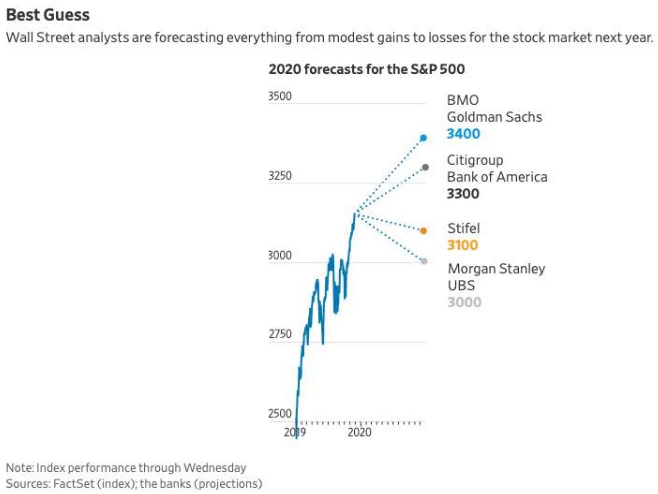
Monthly Commentary 4th December 2019

November took off where October left and delivered strong equity market gains of 2.7% for world equities (as measure by the MSCI World Local Currency Index). The US and Eurozone markets were especially strong while the UK and Emerging Markets were less ebullient. Bonds fell slightly across the board and commodities were flat, with oil up slightly and precious metals hit hard. The USD index keeps marching on.

Are markets defying expectations?

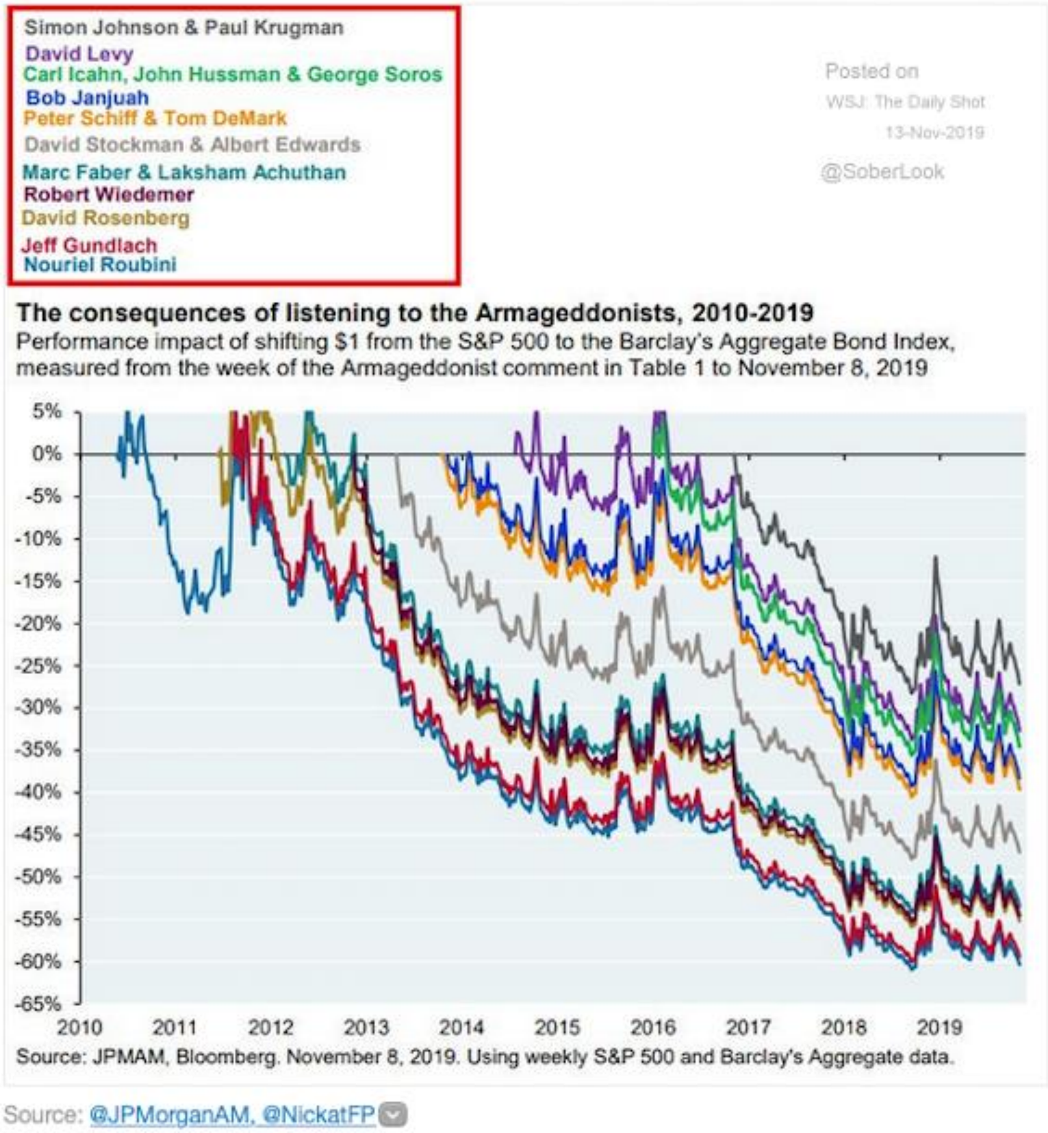
They certainly seemed to have in 2019. At the beginning of the year strategists were most cautious and none of them were even close to predicting today's market levels. We have always maintained that market predictions are a marketing tool where all banks and brokerages print their detailed forecasts and provide all the logical arguments in the world in order to justify them. Indeed, their arguments do seem logical. The problem is they hardly ever affect the markets' direction, and as such, their predictions are almost consistently wrong. For whatever it's worth, below are the early predictions for the US markets for the end of next year (from the WSJ):



