscoring the premium investors place on these market leaders.

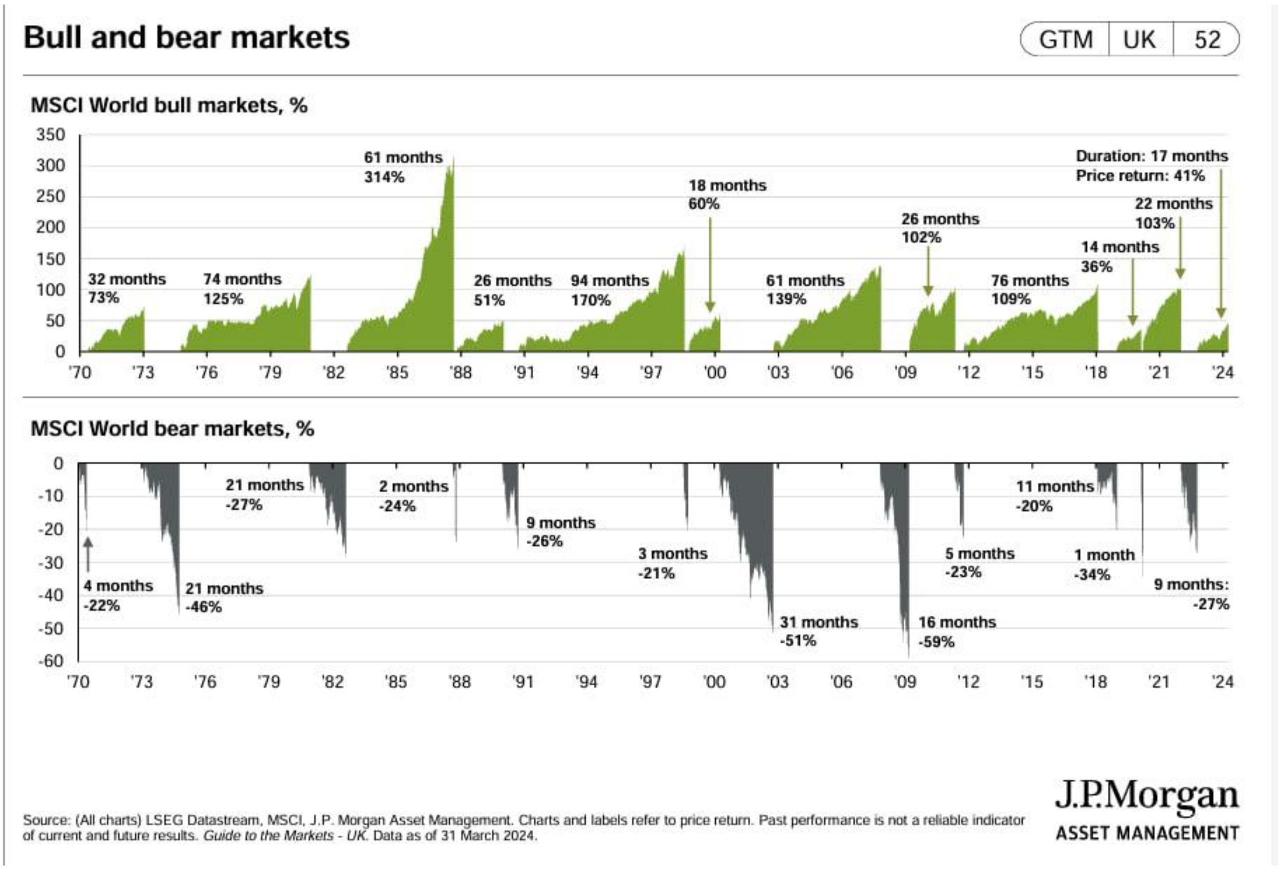
This divergence suggests that while the broader market appears overvalued, the top-performing stocks are trading at even higher multiples, reflecting strong investor confidence in their continued growth prospects. Investors should consider these valuations when making investment decisions, balancing the potential for future returns against the risks associated with current market levels.



The charts from J.P. Morgan Asset Management provide a comprehensive overview of MSCI World bull and bear markets from 1970 to 2024.

The top chart illustrates the duration and percentage gains of bull markets, with notable periods such as the 314% increase over 61 months in the 1980s and the 139% rise over 61 months in the early 2000s. The most recent bull market, lasting 17 months, saw a 41% gain. Conversely, the bottom chart depicts bear markets, highlighting severe downturns like the 59% drop over 16 months during the global financial crisis and the more recent 34% decline over a single month in 2020.

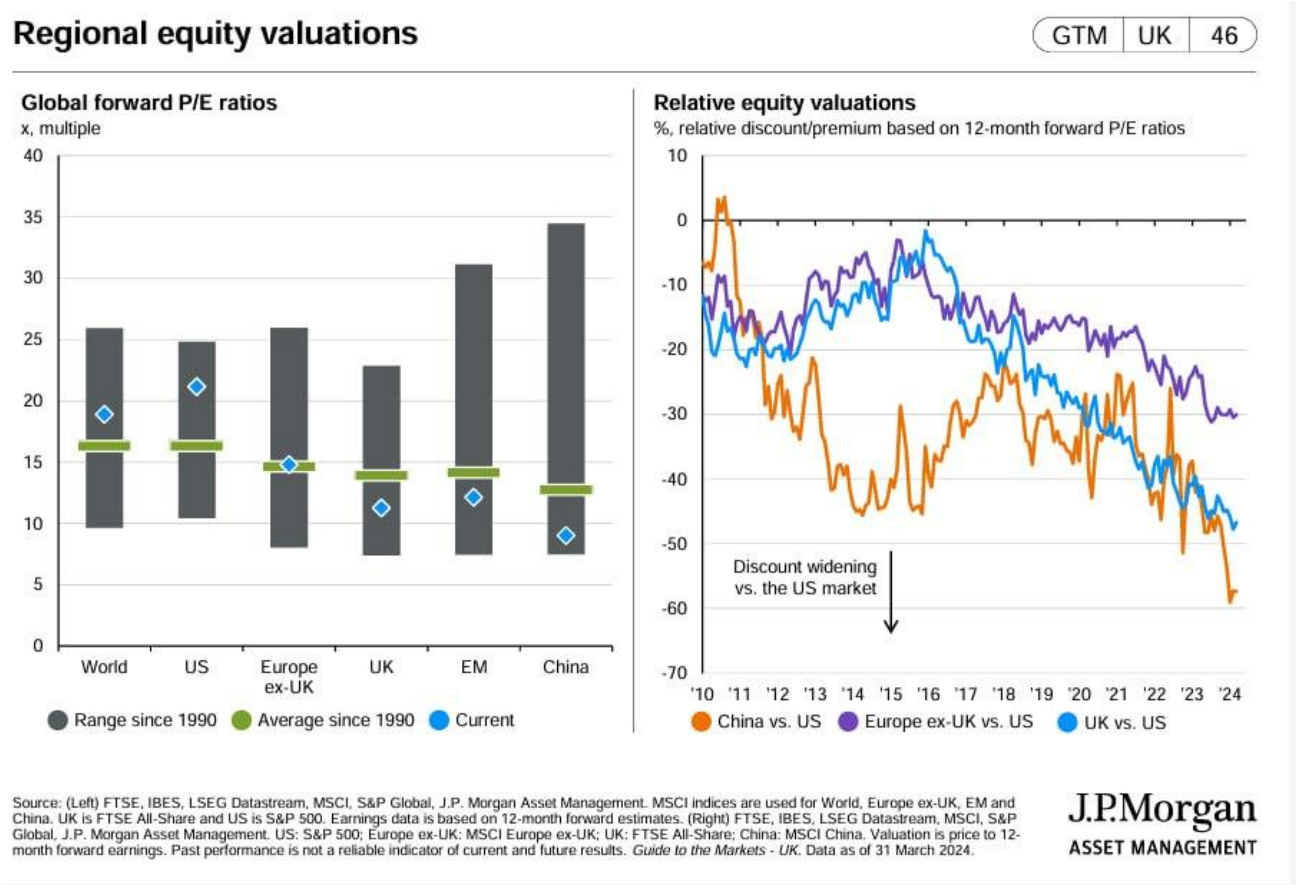
These visuals underscore the cyclical nature of markets, emphasizing the importance of long-term investment strategies and the resilience of markets over time. Investors should be aware of these historical trends to better navigate future market fluctuations and maintain a balanced perspective during periods of volatility.



The J.P. Morgan Asset Management charts offer a detailed examination of regional equity valuations, focusing on global forward P/E ratios and relative equity valuations. The left chart shows the current forward P/E ratios for different regions, compared to their historical averages since 1990.

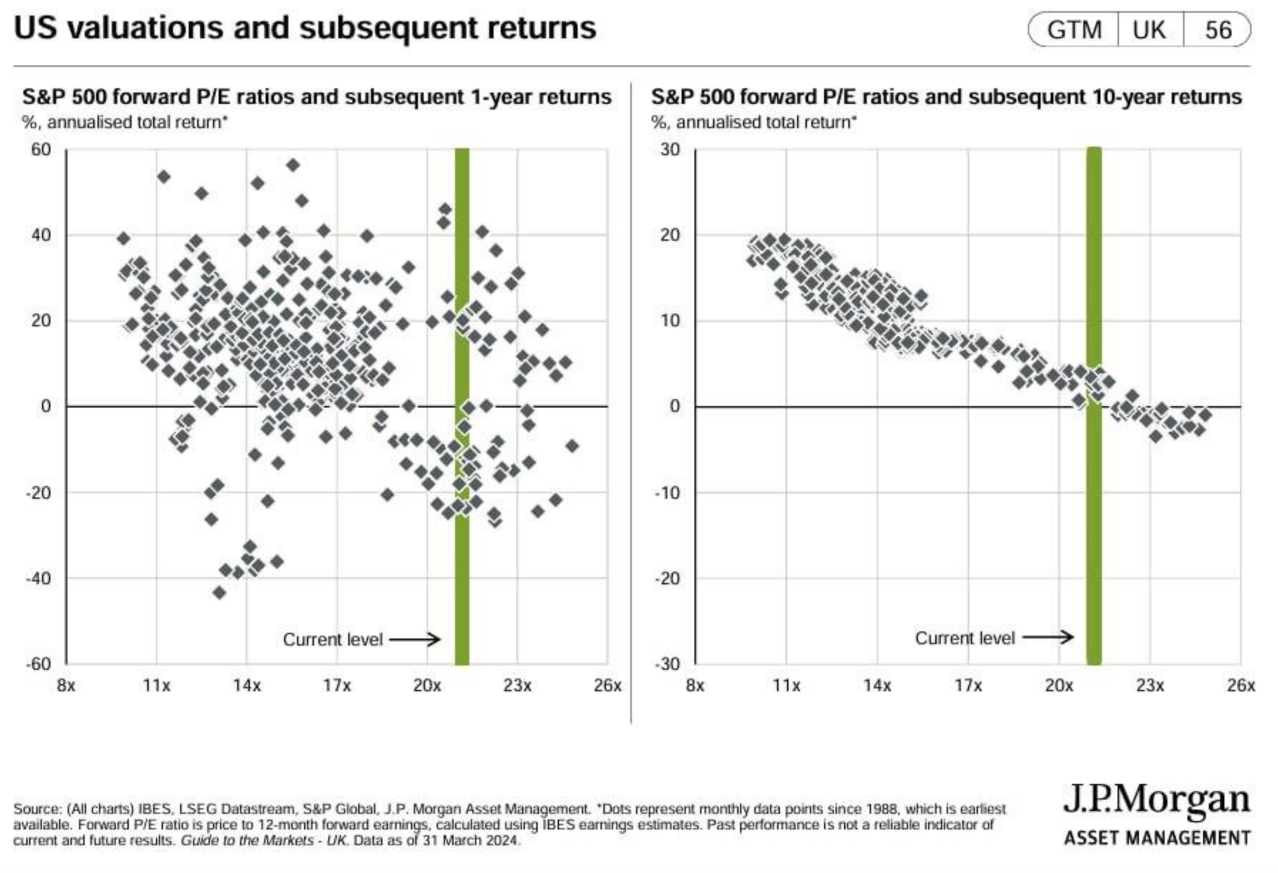
The US market stands out with a high current P/E ratio, significantly above its long-term average, indicating potential overvaluation. In contrast, regions like Emerging Markets (EM) and China show lower P/E ratios, suggesting relatively more attractive valuations. The right chart highlights the relative equity valuations, depicting the discount or premium of various regions against the US market over time.

Notably, the valuation discount for China, Europe ex-UK, and the UK relative to the US has widened substantially, particularly since 2020. This widening discount indicates that these regions are becoming increasingly undervalued compared to the US, potentially presenting attractive investment opportunities for value-focused investors. Understanding these regional valuation dynamics can help investors diversify their portfolios and capitalize on global market discrepancies.



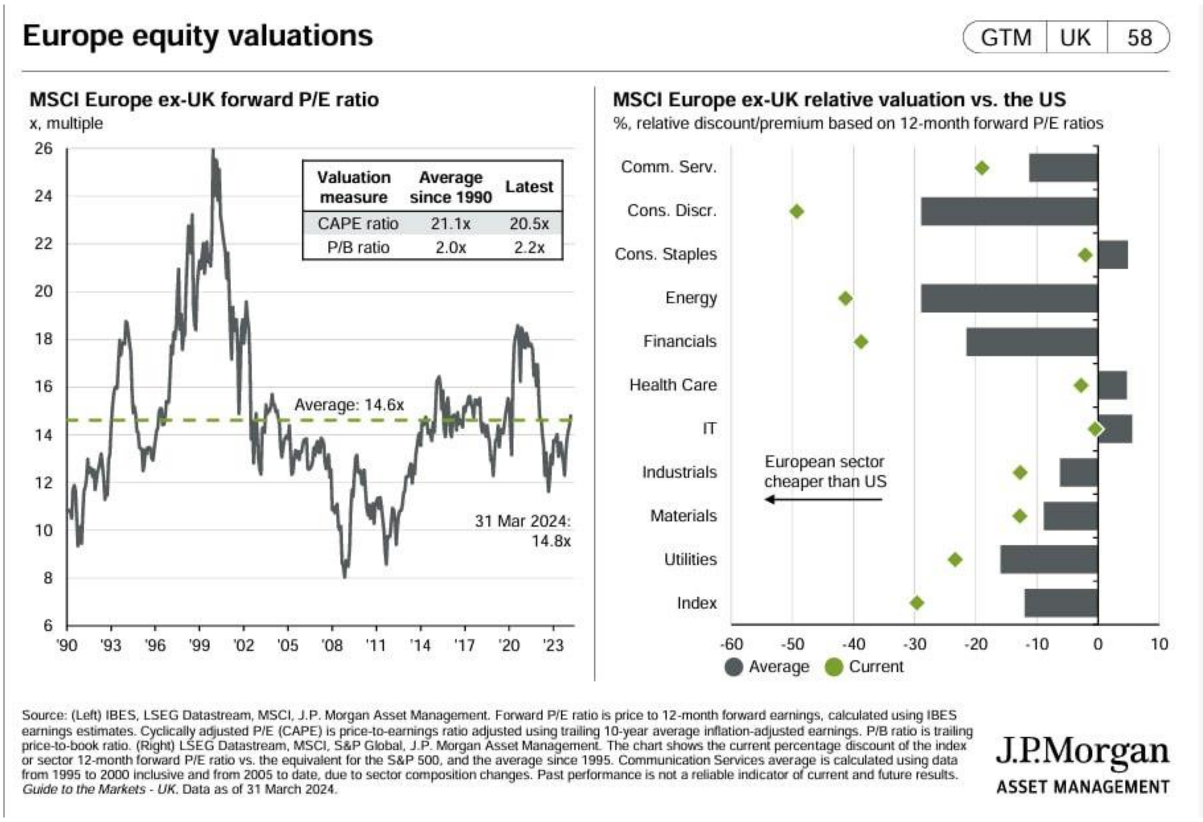
The charts from J.P. Morgan Asset Management illustrate the relationship between S&P 500 forward P/E ratios and subsequent returns over one-year and ten-year periods. The left chart shows that higher forward P/E ratios tend to correlate with lower one-year returns, with the current P/E ratio around 21x indicating a potential for modest or negative short-term returns. Conversely, the right chart reveals a clear trend where higher forward P/E ratios are associated with lower subsequent ten-year returns.

