MULBERRY BOW

THE BOW BLOG

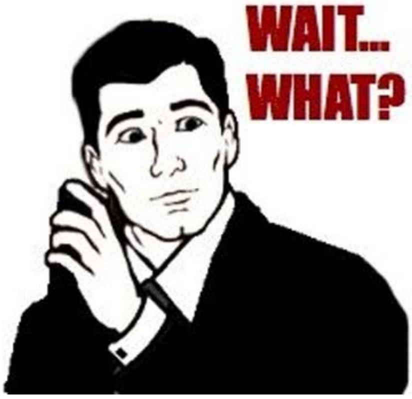
The Triumph of Principle

January 2017

January is typically a time of two pretty pointless things: new year's resolutions and financial predictions.
Perhaps a good starting point on both is to reflect on those declared in 2016, how well did they influence/correspond to the reality of the year as it progressed?

Putting my 2016 resolutions to one side, to save my blushes, one standout feature of the predictions from almost all 'financial commentators' in Jan 2016 was the view that Emerging Markets should be avoided at all costs. No prizes for guessing which was the best performing market in 2016?! Brazil and Russia, the B&R of Jim O'Neill's BRICs did 50% in USD terms.

Pollsters can surely empathise, so can football pundits. Who predicted Leicester City would win the EPL in 2016, while Chelsea would spend the season simply trying to avoid relegation? They were the other way around the season before, and they have swapped back again this season, yet 90% of the players are the same – it defies intelligent analysis.



So how can private investors learn from a year that was as eventful in finance as it was in football and politics? For me 2016 saw the triumph of principle. For most of those trying to second guess the next move in commercial property prices, the FTSE or government bonds, it was a torrid year and the main reason was they once again neglected to take an 'evidence-based' approach.

What does this approach look like? I'll outline it and it will seem so familiar, so *obvious*, that you might find yourself 'harrumphing' (if you'll excuse technical jargon!) The evidence-based approach involves five things:

1) Take a long-term view and ignore short-term noise

2) Be/stay diversified

3) Rebalance back to your (risk-appropriate) asset allocation, two to four times per year

4) Keep costs down

5) Be tax-efficient

Sounds easy right? Trust me, hardly *anyone* does it. Speak to a good friend about how they invest, dig around a little beyond their initial 'exam answer' and see what they end up admitting. I promise you, virtually *nobody* does it.

The natural question is why not? I think what my counterpart Carl Richards in the US calls 'financial porn' is part of it. Turn on the TV, especially if you have a satellite or cable TV package, and watch some of the news and finance channels; it's all short-term noise; a plethora of unsubstantiated opinions and the pedalling of personal agendas. Evidence-based, long-term, principled investing simply doesn't put bums on seats. Or sell newspapers. Did you ever read a headline that said "£Xbn added to shares prices again this year, principled long-term investors benefit"?

The news is intrinsically negative and short-term on financial issues, just as it is on everything else. Social media has of course simply accentuated the problem. So what's the antidote? Not a particularly surprising answer from a chartered financial planner, but the antidote is a financial plan. Even if it's on the back of a fag packet or a napkin it will help you shut out the noise and keep your eye on the long-term prize of complete financial peace of mind. Naturally, the more you work on it, especially if you involve loved ones and/or trusted advisers, the more value it will add.

You cannot control who gets elected to the US Presidency, you cannot control whether the UK is in the EU, you cannot control who will win the EPL or what different asset prices will do this year, or next for that matter, but you *can* get a financial plan in place, and you *can* stick to it. And as a result, you *can* achieve peace of mind around one area of life at least - your money.

Have a great year everyone!

Simon Bullock
Partner