

## ➤ Investment Perspective – November 2023



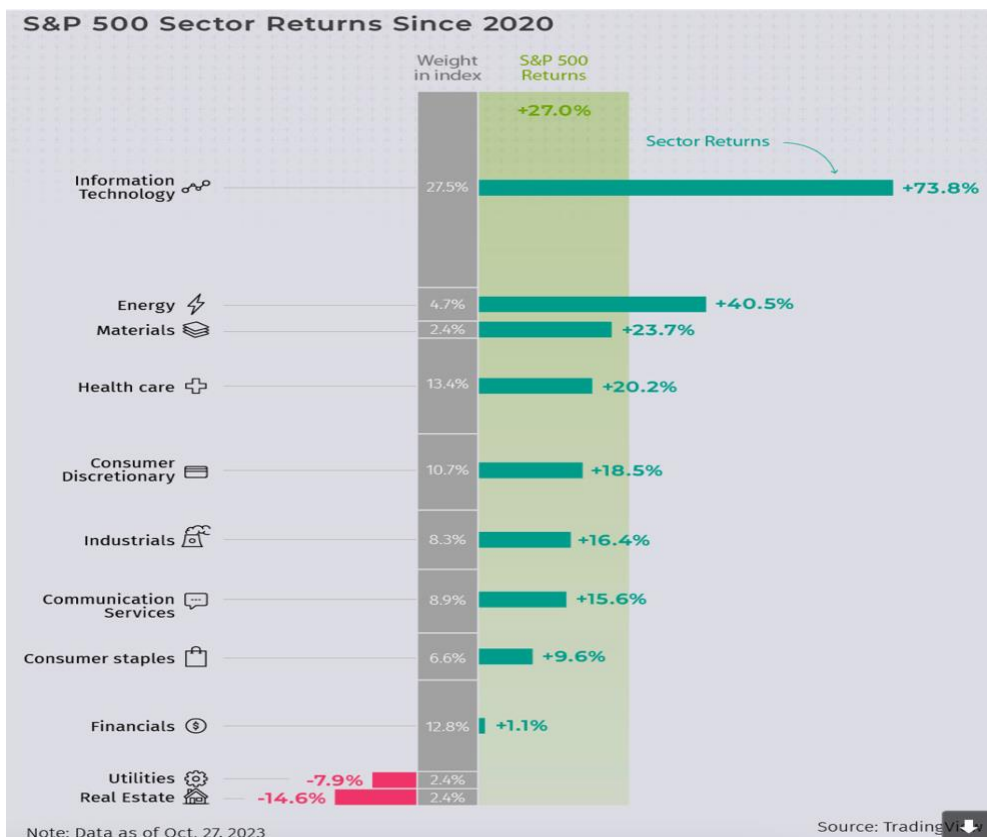
Peter Flannery CFP FA

*"Neither the investing method nor the fundamentals of the business are right or wrong because the mood of the market is favourable or unfavourable toward the "stock". That is because when you really think about it, "stocks" (shares) are all about the financials and the trading price, the share price...the cash up value. What matters more is the economics of the business."*

Peter Flannery

# The Economy? The Trend? The Business?

## Which one holds the key to success?



The infographic above shows share market sector returns since 2020 as per the S&P 500 index.

There are different ways to invest.

For example, asset allocation, modern portfolio theory, passive investing, momentum investing, trading, value investing, growth investing ... there are a number of other ways as well. They all are valid and can work for us as investors, with varying degrees of long-term success.

What seems to work well, is investing in a way that sets a low bar (simple), as distinct from a high bar (complex).

Also, minimising transactions (e.g., timing markets, rebalancing) and taking a long-term approach stand out as a winning strategy (growth, compounding).

Massive resources are allocated to economic research and analysis. Also, to working out and picking trends.

Minimal resource appears to be invested in establishing successful investing methodology.

## The Economy



The global economy has a lot going on, lots of variables. It is complicated.

Even economists struggle to get it right at times.

Establishing the big picture 'macro-economic' position is useful for us at WISEplanning because it can provide signals about share market pricing in the short / medium term.

That said, there is clear evidence all around the world that few are able to successfully time markets. Many still try though (at WISEplanning, we are about pricing).

I was right (but early) about the Global Financial Crisis from 2003 – 2008, when it finally emerged. Can I be right again?

We are 'macroeconomic aware' at WISEplanning, arguably allocating too much resource here.

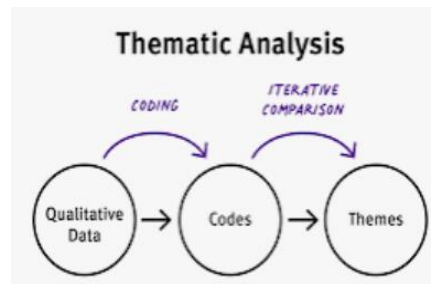
The real question for you and I as investors, is how much weight do we give to economic information, especially the predictions about trouble (e.g. looming recession, high debt and economic collapse etc) and current events (war spreading, oil shortages)?

How much does it influence your investing decision making?

Does it stop you from investing as much as you might otherwise invest?

Does this cost you investment performance long term?

## ‘Trends’



Next month, I will outline the trends that dominated investment markets since the 1950's. You will know them when I show you.

The graph above (at the top) might suggest that investing in information technology ('mega cap tech') is a trend. What do you think?

Thematic analysis or thematic investing is where investors (often fund managers telling a 'story') look for patterns in data and formulate what they believe to be a theme or trend – Al anyone?

They can be valid, but the question always is, are they right? Is it a sustainable trend, reliable and still good long term? Some are. Many are not.

Deciphering the difference is the problem.

## The Business



Fortunately, Ben Graham, Warren Buffett and Charlie Munger have paved the way for us.

The combination of the financials (e.g., sales growth, profitability, balance sheet strength, free cash flow etc) and the economics (competitive advantage, eco-system, brand strength) of the business.

The stronger the financials and the economics of the business, the better the quality of the business.

The more uncertain the economic direction, the more unhappy the markets, the lower the trading price.

The lower the trading price, the better – right?

The higher the quality of the business, the better – yes?



***“It would be silly to expect every bear market to turn into a Great Depression. It would be equally wrong to expect that a fall from overvalued, to more fairly valued, couldn’t well overshoot on the downside”***

**- Seth Klarmen**

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