At the current level, historical data suggests that long-term returns might be subdued compared to periods with lower initial P/E ratios. These findings emphasize the importance of valuation in investment decisions, as starting at higher valuation levels can lead to lower future returns. Investors should consider these valuation metrics when planning their investment strategies, balancing their portfolios to manage potential risks associated with high market valuations.



The J.P. Morgan Asset Management charts highlight the current state of European equity valuations, excluding the UK. The left chart shows the MSCI Europe ex-UK forward P/E ratio, which as of March 31, 2024, stands at 14.8x, slightly above the historical average of 14.6x. This suggests that European equities are fairly valued in comparison to their long-term average. The CAPE ratio is also provided, at 20.5x, which is in line with its historical average of 21.1x.

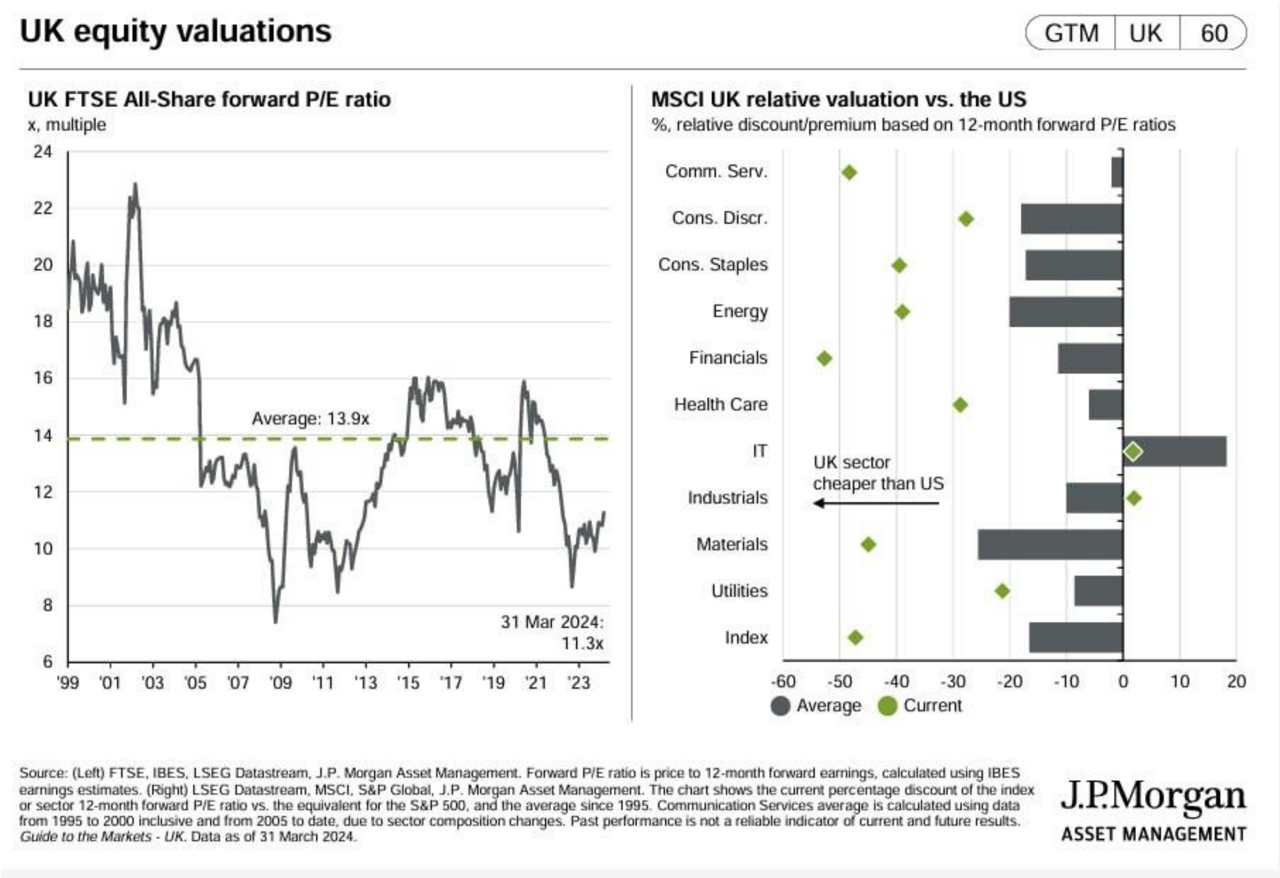
The right chart presents the relative valuation of European sectors compared to their US counterparts, indicating that most European sectors are trading at a discount. For instance, the consumer discretionary and financial sectors show significant discounts, suggesting potential value opportunities for investors. This relative undervaluation of European equities compared to the US market provides an attractive case for diversifying portfolios into European markets, especially for value-focused investors looking to capitalize on these discrepancies.



The latest analysis from J.P. Morgan Asset Management reveals key insights into UK equity valuations. The left chart displays the UK FTSE All-Share forward P/E ratio, which is currently at 11.3x as of March 31, 2024, significantly below its historical average of 13.9x. This suggests that UK equities are trading at a discount relative to their long-term valuation norms.

The right chart highlights the relative valuation of various UK sectors compared to their US counterparts, indicating that many UK sectors, including consumer staples, energy, financials, and materials, are cheaper than those in the US.

The IT sector is an exception, showing a slight premium. This broad undervaluation provides an appealing opportunity for investors to explore UK equities, potentially benefiting from these attractive valuations. The relative discount compared to the US market underscores the potential for value investors to find opportunities within the UK market.

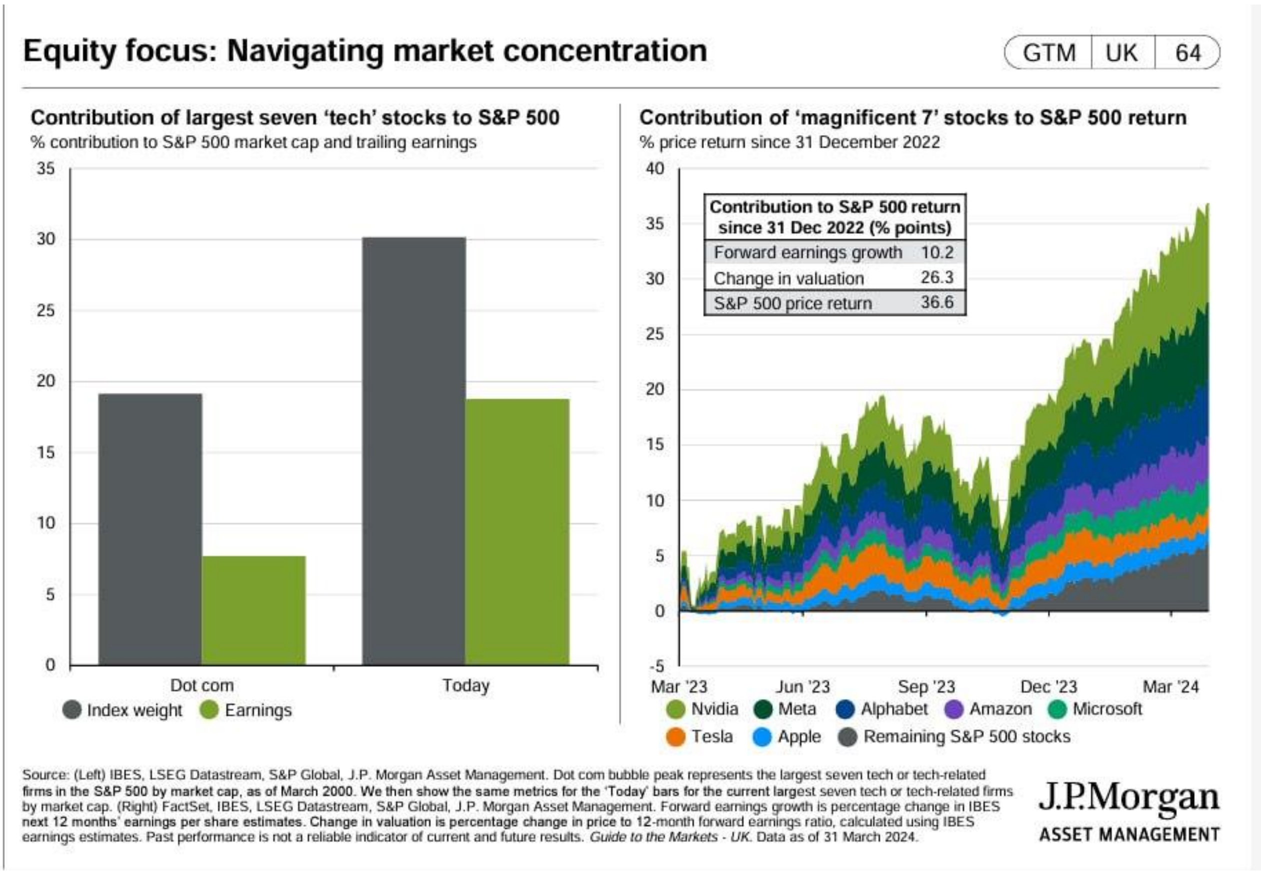


Too Much Tech?

The J.P. Morgan Asset Management charts offer an in-depth look at the concentration of the largest tech stocks within the S&P 500 and their significant contribution to the index's performance. The left chart compares the index weight and earnings contribution of the largest seven tech stocks during the dot-com bubble and today. Currently, these tech giants account for a much larger share of the S&P 500's market cap and earnings, highlighting their dominant influence.

The right chart illustrates the remarkable contribution of the "magnificent seven" stocks—Nvidia, Meta, Alphabet, Amazon, Microsoft, Tesla, and Apple—to the S&P 500's return since December 2022. These stocks alone have driven a 36.6% price return for the index, with forward earnings growth and changes in valuation significantly boosting their performance.

This concentration underscores the critical role these tech behemoths play in the overall market, suggesting that investors need to consider both the opportunities and risks associated with such a concentrated market landscape.

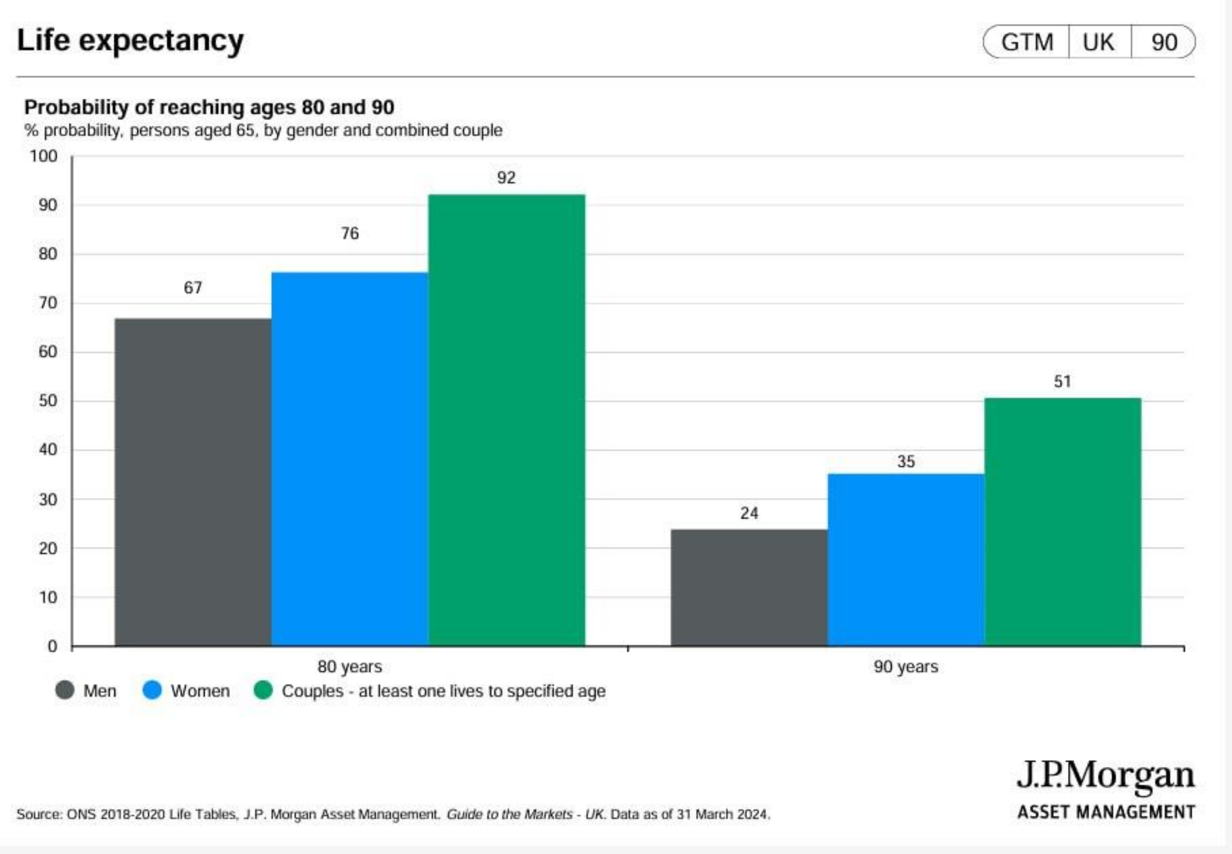


The J.P. Morgan Asset Management chart provides a colorful and detailed overview of world stock market returns across various indices from 2015 to the first quarter of 2024, along with their 10-year annualized returns. The data highlights the performance of major global indices, including the S&P 500, TOPIX (Japan), MSCI EM (Emerging Markets), and FTSE All-Share (UK). The S&P 500 consistently shows strong returns, with an impressive 33.6% in 2019 and a 10-year annualized return of 15.0%, underscoring its dominance. The MSCI Emerging Markets index displays significant volatility but also notable highs, such as a 35.9% return in 2017. European and Japanese markets demonstrate more modest and varied returns, with the Euro ex-UK index reaching 26.2% in 2016 and the TOPIX index peaking at 24.3% in 2021. The hypothetical portfolio, an illustrative mix of these indices, achieves a balanced 10-year annualized return of 8.9%. This diverse performance data underscores the importance of global diversification in investment portfolios, allowing investors to capture growth opportunities while managing risk across different markets.