With the S&P 500 closing at 3140 on Wednesday November the 27th, the most bullish are looking at 8% gains, and the most bearish at 4.4% losses. Yawn….

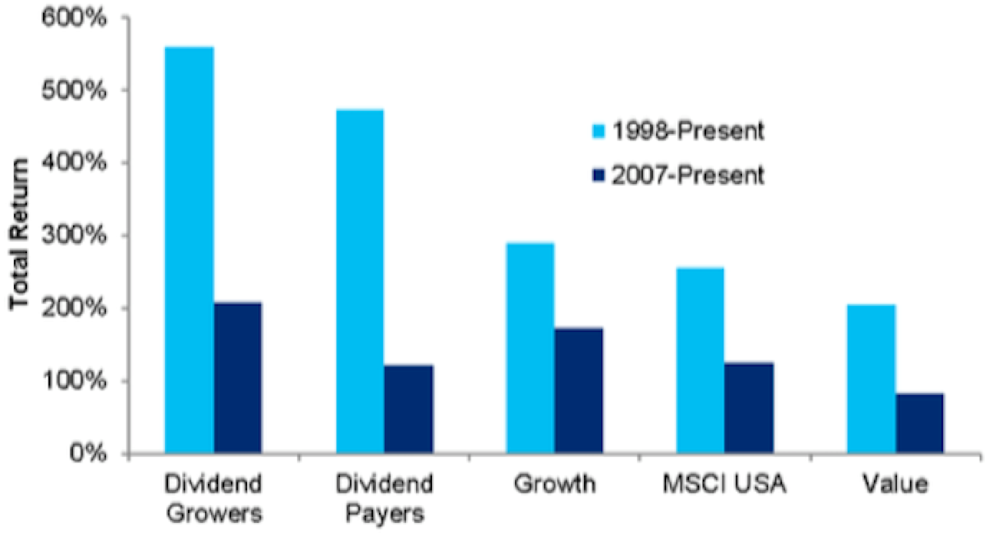
And talking about marketing, there are always those that try and stick out from the rest by making a radical forecast that the markets will tank.

They certainly get a lot of attention. JP Morgan did some research on these "Armageddonists" and followed what transpired in the markets after they made their dour predictions between 2010 and 2016. As you can see from below, had an investor switched from equities to fixed income at the time of the prediction, they would have been anywhere between 25% and 60% worse off! And this is the reason that we have consistently advised clients to take these forecasts into account but not to act on them.



As we write, many doomsayers' voices are getting louder. Eventually one of them will be correct, but not because of skill, but because the markets decided to do what they wanted, when they wanted.

Where have the best market returns been since 1998?
Back-testing is a tried and tested method of trying to predict the future, whether it's a fund or a stock. Sometimes it works and many times it does not. Still, we were intrigued by the graphic below that shows how various investment styles fared from 1998 to now and from 2007 to now. In both cases, "Dividend Growers" were the best performers.



Source: Factset and CPB Investment Strategy as of November 18, 2019.

This is not a surprise to us because with so much financial engineering that companies can do, one of the few "real" financial indicators is their dividend, as they actually pay it out and cannot manipulate it. It seems that companies with confident management and good fiscal discipline, and that increase their dividends year after year are rewarded by investors. For those of you that are not familiar with our Income Portfolios, available through Interactive Brokers, that is exactly the type of securities we hold. I.e. those that are growing their distributions. For more information, please contact us.

In a low interest rate environment, the Elgin Income portfolios seek to provide an income that is 3-4% annually. Because they invest in top quality securities, one can also expect a capital gain over a cycle, making the income portfolio an attractive proposition as a long-term investment with mid to high single digit total annual returns.

The use of cash in various countries

The following graphic surprised us because we did not expect that there are more cash transactions than plastic ones in so many developed countries. We wonder what the correlation with tax evasion is?

It seems most likely that the use of cards will only increase, as there is a huge total addressable market that is still not using cards. This is good news for the "duopoly" of Visa and Mastercard, who have been growing both their top and bottom lines at astonishing levels. It is no coincidence that our Elgin Best Ideas portfolios feature both of these companies as two of the biggest holdings. For more information please contact us.

And that's it from us for 2019. We wish you all a happy and healthy holiday season and thank you for your continued support and trust.

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