Currency Risk? What Currency Risk of Owning US?

Plan Now

The chart from J.P. Morgan Asset Management presents the probability of individuals aged 65 reaching ages 80 and 90, segmented by gender and for couples. According to the data, 67% of men and 76% of women who are currently 65 years old are likely to reach the age of 80. When considering couples, where at least one partner reaches 80, this probability increases significantly to 92%. For those reaching the age of 90, the probabilities drop to 24% for men and 35% for women, while the likelihood for couples stands at 51%. These statistics underscore the importance of planning for a long retirement period. Given the high probabilities of living into the 80s and beyond, especially for couples, investors should consider strategies that ensure their savings last throughout their extended lifetimes, addressing both longevity risk and the need for sustained income.

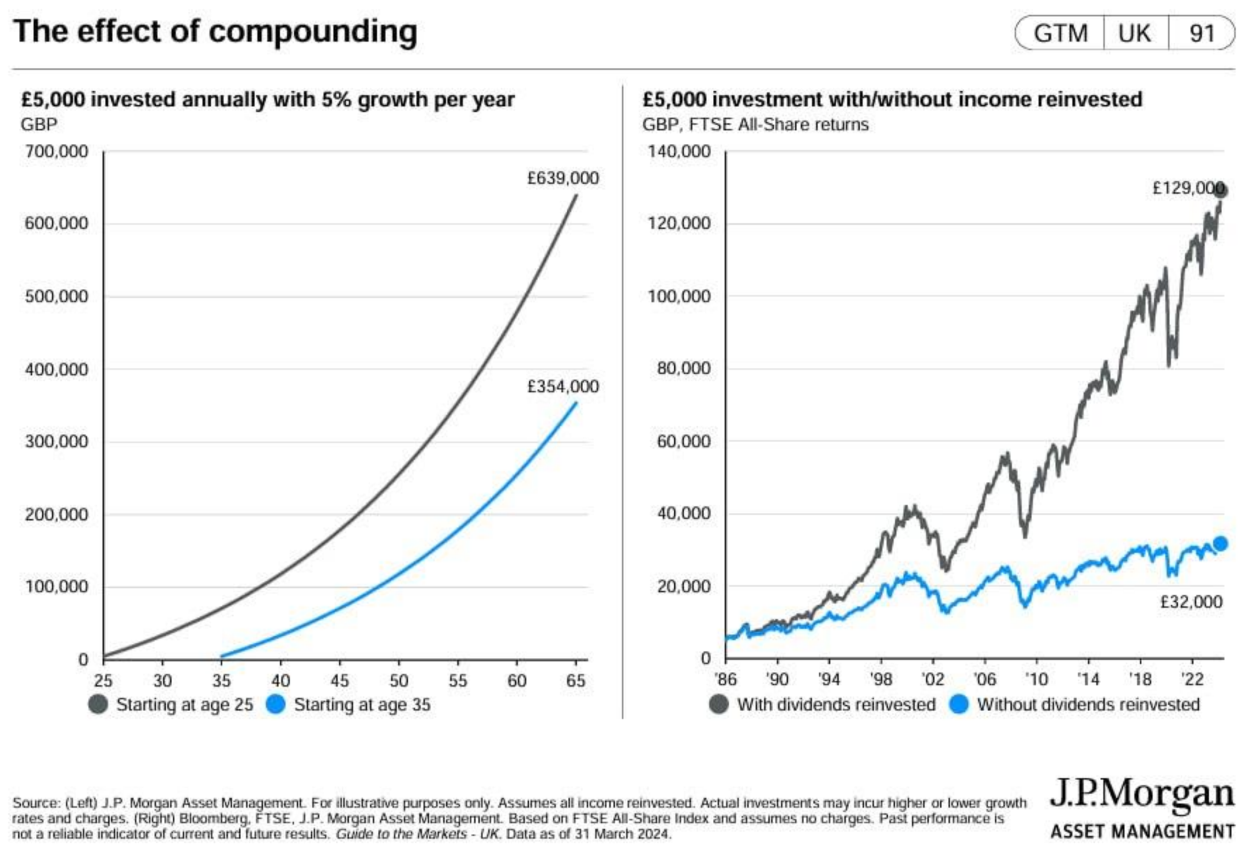


Life expectancy
GTM | UK | 90
Probability of reaching ages 80 and 90
% probability, persons aged 65, by gender and combined couple
100
90
80
70
60
50
40
30
20
10
0
67
76
92
24
35
51
80 years
90 years
Men
Women
Couples - at least one lives to specified age
J.P.Morgan
ASSET MANAGEMENT
Source: ONS 2018-2020 Life Tables, J.P. Morgan Asset Management. Guide to the Markets - UK. Data as of 31 March 2024.

The charts from J.P. Morgan Asset Management vividly demonstrate the profound impact of compounding on long-term investment growth. The left chart compares two scenarios: investing £5,000 annually starting at age 25 versus starting at age 35, both with a 5% annual growth rate.

By age 65, the earlier start results in £639,000 compared to £354,000 for the later start, highlighting the significant advantage of starting early. The right chart shows the effect of reinvesting income on a £5,000 investment in the FTSE All-Share Index. Over time, the investment with dividends reinvested grows to £129,000, vastly outperforming the £32,000 value of the investment without reinvestment.

hese charts underscore the critical importance of both starting investments early and reinvesting income to maximize returns through the power of compounding. Investors are encouraged to leverage these strategies to build substantial wealth over the long term.

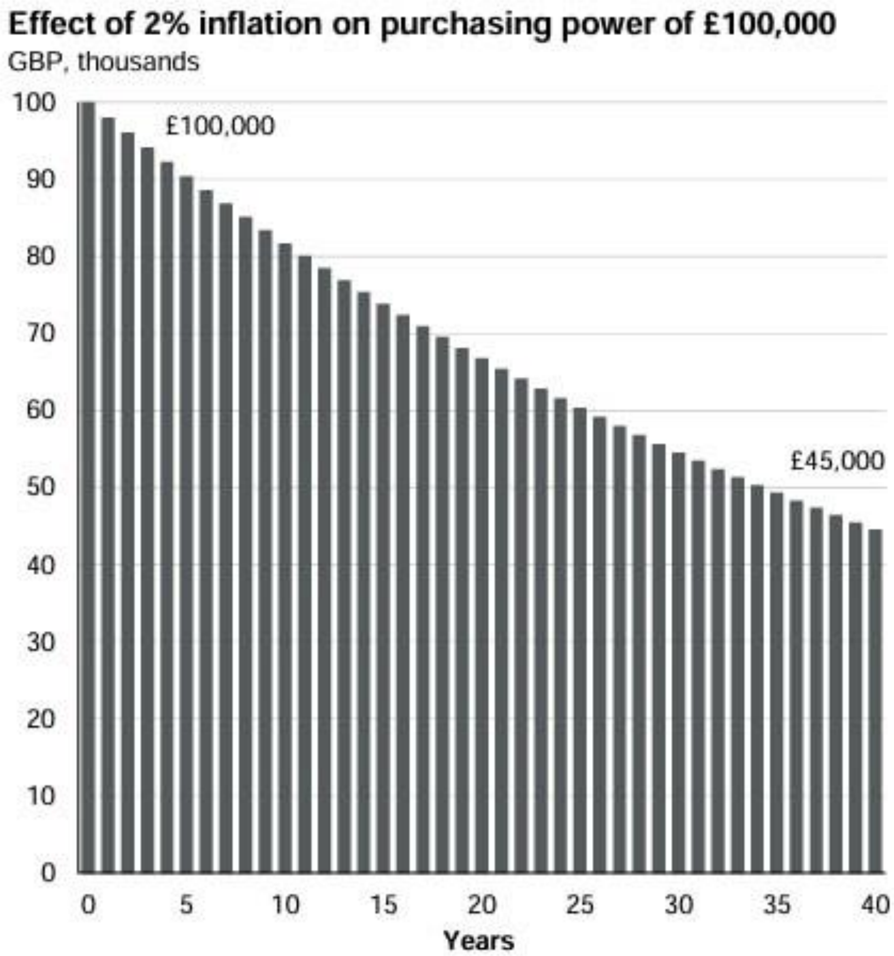


How Inflation Is Still A Major Problem

The chart from J.P. Morgan Asset Management illustrates the erosive effect of 2% annual inflation on the purchasing power of £100,000 over a period of 40 years. Starting at £100,000, the value steadily declines, demonstrating how inflation gradually diminishes purchasing power.

After 20 years, the £100,000 is effectively reduced to approximately £67,000 in today's terms, and by the end of 40 years, its value drops to around £45,000. This visual representation underscores the critical importance of incorporating inflation into long-term financial planning.

To preserve and grow wealth, it is essential for investors to seek returns that outpace inflation, ensuring that their savings and investments maintain their real value over time. This chart serves as a stark reminder to consider inflation-protected investments and strategies in retirement planning.



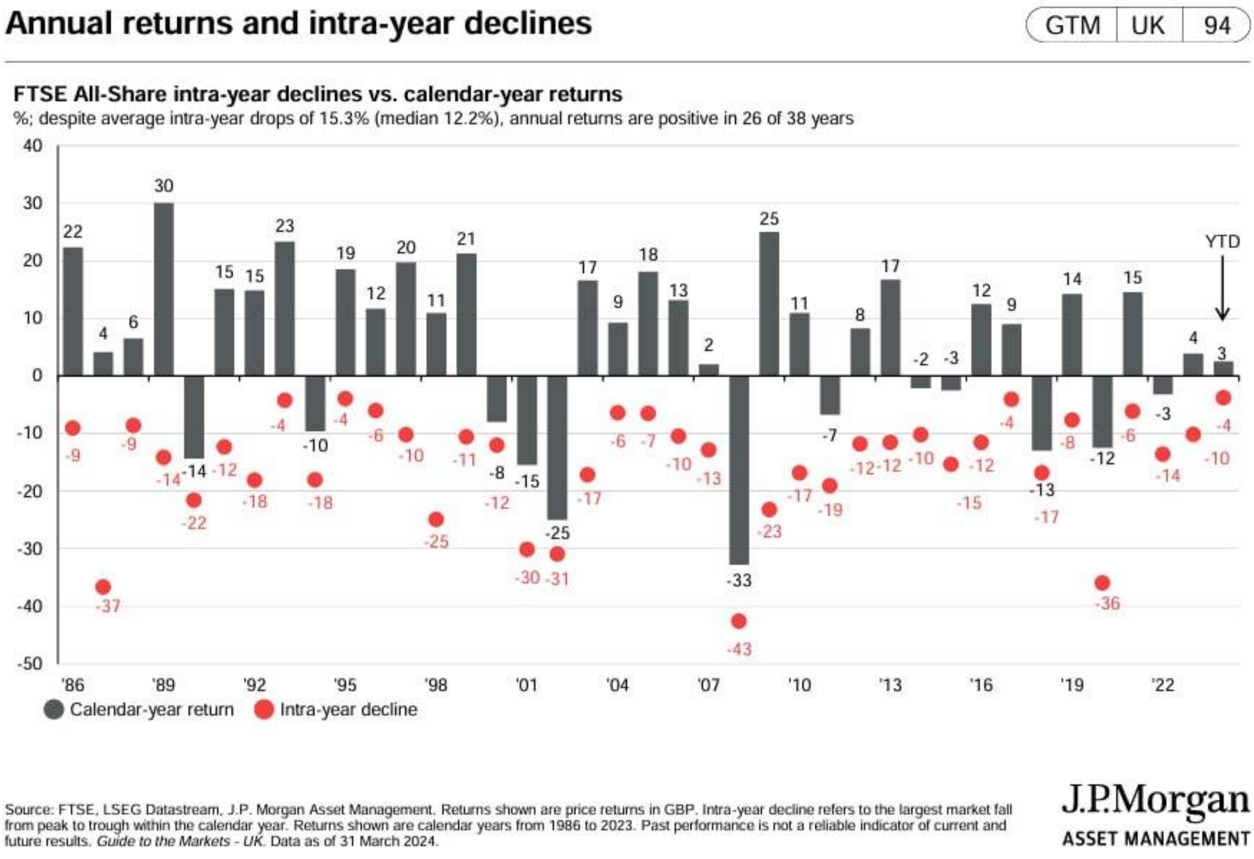
s over the course of the calendar year. (Right) J.P. Morgan
of 2%. Past performance is not a reliable indicator of current

J.P.Morgan
ASSET MANAGEMENT

The chart from J.P. Morgan Asset Management provides an insightful look into the annual returns and intra-year declines of the FTSE All-Share Index from 1986 to 2023. It reveals that despite average intra-year declines of 15.3%, represented by the red dots, annual returns, shown as gray bars, have been positive in 26 out of 38 years.

This data highlights the volatility within each year, with significant drops such as -37% in 1987 and -43% in 2008. However, the resilience of the market is evident, with many years ending positively despite these intra-year downturns. For instance, in 2009, despite a 30% intra-year drop, the year closed with a 25% gain.

This pattern emphasizes the importance of maintaining a long-term perspective and not reacting impulsively to short-term market fluctuations. Investors are reminded that enduring intra-year volatility can still lead to favourable annual returns, underscoring the benefits of staying invested through market cycles.

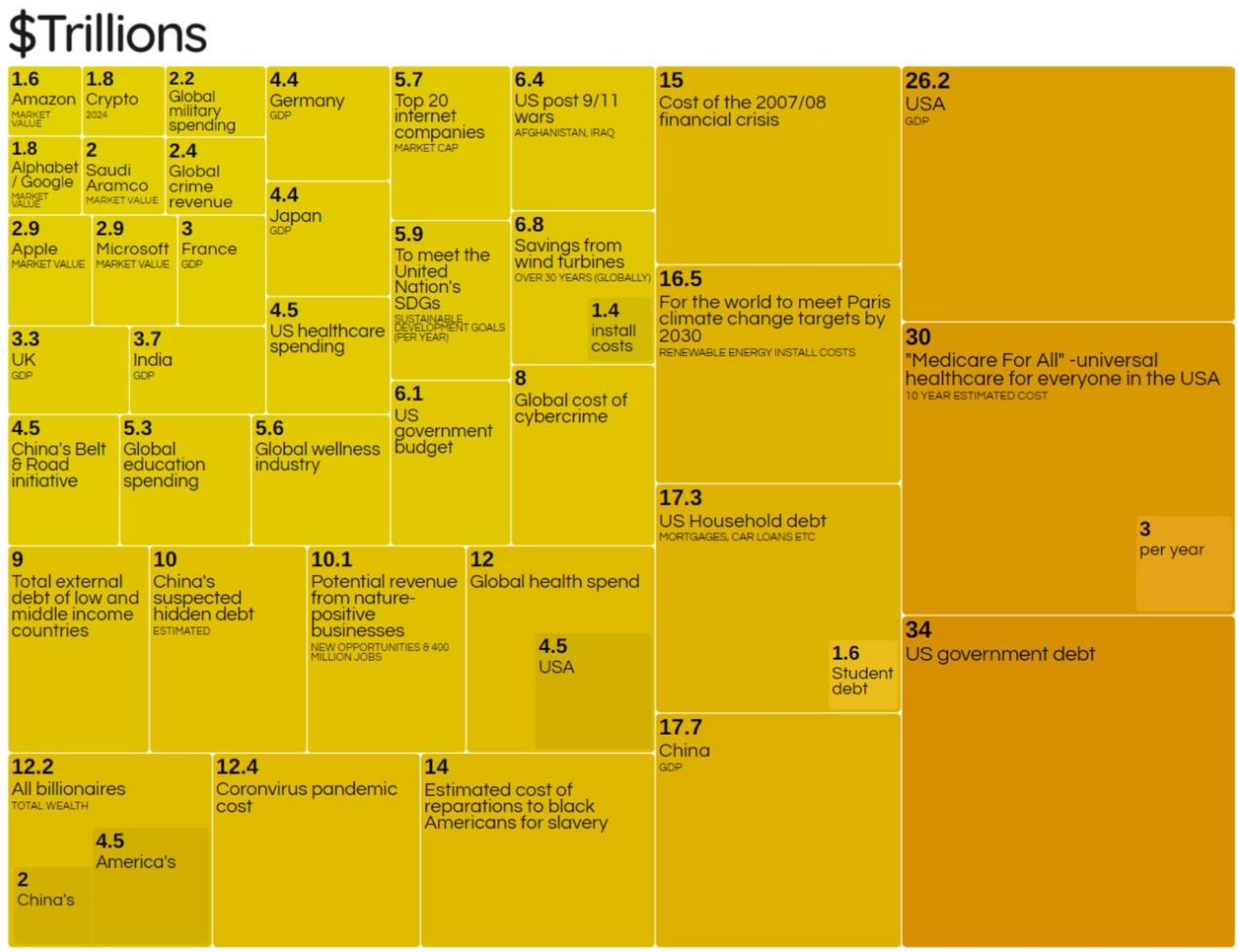


Just For Context

The image presents a comparative visualization of various global financial metrics, illustrating their scale in trillions of dollars.

Key figures include the USA's GDP at $26.2 trillion and the estimated $34 trillion US government debt, highlighting significant economic burdens. The cost of universal healthcare in the USA, termed "Medicare For All," is estimated at $30 trillion over ten years, underscoring substantial healthcare reform debates. Other notable values are the $16.5 trillion needed to meet Paris climate targets by 2030 and the $26.2 trillion impact of the 2007/08 financial crisis.

Additionally, it shows corporate market values, such as Amazon ($1.6 trillion) and Alphabet/Google ($1.8 trillion), reflecting their economic influence. This chart offers a broad perspective on financial priorities and challenges, from government spending to global economic initiatives.

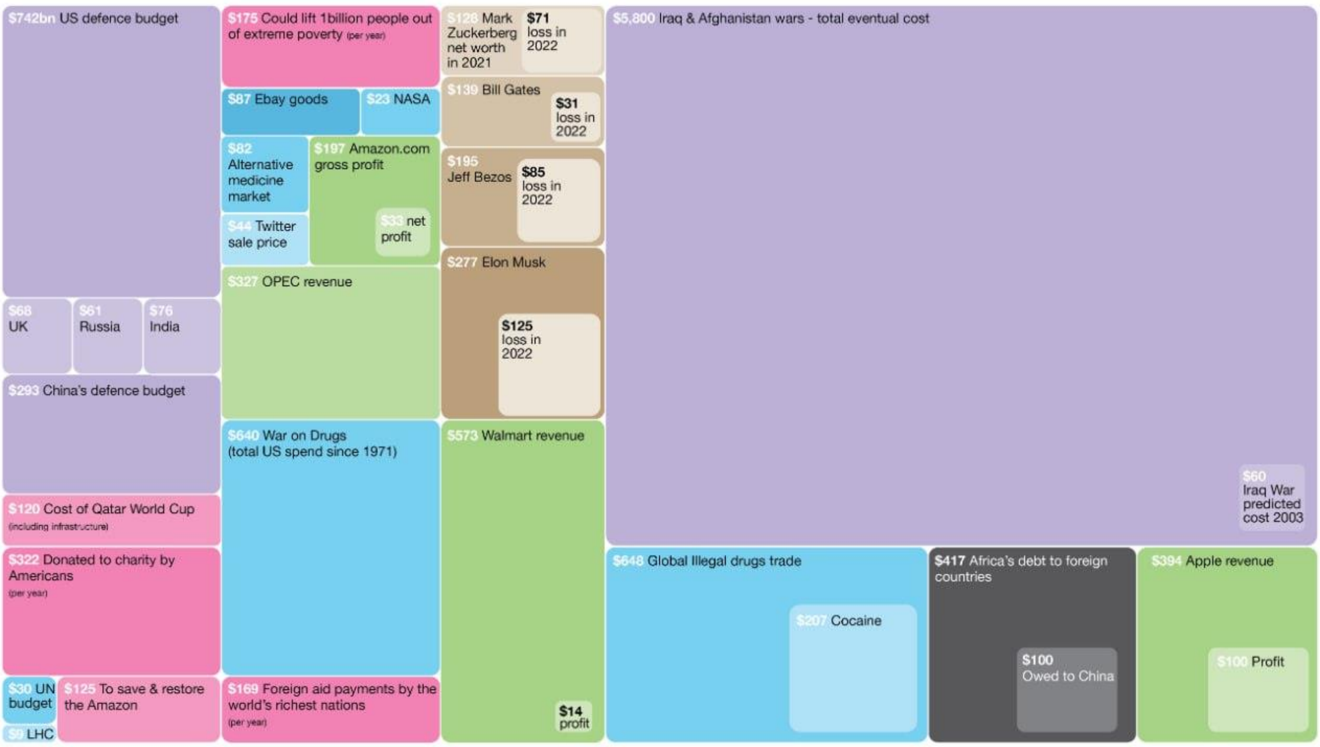


And More Context - Shocking

The image provides a visual comparison of various significant global financial figures, measured in billions of dollars. Notably, the total eventual cost of the Iraq and Afghanistan wars stands at $5,800 billion, dwarfing other expenditures.

The US defense budget is significant at $742 billion, and China's defense budget follows at $293 billion. In the corporate sector, Walmart's revenue reaches $573 billion, and Amazon's gross profit is $197 billion, with a net profit of $33 billion. The image also highlights societal expenditures, such as the $640 billion spent by the US on the War on Drugs since 1971 and the $322 billion donated annually by Americans to charity.

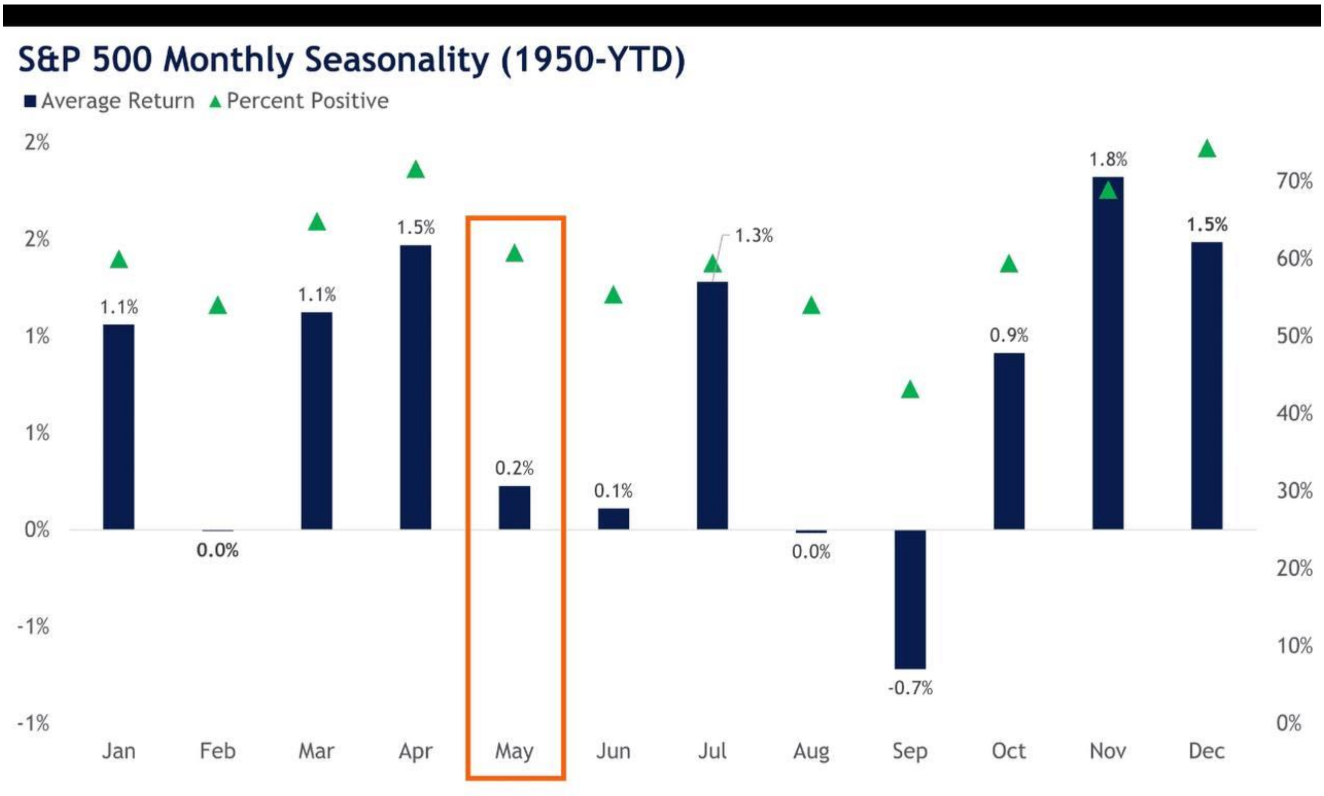
Other interesting figures include the cost to lift one billion people out of extreme poverty at $175 billion per year and the global illegal drug trade's value at $648 billion. This visual emphasizes the vast scale of military, corporate, and social financial metrics, offering a broad perspective on global economic priorities and challenges.



Buy In July and Don't Go Awry?

The image illustrates the monthly seasonality of the S&P 500 from 1950 to the present, highlighting average returns and the percentage of positive returns for each month. Notably, April and November stand out with the highest average returns of 1.5% and 1.8%, respectively, and a high percentage of positive returns, making them favorable months for investors.

Conversely, September shows a negative average return of -0.7%, indicating a historically challenging month for the index. The month of May, highlighted with an orange box, has an average return of 0.2% with a relatively high percentage of positive returns, suggesting mixed but generally stable performance. Understanding these seasonal trends can aid investors in making more informed decisions based on historical market behavior.



Mind-Blowing

The given image features Jim Simons, the renowned billionaire investor and founder of Renaissance Technologies, during a CNBC interview in 2016. Simons, known for his pioneering work in quantitative trading, emphasizes his reliance on computer algorithms over personal stock opinions, stating, "I have no opinion on any stocks... The computer has its opinions and we slavishly follow them."

His Medallion Fund, celebrated for its exceptional performance, generated over $100 billion in trading profits between 1988 and 2018, achieving an annualized return of 39% after fees.

Closed to new investors since 1993, the fund allowed employee investment starting in 2005, underscoring the firm's confidence in its quantitative approach. This image and accompanying insight highlight the transformative impact of quantitative strategies in modern finance.

"I have no opinion on any stocks. ... The computer has its opinions and we slavishly follow them," Simons said in a CNBC interview in 2016.

His Medallion Fund earned more than $100 billion in trading profits between 1988 and 2018, with an annualized return of 39% after fees. The fund was closed to new money in 1993, and Simons allowed his employees to invest in it starting only in 2005.

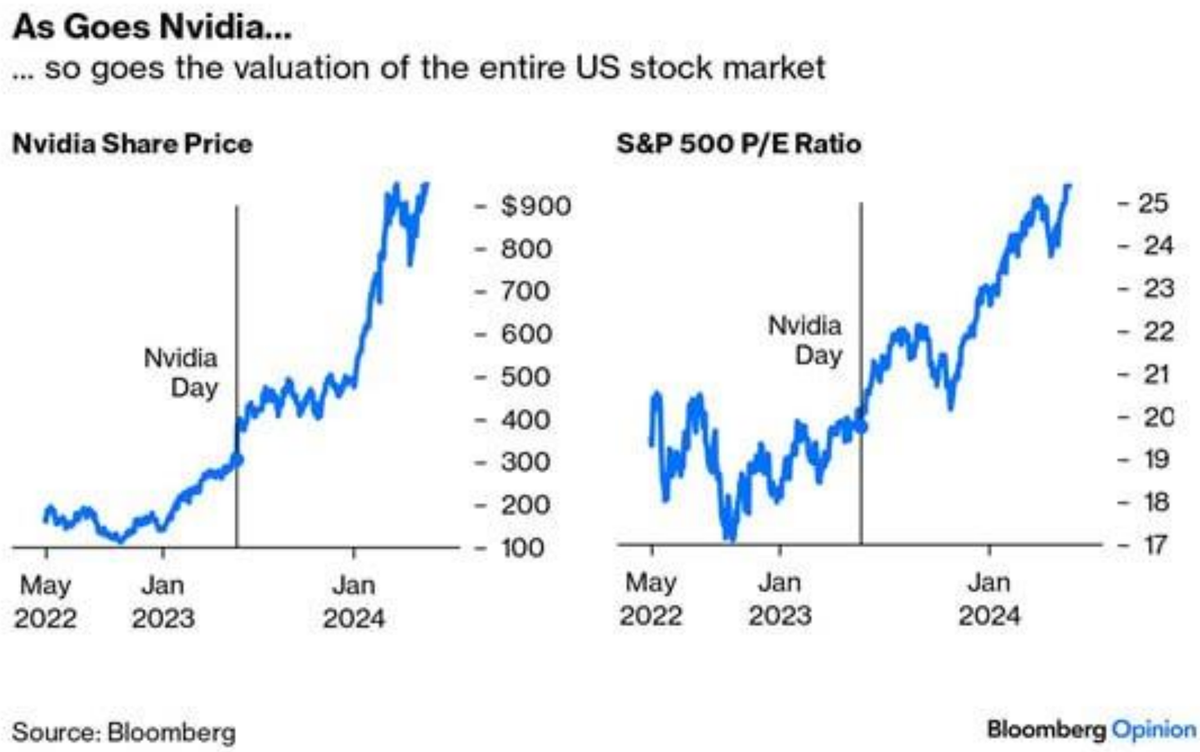
RIP Jim.

The chart displays the total net short interest percentages for companies in the FTSE 100, highlighting the top ten most shorted stocks. Ocado tops the list with the highest short interest, followed by Kingfisher, Burberry Group, and J Sainsbury. BT Group is notably the sixth most shorted company, indicating significant bearish sentiment among investors. Other companies in the top ten include Rightmove, Barratt Developments, Melrose Industries, St James's Place, and B&M European Value Retail. The data, sourced from disclosures published by the Financial Conduct Authority, provides valuable insights into market skepticism towards these companies, which can influence investment strategies and risk assessments. For investors, understanding short interest trends can be crucial for identifying potential market movements and sentiment shifts.

The image provides an updated overview of Berkshire Hathaway's top holdings as of March 31, 2024. Apple (AAPL) remains the largest position, comprising 41.0% of the portfolio with 789.368 million shares, despite a reduction of 116.191 million shares. Bank of America (BAC) and American Express (AXP) follow, representing 12.0% and 10.0% of the portfolio, respectively, with no change in share count. Coca-Cola (KO) and Chevron (CVX) also hold significant positions, though Chevron saw a reduction of 3.113 million shares. Notably, Occidental Petroleum (OXY) and Chubb Limited (CB) saw increases of 23.889 million and 25.924 million shares, respectively, indicating increased confidence in these companies. The list also includes diverse sectors such as financial services, consumer goods, and technology, with companies like Visa (V), Mastercard (MA), and Amazon (AMZN) maintaining stable positions. This snapshot reflects Berkshire Hathaway's strategic adjustments and core investment principles, providing insight into the conglomerate's market positioning and investment strategies.

	BERKSHIRE HATHAWAY'S TOP HOLDINGS					
	As of March 31, 2024					
	Stock	Ticker	Position value (USD BLN)	% of portfolio	Current N. Shares	Change from Q4 2023 (N. shares)
1	APPLE	AAPL	135,36	41,0%	789.368.450	(116.191.550)
2	BANK OF AMERICA	BAC	39,17	12,0%	1.032.852.006	No Change
3	AMERICAN EXPRESS	AXP	34,52	10,0%	151.610.700	No Change
4	COCA COLA	KO	24,47	7,4%	400.000.000	No Change
5	CHEVRON	CVX	19,40	5,8%	122.980.207	(3.113.119)
6	OCCIDENTAL PETROLEUM	OXY	16,12	4,9%	248.018.128	23.888.936
7	KRAFT HEINZ	KHC	12,02	3,6%	325.634.818	No Change
8	MOODYS CORP	MCO	9,70	2,9%	24.669.778	No Change
9	CHUBB LIMITED	CB	6,72	2,0%	25.923.840	25.923.840
10	DAVITA INC.	DVA	4,98	1,5%	36.095.570	No Change
11	CITIGROUP	C	3,49	1,1%	55.244.797	No Change
12	KROGER	KR	2,86	0,9%	50.000.000	No Change
13	VERISIGN	VRSN	2,43	0,7%	12.815.613	No Change
14	VISA	V	2,32	0,7%	8.297.460	No Change
15	LIBERTY MEDIA	LSXMK	1,95	0,6%	65.486.288	22.277.997
16	MASTERCARD	MA	1,92	0,6%	3.986.648	No Change
17	CAPITAL ONE FINL CORP	COF	1,86	0,6%	12.471.030	No Change
18	AMAZON	AMZN	1,80	0,5%	10.000.000	No Change
19	AON PLC	AON	1,37	0,4%	4.100.000	No Change
20	NU HOLDINGS	NU	1,28	0,4%	107.118.784	No Change

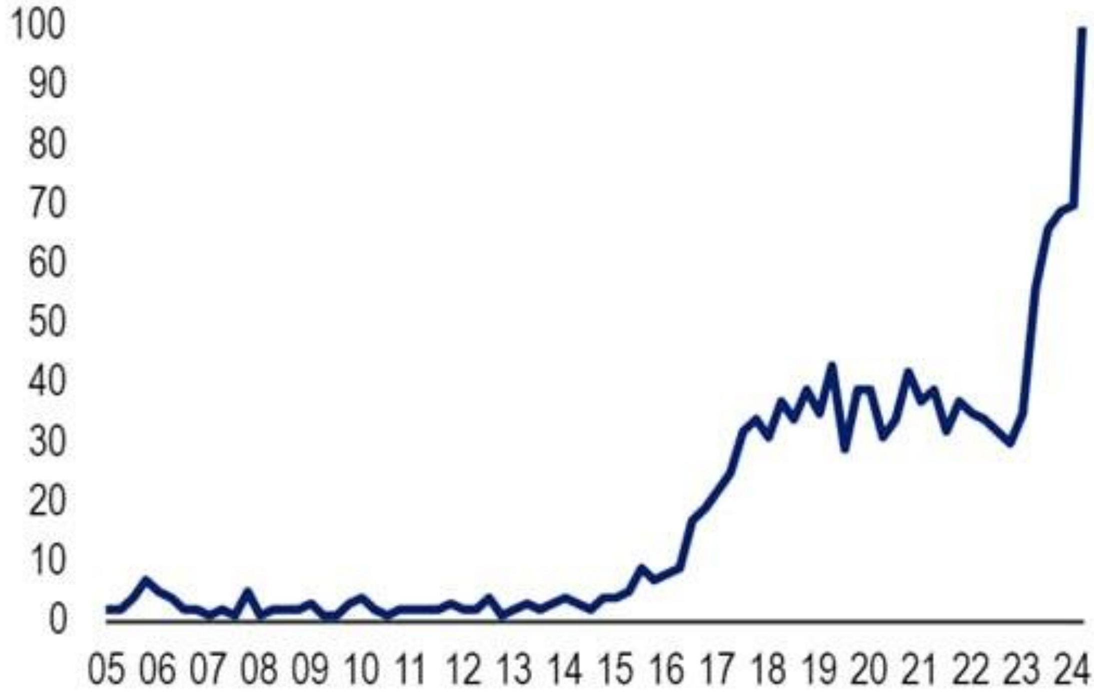
The image compares the trajectory of Nvidia's share price with the S&P 500 P/E ratio from May 2022 to early 2024, underscoring the significant influence Nvidia has on the broader US stock market valuation. Nvidia's share price shows a dramatic rise, especially marked after an event referred to as "Nvidia Day," indicating a pivotal moment or announcement that catalyzed this upward momentum. Correspondingly, the S&P 500 P/E ratio also displays an upward trend, closely mirroring Nvidia's performance. This parallel suggests that Nvidia's growth and market sentiment are critical drivers of the overall market valuation. For investors, this highlights the importance of monitoring key tech stocks like Nvidia, as their performance can have widespread implications for market dynamics and investment strategies.



The chart illustrates the dramatic increase in mentions of artificial intelligence (AI) during S&P 500 earnings calls, showing a 186% rise since the first quarter of 2023. This surge, reaching a peak in mid-2024, reflects the growing significance of AI across industries and its impact on corporate strategies and market discussions. The trend highlights how companies are increasingly integrating AI technologies into their operations, underscoring the critical role AI plays in driving innovation, efficiency, and competitive advantage. For investors, this surge in AI mentions signals the importance of considering AI advancements when evaluating potential investments, as companies leveraging AI may offer substantial growth opportunities in the evolving technological landscape.

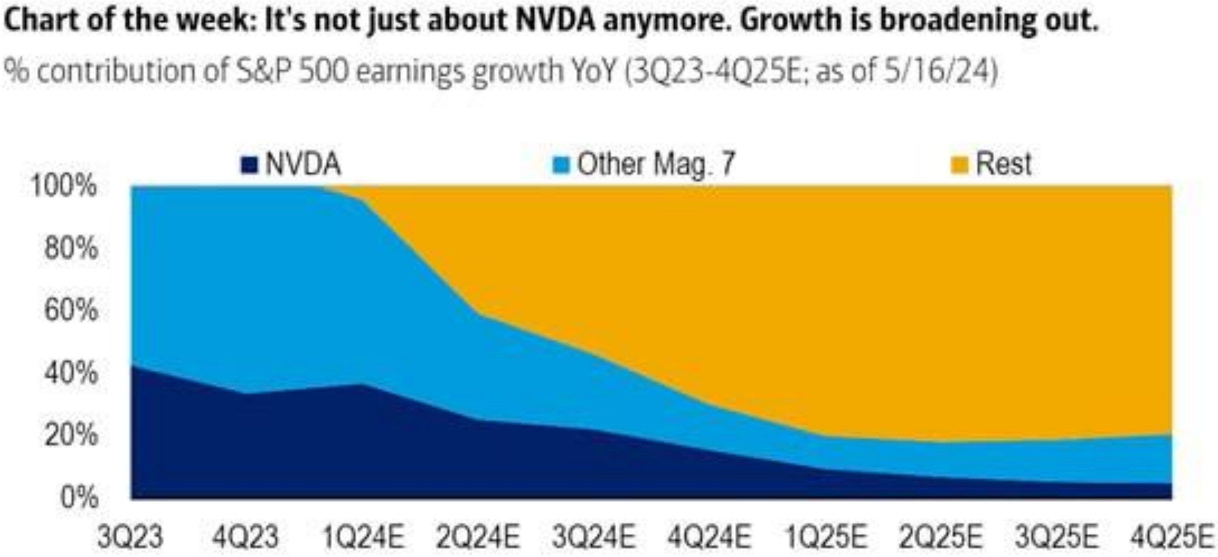
Exhibit 2: Mentions of AI soared 186% since 1Q23

Mentions of AI during S&P 500 earnings calls (100=max, 205-5/16/24)



Source: BofA US Equity & Quant Strategy, Alphasense

The chart titled "It's not just about NVDA anymore. Growth is broadening out" illustrates the changing contribution of Nvidia (NVDA) and other major companies to the S&P 500 earnings growth from the third quarter of 2023 through the fourth quarter of 2025. Initially, Nvidia plays a significant role, contributing a large portion to the earnings growth. However, as time progresses, the contribution from Nvidia diminishes, and the growth broadens to include other major companies (labeled as "Other Mag. 7") and the rest of the S&P 500 constituents. By the end of the forecast period (4Q25E), the majority of the growth comes from a more diversified set of companies, indicating a healthier, more balanced growth across the market. This diversification is positive for investors as it reduces reliance on a single company or sector, enhancing overall market stability and offering broader investment opportunities.



Source: BofA Global Research, FactSet

The headline from the Financial Times reports that Nick Train, a prominent UK fund manager, has issued an apology for the poor performance of his investments. Train attributes the underperformance to a lack of exposure to both technology and fossil fuel stocks, sectors that have significantly outperformed others in recent periods. Additionally, he cites a broader "malaise" in the UK market as a contributing factor. This candid acknowledgment highlights the challenges faced by fund managers in navigating market dynamics and sector rotations. For investors, this serves as a reminder of the importance of diversified portfolios and staying attuned to evolving market trends to mitigate the impact of sector-specific downturns. Train's apology underscores the accountability expected from financial leaders and the impact of strategic decisions on investment outcomes.

FINANCIAL TIMES

UK COMPANIES TECH MARKETS CLIMATE OPINION LEX WORK & CAREERS LIFE & ARTS HTSI

Fund management + Add to myFT

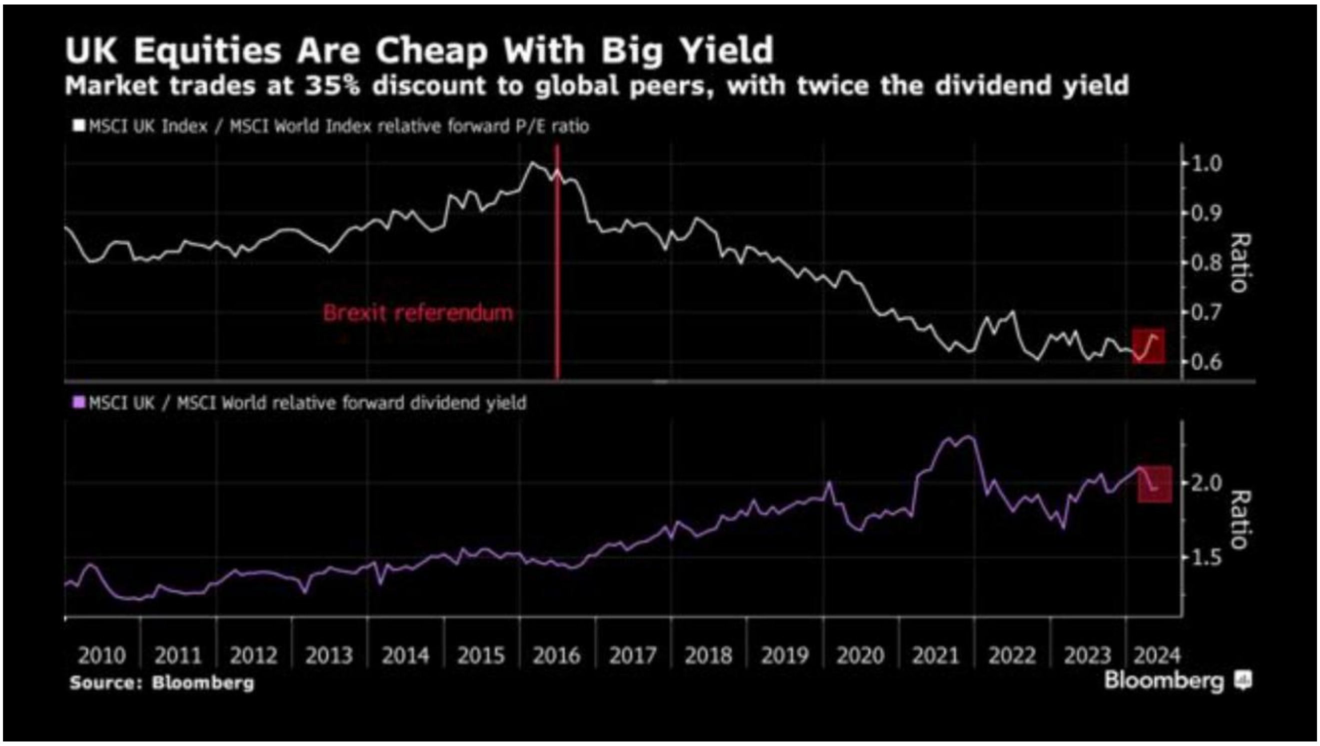
Nick Train apologises for poor investment performance

UK fund manager blames lack of exposure to tech and fossil fuel stocks as well as broader 'malaise' in UK market

Time For UK To Shine? (For Once)

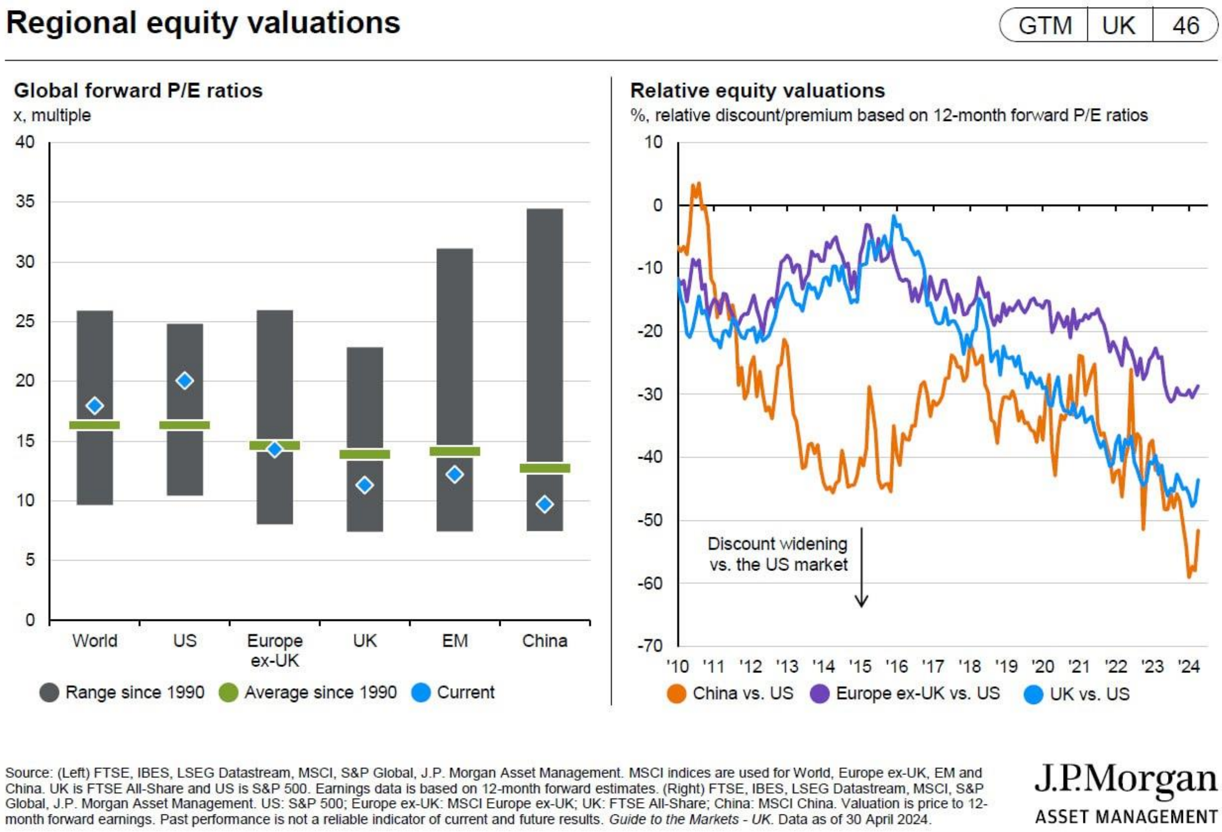
The chart from Bloomberg illustrates that UK equities are currently trading at a significant discount relative to their global peers, offering an attractive opportunity for investors seeking high yields.

The top graph shows the MSCI UK Index's forward P/E ratio compared to the MSCI World Index, which has been on a declining trend since the Brexit referendum in 2016, now sitting at a 35% discount. The bottom graph highlights the relative forward dividend yield of the MSCI UK Index, which has consistently been higher than the global average and currently stands at twice the yield offered by global peers. This disparity suggests that UK stocks are undervalued, providing higher income potential for investors willing to navigate the current market uncertainties. For those seeking income-generating investments, UK equities present a compelling case for consideration, leveraging their higher yields amidst lower valuations.



The chart from J.P. Morgan Asset Management provides an insightful analysis of regional equity valuations based on global forward P/E (price-to-earnings) ratios and relative equity valuations. The left side of the chart shows the current P/E ratios compared to their historical range and average since 1990 across different regions: World, US, Europe, UK, Emerging Markets (EM), and China. Notably, the US has a P/E ratio slightly above its historical average, while Europe, the UK, and Emerging Markets show lower P/E ratios, indicating potential undervaluation. China stands out with a significantly higher current P/E ratio compared to its historical average.

The right side of the chart illustrates the relative equity valuations, showing the discount or premium of Europe ex-UK, the UK, and China compared to the US market over time. The data reveals a widening discount for these regions relative to the US, with China and Europe ex-UK at approximately a 50% discount, and the UK also showing a substantial discount. This trend suggests that non-US markets might offer attractive investment opportunities due to their relative undervaluation. For investors, this highlights the potential benefits of diversifying portfolios internationally, especially into regions currently trading at significant discounts compared to the US market.



The chart from J.P. Morgan Asset Management examines key equity market factors, highlighting the performance of high-quality stocks and the valuation differences between growth and value stocks. The left panel tracks the relative performance of the S&P 500 Quality index against the S&P 500, revealing a notable spike during the recession around 2008, followed by a sustained upward trend. This suggests that high-quality stocks tend to outperform during economic downturns and periods of uncertainty. The right panel compares the forward P/E ratios of MSCI World Growth and Value indices, showing a significant divergence since 2017. Growth stocks (in black) experienced a steep rise in valuations, peaking around 2021, while value stocks (in green) have remained relatively stable. Recently, growth stock valuations have corrected, yet they still maintain a premium over value stocks.

For investors, this analysis underscores the importance of considering quality and growth versus value dynamics when constructing portfolios, especially in the context of economic cycles and market volatility. High-quality stocks provide resilience, while the valuation gap between growth and value stocks offers opportunities for strategic allocation.

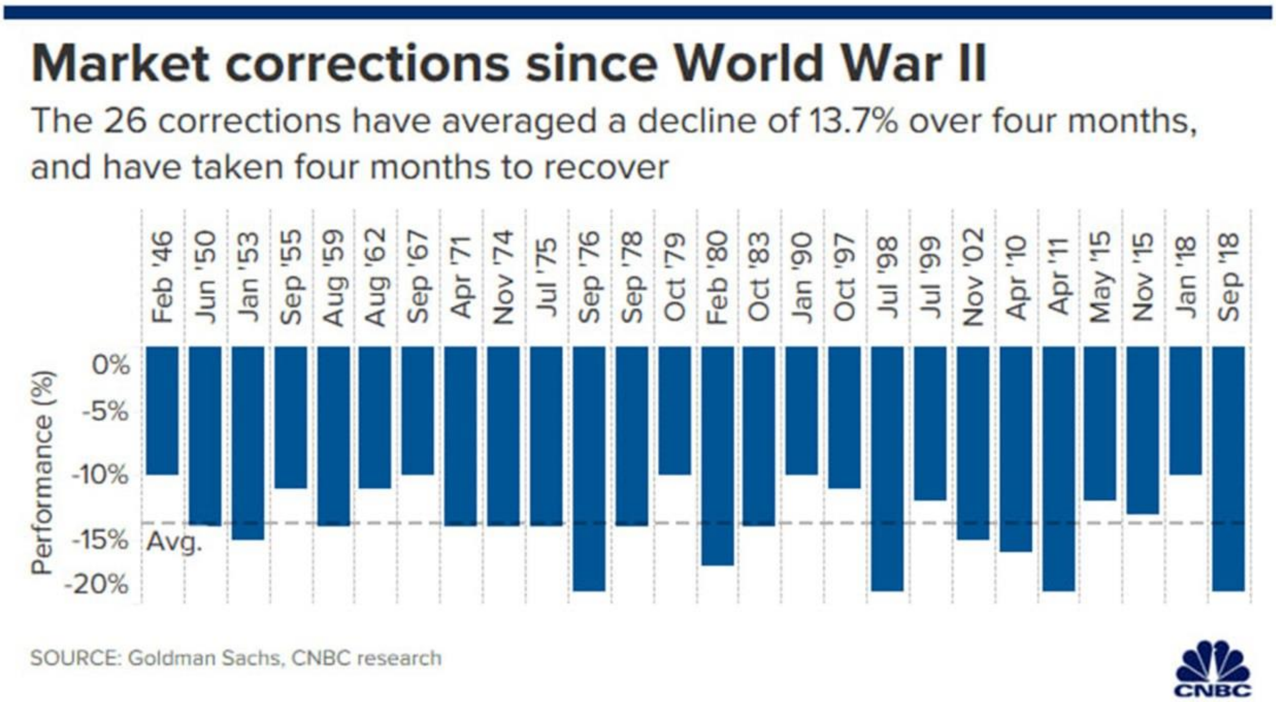
Equity market factors

GTM | UK | 51

Source: (Left) J.P. Morgan Asset Management Quantitative Beta Solutions, S&P Global, J.P. Morgan Asset Management. S&P 500 Quality index is the top quartile quality stocks in the S&P 500 determined by J.P. Morgan Asset Management Quantitative Beta Strategies based on measures of profitability, financial risk and earnings quality. Periods of recession are defined using US National Bureau of Economic Research (NBER) business cycle dates. (Right) LSEG Datastream, MSCI, J.P. Morgan Asset Management. Forward P/E ratio is price to 12-month forward earnings, as published by MSCI. Past performance is not a reliable indicator of current and future results. *Guide to the Markets - UK*. Data as of 30 April 2024.

J.P.Morgan
ASSET MANAGEMENT

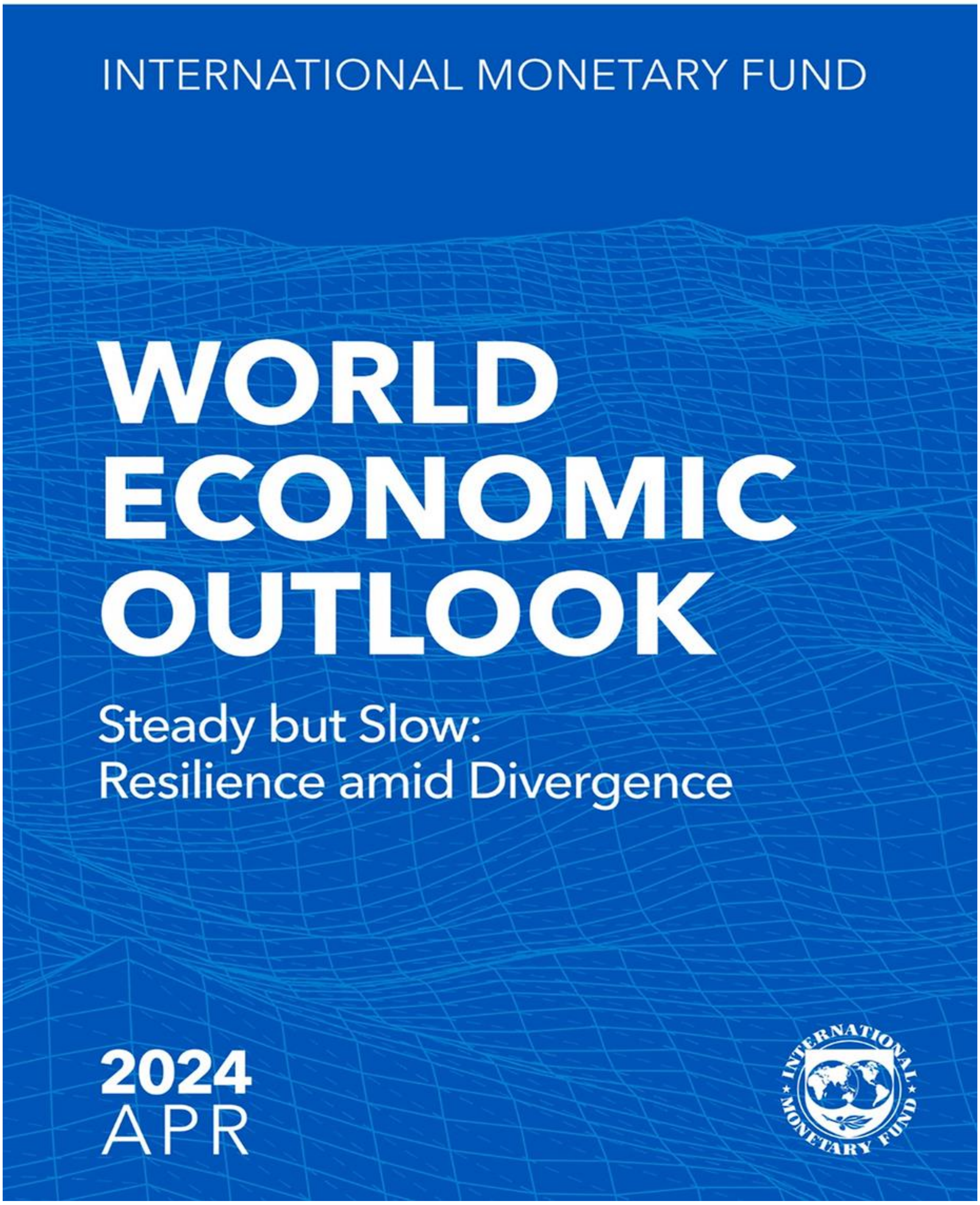
The chart from CNBC, based on Goldman Sachs research, illustrates the 26 market corrections since World War II, defined as declines of at least 10% from recent highs. The average correction over this period is a decline of 13.7% over four months, with an average recovery time of four months. The chart highlights significant market downturns, including those in Feb 46, Jan 53, Sep 55, Aug 62, Nov 74, and more recent corrections in May 15, Jan 18, and Sep 18. This historical perspective emphasizes the cyclical nature of markets and the resilience of equities over time. For investors, understanding these patterns can provide reassurance during periods of market volatility and underscore the importance of maintaining a long-term investment strategy. Recognizing that corrections are a normal part of market behavior can help investors stay the course and avoid reactive decisions that may undermine long-term financial goals.



The chart illustrates the significant rebound of the S&P 500 index from its 52-week low on October 27, 2023. By the end of May 2024, the index surged by 28%, highlighting a strong recovery period. This impressive gain underscores the resilience of the market and the potential for robust returns following periods of downturn. Investors who stayed the course during the market's low point in October have been rewarded with substantial gains, demonstrating the importance of maintaining a long-term perspective even during times of market volatility. This recovery can be attributed to various factors, including positive economic data, corporate earnings growth, and investor sentiment. The chart serves as a reminder of the potential for significant market rebounds and the value of strategic, patient investing.

Expert Insights: How to Invest in U.S. Equities in 2024 According to the IMF

Expanding on the insights from the IMF World Economic Outlook for 2024, here's a detailed look at the actionable recommendations for investors focusing on U.S. equities, complete with a strategic approach to navigating the anticipated economic conditions:



1. **Global Economic Outlook**: As the global economy is anticipated to stabilise with a growth rate of about 3.2% in 2024 and 2025, investors should brace themselves for modest returns in a relatively subdued economic climate. It is crucial to identify sectors that typically thrive or are resilient under slower growth conditions, as these might outperform the general market.

2. **Navigating Inflation and Monetary Policy Changes**: With a projected decline in inflation from 2.8% to 2.4% from the end of 2024 to 2025, there's an expectation of more accommodative monetary policies from central banks. Investors need to stay vigilant about the decisions made by these financial authorities as they will play a significant role in shaping market dynamics and affecting equity valuations.

3. **Addressing Geopolitical Uncertainties**: Persistent geopolitical tensions, including conflicts like the ongoing war in Ukraine, are likely to continue influencing market volatility. To mitigate these risks, investors should consider diversifying their portfolios and focus on sectors that are generally less affected by geopolitical upheavals.

4. **Capitalising on Technological Innovations**: The burgeoning impact of artificial intelligence on productivity presents lucrative opportunities. Investors should consider boosting their stakes in technology-driven sectors and companies at the forefront of AI development, which are poised to benefit from these technological breakthroughs.

5. **Investment in Green Energy**: With a global shift towards sustainable energy, sectors involved in renewable energy sources and companies with robust sustainability practices stand out as compelling investment opportunities. This shift aligns with a broader trend of long-term growth in green investments.

6. **Labor Market Insights**: The labor market in major economies is expected to remain strong, which bodes well for sectors like consumer services. These sectors are likely to experience continued demand, providing attractive growth prospects for equities in these areas as the employment scenario stabilises.

7. **Fiscal Policy Considerations**: As governments in several major economies contemplate fiscal tightening to manage debt levels, keeping a close watch on fiscal policies becomes essential. Changes in government spending and taxation could have significant repercussions on specific industries, influencing investment decisions.

8. **Opportunities in Emerging Markets**: Certain emerging markets are projected to outperform, offering valuable diversification and growth opportunities for equity investors. Strategic allocations to equities in these regions could enhance portfolio performance amidst varying global economic conditions.

9. **Supply Chain Strategy**: The ongoing global supply chain adjustments present distinct challenges and opportunities for different sectors. Investing in companies that have

demonstrated resilience in their supply chain practices or those benefiting from the trend towards near-shoring could provide strategic advantages.

10. **Interest Rate Environment**: With expectations of stabilising and possibly decreasing interest rates, sectors traditionally sensitive to interest rate fluctuations, like real estate and utilities, could see increased attractiveness. Monitoring these sectors closely will be crucial to identifying potential investment opportunities as the broader economic environment shifts.

This expanded perspective integrates the IMF's insights into a comprehensive guide for investors aiming to navigate through the complexities of the 2024 economic landscape, enhancing the understanding of strategic moves within the U.S. equity markets.

Invest Wisely: BlackRock's Q2 Guidance on Managing U.S. Equity Portfolios

Here are the top 10 actionable insights and recommendations from the BlackRock Q2 Outlook report for investors involved in U.S. equities:

1. **Dynamic Portfolio Management**: In a financial environment where inflation remains persistent and interest rates structurally higher, it is crucial to adopt a more flexible approach to portfolio management. Combining indexing with alpha-seeking strategies can help investors navigate these complex conditions more effectively.

2. **Emphasis on Quality Earnings**: Investors are advised to focus on sectors within the S&P 500 known for their robust earnings quality, particularly technology and telecommunications. These sectors not only benefit from solid financials but are also poised to capitalize on the burgeoning artificial intelligence theme.

3. **Adjust Interest Rate Expectations**: It's important to stay attuned to the market's evolving expectations around interest rates, especially with the possibility of the Federal Reserve maintaining elevated rates longer than previously anticipated. This awareness is key to timely portfolio adjustments.
4. **Geographical Diversification**: While maintaining an overweight position in U.S. equities, especially in AI and tech-centric sectors, geographical diversification should

not be overlooked. This strategy can enhance portfolio resilience against localized economic downturns.

5. **Active Strategy Utilization**: The current market climate of heightened volatility and macroeconomic uncertainty creates ripe conditions for active management strategies. These strategies can potentially yield superior returns by capitalizing on short-term market fluctuations and inefficiencies.

6. **Fixed Income Positioning**: In the realm of fixed income, a cautious approach to long-term U.S. Treasuries is recommended due to their susceptibility to losses in a high-rate environment. Conversely, short-term bonds are favored as they offer greater resilience and less exposure to interest rate risks.

7. **Watch for Economic Indicators**: Keeping a close eye on U.S. economic indicators—particularly those related to inflation trends and labor market conditions—is crucial. These indicators will guide the Federal Reserve's policy decisions and significantly influence overall market sentiment.

8. **Strategic Allocation to AI and Tech**: Amplifying exposure to the AI and technology sectors is advisable. These sectors are likely to outperform in the context of growth potential and their ability to withstand higher interest rate environments.

9. **Inflation-Linked Bonds**: With expectations that inflation may continue to exceed the Federal Reserve's target, a neutral to positive view on U.S. inflation-linked bonds is recommended. These bonds provide a hedge against inflation and can play a protective role in a diversified investment portfolio.

10. **Risk Management**: Enhancing risk management practices is essential to navigate potential market downturns. Employing strategies and tools that mitigate downside risks can safeguard investments against volatile market movements and uncertain economic conditions.

This comprehensive analysis of BlackRock's Q2 Outlook underscores the importance of adapting investment strategies to an economic landscape characterised by continued inflation and the necessity for strategic interest rate management, with a particular focus on high-quality earnings and technological advancements for robust portfolio performance.

Invest Wisely: How to Choose Stocks That Bounce Back Faster and Fall Less

When searching for stocks characterised by low drawdowns and rapid recoveries, your focus should be on metrics that reflect a stock's risk-adjusted returns and its sensitivity to market movements.

With access to data on volatility, beta, alpha, and the Sortino ratio, you can effectively gauge these characteristics.

1. Volatility
Volatility measures the degree of variation in a stock's price over time, typically calculated as the standard deviation of the stock's returns. Lower volatility is generally preferred if you are looking for stocks with low drawdowns. Stocks with lower volatility are less likely to experience sharp drops in value, which translates into shallower drawdowns.

2. Beta
Beta reflects a stock's sensitivity to market movements. A beta less than 1 indicates that the stock is less volatile than the market; thus, it is likely to experience smaller swings, both upward and downward. For your purposes, stocks with a lower beta are preferable because they are less likely to suffer large drawdowns during market downturns.

3. Alpha
Alpha measures a stock's performance relative to a benchmark index, indicating how well the stock performs independently of market trends. A positive alpha suggests that the stock has outperformed the market, adjusting for its risk (as measured by beta). High alpha stocks might not only recover quickly but can potentially offer returns above market averages during recovery periods.

4. Sortino Ratio
The Sortino ratio is a variation of the Sharpe ratio, which also measures risk-adjusted returns. However, while the Sharpe ratio considers both upward and downward volatility, the Sortino ratio focuses only on the downward volatility or downside risk. A higher Sortino ratio indicates a favorable risk-adjusted return when only negative returns are considered. This metric is particularly useful for identifying stocks that perform well during downturns and minimize negative returns.

How to Apply These Metrics

To identify stocks that meet your criteria of low drawdowns and quick recovery times, you would ideally look for:

- **Low Volatility and Beta:** These stocks are less likely to experience significant drops, contributing to lower drawdowns

- **High Alpha:**This suggests that the stock can outperform the market, particularly useful during and after downturns.

- **High Sortino Ratio:** Indicates efficiency in managing losses and highlights that any declines are not as severe, and recoveries are stronger.

Practical Steps

1. **Filter Stocks:** Begin by filtering out stocks with high volatility and beta higher than 1. This step helps in narrowing down to less risky stocks.

2. **Rank by Alpha and Sortino Ratio:** Among the filtered stocks, prioritize those with the highest alpha and Sortino ratios.

3. **Historical Performance Review:** Look at historical performance during different market conditions to see how these stocks have actually performed in terms of drawdowns and recovery periods.

Navigating Investment Decisions: Beyond the Limitations of Fund Managers

When it comes to building a robust investment portfolio, entrusting your capital entirely to fund managers can sometimes be restrictive due to their inherent limitations and potential conflicts of interest. Avoid relying solely on fund managers to make investment decisions, as they may have limitations and conflicts of interest. Here are five crucial steps you can take to ensure your investment decisions are both sound and profitable:

Step 1: Embrace Global Diversification

Limiting your investments to a single geographic region, such as only investing in UK stocks or Japanese equities, restricts the range of opportunities available to you. This geographic confinement can hinder performance, especially when certain regions face economic downturns. To build a resilient portfolio, consider a globally diversified approach. This allows you to tap into a broader spectrum of economic activities and innovations, potentially stabilising your returns across different market cycles.

Step 2: Adopt a Multi-Style Investment Approach

Many investors fall into the trap of adhering to a single investment style, such as focusing solely on growth or value stocks. This narrow focus can cause you to overlook critical aspects such as valuation discrepancies, cash flow dynamics, and market momentum—all of which can significantly influence future stock performance. By employing a more flexible investment strategy that incorporates multiple styles, you can more effectively capture market nuances and enhance your portfolio's potential.

Step 3: Look Beyond Current Themes

While it's tempting to chase the latest investment fads, such as cryptocurrencies or AI-driven companies, doing so can severely limit your investment scope to a small pool of options. These trendy areas might not necessarily align with sound investment principles or sustained growth. Instead, prioritise companies with solid fundamentals, strong earnings prospects, and robust growth trajectories, regardless of their thematic label. This method focuses on quality and sustainability, rather than fleeting popularity.

Step 4: Manage Capital Allocation Wisely

Fund managers often control vast sums of money, which can restrict their ability to make significant investments in smaller or emerging companies. This can dilute the impact of individual investments on overall portfolio performance. As an individual investor, you have the advantage of flexibility. Allocating a thoughtful portion of your capital to carefully selected stocks allows you to achieve meaningful impact and potentially higher returns from your investments.

Step 5: Strategise for Market Downturns

Finally, be cognisant of the inherent conflicts of interest that may affect fund managers, particularly during market downturns. Managers might be reluctant to convert holdings to cash, potentially exacerbating losses. As an independent investor, you have the agility to quickly adapt your strategy, including holding cash or seeking safer investment havens during volatile periods. This proactive approach to market downturns can preserve your capital and provide opportunities to buy at lower prices.

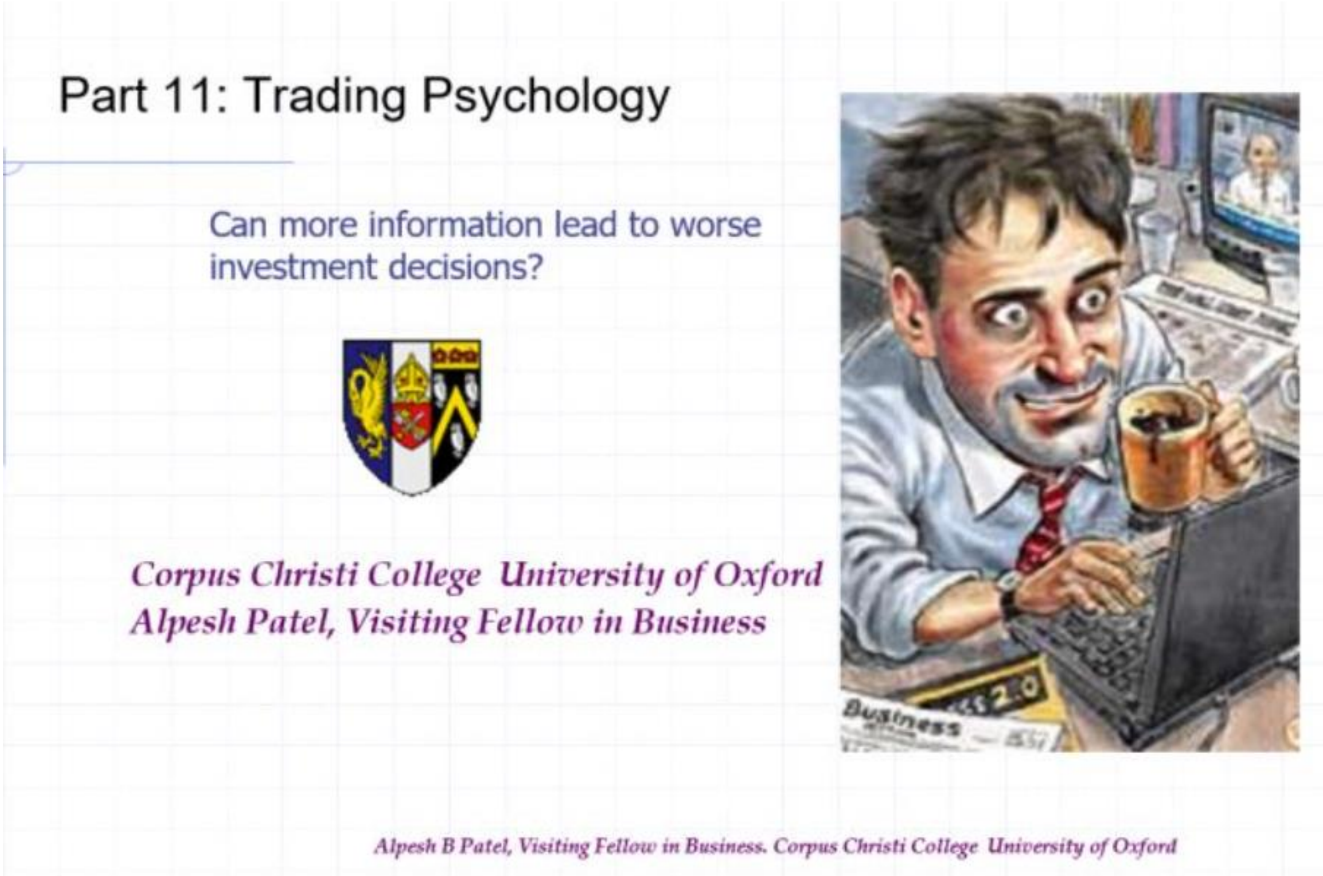
Conclusion:

Navigating the investment landscape requires more than just outsourcing decisions to fund managers. By understanding and overcoming the inherent limitations in traditional fund management, you can take control of your investment destiny. Stay informed, stay flexible, and always be prepared to adjust your strategies in response to changing market conditions.

For more insights and strategies on intelligent investing, visit www.alpeshpatel.com/links.

Decision Overload: Why More Data Might Not Mean Better Investments

An old slide from one of my college lectures. "Can more information lead to worse investment decisions?"



In traditional finance theory, the paradigm of rational actors operating in efficient markets assumes that more information always leads to more accurate market prices and better decision-making by investors.

However, behavioural finance introduces a critique of this assumption by demonstrating that human decision-makers are often irrational and influenced by psychological biases, leading to suboptimal financial decisions.

Richard Thaler, one of the founders of behavioral economics, has extensively studied the impact of human behaviour on economic decisions.

His work on anomalies in efficient markets, such as the disposition effect and mental accounting, suggests that investors often behave in ways that are inconsistent with the predictions of traditional models.

One of the central themes in Kahneman's work, particularly in his book "Thinking, Fast and Slow", is the concept of cognitive overload and decision fatigue.

Kahneman distinguishes between two modes of thought: "System 1", which is fast, instinctual, and emotional; and "System 2", which is slower, more deliberative, and more logical.

Kahneman argues that an excess of information can lead to over-reliance on System 1, resulting in snap judgements that might not be optimal (Kahneman, 2011).

The specific challenge of information overload in investment decisions is that while having more information generally appears advantageous, it can paradoxically lead investors to make worse decisions.

This phenomenon is partly explained by "analysis paralysis," where too much information causes decision-making processes to become cumbersome and ineffective.

This can lead to either decision fatigue, where too many choices lead to poorer quality decisions, or to overconfidence, where too much information gives a false sense of certainty about the decisions made.

The effect of information overload has been documented in various studies within the field of behavioural finance. Iyengar and Kamenica (2010) show that an increase in investment options can lead to choose overload, resulting in procrastination and less optimal choices by investors.

For investors, the practical implications of these findings are significant.

They suggest that while due diligence is important, there is a point at which additional information does not necessarily lead to better investment decisions and can indeed be counterproductive.

Investment strategies that recognise and mitigate the impact of cognitive biases and information overload can potentially lead to more rational decision-making.

Learn more about being a better investor at https://www.campaignforamillion.com/

The Investor's Dilemma: Balancing Immediate Gains with Long-Term Wealth Creation

In my many, many years in investing from Bloomberg TV to Financial Times, to asset management, I have noticed many investors exhibit traits akin to gamblers, driven by a combination of **Fear of Missing Out (FOMO)** and the pursuit of quick dopamine hits associated with potential gains.

This behaviour, while widespread, underscores a deeper narrative about the psychological underpinnings that influence financial decisions in the stock market.

Investing in the stock market is often perceived as a direct route to wealth creation. Media portrayal of overnight millionaires and tales of stock market bonanzas play a significant role in fuelling these perceptions. However, such narratives can lead investors to develop unrealistic expectations about the nature of stock market gains.

The allure of immediate returns can cloud judgment, making investors prone to taking higher risks without adequate analysis or a long-term strategy.

FOMO is a powerful motivator in financial markets. It taps into the human fear of being left out of beneficial experiences that others are having. When

investors see others reaping substantial profits from market movements, the fear of missing out kicks in.

This often leads to impulsive decisions, such as entering a booming market at peak valuations without recognising the risk of potential downturns. The desire to be part of the 'winning crowd' can overshadow the fundamental principles of investing, such as due diligence and risk management.

Dopamine, a neurotransmitter linked to the brain’s reward system, plays a crucial role in how investors react to the prospect of financial gain. The anticipation of a reward triggers dopamine release, which can be exhilarating but also addictive.

Patience is a virtue, especially in investing. Historical data suggests that long-term investing, characterised by patience and the power of compounding, often leads to more substantial and more stable returns.

However, the modern investor's impatience, fuelled by rapid technological advancements and real-time trading, can lead to frequent buying and selling, potentially eroding potential gains through fees and missed opportunities for growth.s
To counteract these tendencies, investors are encouraged to develop a disciplined investment strategy that acknowledges these psychological biases. Key strategies include:

Setting Clear Goals: Define what you are investing for and set realistic time horizons and expected returns.

Educational Empowerment: Understanding financial markets and investment principles can demystify investing and reduce impulsive decisions driven by market noise.

Diversification: Trade if you want to scratch that itch with a small money you’ve set aside for risk. It helps my investing that separately, with a different pot of money, I trade.

Turning a 40% Stock Rise into Lasting Wealth: Tips for Pension Holders

What happens when a stock goes up 40% in a year in your pension, and why do so many people, even with such stocks, mess it up?

Avoid daily market monitoring: Do not check the stock market every day, as it can lead to unnecessary stress and impulsive decision-making. Emulate the approach of successful investors like Warren Buffett, who avoids constant market monitoring.

Set a holding period or loss threshold: Determine a specific holding period for the stock, such as 12 months. Alternatively, set a loss threshold of 25% from the entry point. This will prevent unnecessary panic selling and allow for long-term growth.

Consider historic drawdowns: Analyse the historical data of the stock to understand its previous drawdowns, including the depth and duration of losses. Make a note of these potential scenarios and mentally prepare for them.

Assess personal risk tolerance: Evaluate your risk tolerance and align it with the characteristics of the stock. If the potential drawdowns or losses are not suitable for your risk tolerance, consider choosing a different stock.

Avoid impulsive trading: Resist the temptation to trade stocks based on short-term fluctuations. Many investors make the mistake of selling their investments when the stock falls by 10% or 20%, only to miss out on potential gains later.

Stay patient during sideways periods: Understand that stocks may experience prolonged periods of sideways movement with minimal returns. Avoid panicking and selling during these periods, as it may result in missing out on future gains.

Review and adjust as needed: Regularly review the performance of the stock and assess if it aligns with your investment goals. Adjust your strategy if necessary, but avoid making impulsive decisions based on short-term market movements.

Cautionary Notes:

- Avoid checking the stock market daily to prevent unnecessary stress and impulsive decision-making.
- Do not panic sell during drawdowns or sideways periods, as it may result in missing out on potential gains.
- Be aware of your risk tolerance and choose stocks accordingly. Do not invest in stocks that do not align with your risk tolerance.

Tips for Efficiency:

1. Conduct thorough research on potential stocks before investing to ensure they meet the criteria of undervaluation, revenue growth, and dividend yields.
2. Set clear holding periods or loss thresholds to avoid impulsive trading and maximise long-term growth.
3. Regularly review the performance of stocks and make adjustments as needed, but avoid making impulsive decisions based on short-term market movements.

The Goldilocks Strategy: Identifying and Responding to Every Type of Bear Market

Forget the Goldilocks economy, I want the Goldilocks stock market. There are three types of bears.

Daddy Bear (1) - here you hold cash.

Mommy bear (2), here you can weather the downturn, usually about 10% drop in the S&P500 and lasts about 3-4 months. You will worry it's a daddy bear, and the party is over. You will take profits and some money off the table in individual stocks which were your biggest gainers without the most solid of foundations. (eg Tesla)

Baby bear (3), lasts around 4 weeks and a 5-6% drop in the S&P500. But could be more of course in individual stocks. You will probably not take money off the table, and if you do, it may only be in companies which have given you 50%+ returns already. You'd ride it out for most of your portfolio.

So how do you know if it is daddy, mommy or baby bear?

1. Daddy - the momentum indicators are overbought on the monthly chart and drop below their moving averages across multiple stocks too.

2. Mommy - the weekly indicators drop, as does monthly, but the monthly doesn't go below it's moving average.

3. Baby - the weekly indicator drops, monthly does not.

Navigating the stock market requires not just a keen sense of timing but also an understanding of the different market conditions that can impact your investment strategy.

Let’s break down these conditions using the analogy of the three bears: Daddy Bear, Mommy Bear, and Baby Bear.

1. Daddy Bear Market (Severe Downturn)

In the Daddy Bear market scenario, you're holding cash because the momentum indicators are signalling a significant downturn. This is what you need to know:

- **Identifying a Daddy Bear Market:**
- The market shows **overbought momentum indicators** on the monthly charts, suggesting that stocks are overvalued and due for a correction.
- These indicators then **drop below their moving averages**, a sign that the market trend is reversing from bullish to bearish.
- This trend is not isolated to one or two stocks but is visible **across multiple sectors and stocks**.

- **Example:** Imagine a scenario where stocks like Apple or Amazon have hit all-time highs but then start to show consistent declines over several months, slipping below their 20-month moving average.

- **Strategy:** In this phase, holding cash or looking into safer investments like government bonds or stable value funds might be wise. The goal is to preserve capital until more bullish signals appear.

2. Mommy Bear Market (Moderate Downturn)

The Mommy Bear market is a moderate downturn where you can weather about a 10% drop in the S&P 500 over a few months. Here's how to approach this milder bear market:

- **Identifying a Mommy Bear Market:**
- **Weekly momentum indicators** drop, showing a short-term decline in stock values.
- **Monthly indicators** also decline but remain **above their long-term moving averages**, suggesting that the long-term bullish trend is still intact.

- **Example:** Consider a situation where the S&P 500 declines by 10% over three months. Stocks like Tesla, which had skyrocketed, begin to drop, but not drastically enough to breach long-term support levels.

- **Strategy:** This is the time to:
- **Take profits** in some of your more speculative investments, especially those that have provided significant returns but lack solid fundamentals.
- **Rebalance your portfolio** by reducing positions in the biggest gainers that are starting to show weakness.

3. Baby Bear Market (Mild Downturn)

The Baby Bear market is the mildest form of a downturn, usually a 5-6% drop in the S&P 500 over about four weeks. Here's how you handle a Baby Bear:

- **Identifying a Baby Bear Market:**
- The **weekly momentum indicator** drops, indicating a short-term pullback.
- The **monthly indicators** show no significant change, suggesting the long-term trend remains bullish.

- **Example:** If the S&P 500 dips by 5% in a month due to temporary factors like geopolitical tensions or short-term economic data, but underlying trends remain strong, you're likely in a Baby Bear market.

- **Strategy:** In a Baby Bear market:
- Hold onto most of your investments, as the downturn is often short-lived.
- Consider **taking profits only in positions** that are significantly overvalued or have already given you returns of 50% or more.
- This might be an opportunity to **buy the dip** in high-quality stocks that you believe have long-term growth potential.

Practical Tips for Navigating These Market Conditions

1. **Stay Informed:** Regularly check financial news and analysis to stay updated on market conditions. Websites, financial blogs, and market analysts can provide insights into which bear market might be developing.

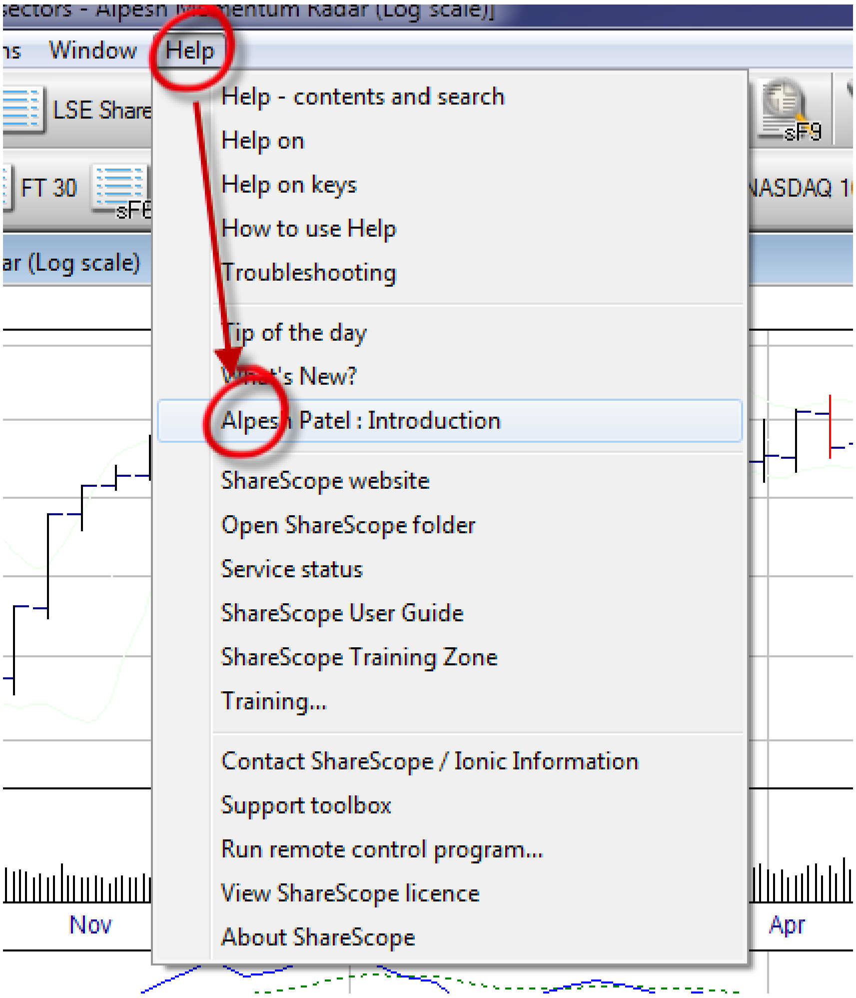
2. **Technical Analysis:** Learn to use technical indicators like moving averages, RSI (Relative Strength Index), and MACD (Moving Average Convergence Divergence) to identify potential market downturns.

3. **Risk Management:** Always have a risk management strategy in place. Use stop-loss orders, diversify your portfolio, and adjust your investment according to the market's phase.

4. **Patience and Perspective:** Remember that markets are cyclical. By understanding whether you are in a Daddy, Mommy, or Baby Bear market, you can better manage your expectations and investment strategy.

5. **Educate Yourself:** For more insights into making and keeping your money in various market conditions, consider exploring financial education resources. Here's a great starting point for further learning.

Help Page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