Elgin asset management

investment commentary monthly

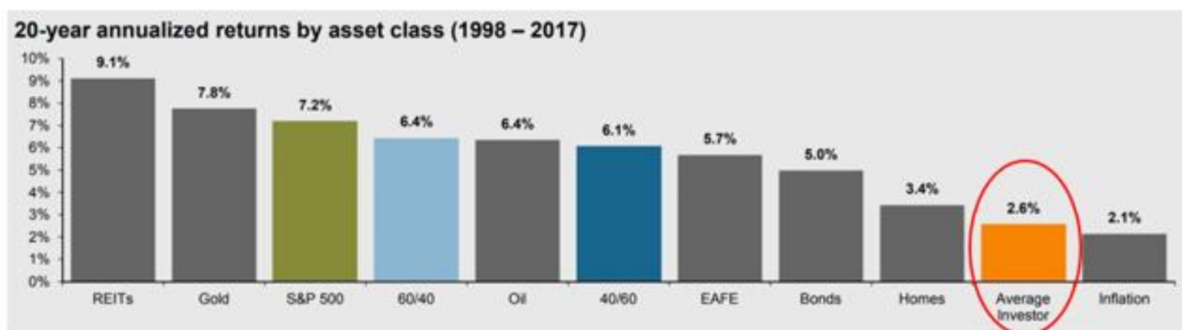
Monthly Commentary 4th June 2019

May was a very difficult month for equity markets and a very good one for developed bond markets. Major equity regions, from the US to Europe to Japan to Emerging Markets all fell between 6% and 8%, making it the second worst May since the early sixties for the US market! The FTSE was the only major market that fell "only" 3.46%, but this was masked by a greater-than 3% drop in sterling, which is a massive move for a major currency in such a short time. Oil also had a month to forget, crashing by more than 16% in May.

Sell in May?

Investors always try and rationalize any meaningful fall in markets, and this time the main cause was mostly attributed to a worsening scenario for trade. Markets do not like uncertainty and in this instance it still unclear if the threat of tariffs by the US on goods of some of its major trading partners is a negotiating tool or the end goal of the US president's policy. Until there is more clarity, markets will respond to every tweet.

This brings us to the argument about selling and waiting until there is certainty on the trade front. This is akin to trying to time the market, something we never advise. The below graphic from JP Morgan shows the returns of various asset classes from 1998 to 2017 (20 years). As you can see, while a buy-and-hold "60/40" portfolio of equities and bonds produced 6.1% annually, the average US investor got less than half those returns, at 2.6% annually. The only reason was the desire of the average investor to try time the markets.



Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.
Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/17 to match Dalbar's most recent analysis.
Guide to the Markets – U.S. Data are as of March 31, 2018.

J.P.Morgan Asset Management

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Another reason for not trying to time the markets is that no one can ever consistently predict which of the many asset classes will perform the best. The famous "asset quilt" since 2000 is shown below, courtesy of Merrill.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Commodities 31.8%	US Treasuries 6.7%	Commodities 25.9%	MSCI EM 56.3%	REITS 32.0%	MSCI EM 34.5%	REITS 37.5%	MSCI EM 39.8%	US Treasuries 14.0%	MSCI EM 79.0%
US Treasuries 13.4%	Global IG 4.6%	Gold 25.6%	MSCI EAFE 39.2%	MSCI EM 26.0%	Commodities 21.4%	MSCI EM 32.6%	Gold 31.9%	Gold 4.3%	Global HY 62.0%
REITS 8.5%	Cash 4.4%	Global IG 14.9%	REITS 33.5%	MSCI EAFE 20.7%	Gold 17.8%	MSCI EAFE 26.9%	Commodities 16.2%	Cash 2.1%	MSCI EAFE 32.5%
Cash 6.2%	Global HY 3.1%	US Treasuries 11.6%	Global HY 30.7%	Global HY 12.4%	MSCI EAFE 14.0%	Gold 23.2%	MSCI EAFE 11.6%	Global IG -8.3%	REITS 31.7%
Global IG 3.1%	Gold -0.7%	Cash 1.8%	S&P 500 28.7%	S&P 500 10.9%	REITS 10.7%	S&P 500 15.8%	US Treasuries 9.1%	Global HY -27.9%	S&P 500 26.5%
Gold -5.4%	MSCI EM -2.4%	Global HY -1.1%	Commodities 23.9%	Global IG 9.4%	S&P 500 4.9%	Global HY 13.5%	Global IG 7.3%	Commodities -35.6%	Gold 25.0%
Global HY -5.8%	REITS -7.8%	REITS -2.4%	Gold 19.9%	Commodities 9.1%	Cash 3.1%	Global IG 7.2%	S&P 500 5.5%	S&P 500 -37.0%	Global IG 19.2%
S&P 500 -9.1%	S&P 500 -11.9%	MSCI EM -6.0%	Global IG 14.5%	Gold 4.6%	US Treasuries 2.8%	Cash 4.9%	Cash 5.0%	MSCI EAFE -43.1%	Commodities 18.9%
MSCI EAFE -14.0%	Commodities -19.5%	MSCI EAFE -15.7%	US Treasuries 2.3%	US Treasuries 3.5%	Global HY 1.5%	US Treasuries 3.1%	Global HY 3.0%	REITS -50.2%	Cash 0.2%
MSCI EM -30.6%	MSCI EAFE -21.2%	S&P 500 -22.1%	Cash 1.1%	Cash 1.3%	Global IG -3.0%	Commodities 2.1%	REITS -10.0%	MSCI EM -53.2%	US Treasuries -3.7%

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
Gold 29.2%	US Treasuries 9.8%	REITS 23.8%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	Global HY 14.8%	MSCI EM 37.8%	Cash 1.8%	REITS 14.2%
MSCI EM 19.2%	Gold 8.9%	Global HY 19.3%	MSCI EAFE 23.3%	REITS 11.7%	US Treasuries 0.8%	S&P 500 12.0%	MSCI EAFE 25.9%	US Treasuries 0.8%	Commodities 13.6%
Commodities 16.8%	Global IG 4.5%	MSCI EM 18.6%	Global HY 8.0%	US Treasuries 6.0%	Cash 0.1%	Commodities 11.8%	S&P 500 22.0%	Gold -1.9%	S&P 500 11.2%
REITS 15.9%	Global HY 2.6%	MSCI EAFE 17.9%	REITS 0.7%	Global IG 3.2%	MSCI EAFE -0.8%	MSCI EM 11.2%	Gold 12.9%	Global HY -3.3%	Global HY 6.8%
S&P 500 15.1%	S&P 500 2.1%	S&P 500 16.0%	Global IG 0.1%	Gold 0.1%	REITS -3.4%	Gold 8.6%	REITS 11.5%	Global IG -3.4%	MSCI EAFE 6.3%
Global HY 13.9%	Cash 0.1%	Global IG 11.1%	Cash 0.1%	Cash 0.0%	Global IG -3.8%	Global IG 4.3%	Global HY 10.2%	REITS -3.9%	Global IG 5.0%
MSCI EAFE 8.2%	REITS -9.4%	Gold 8.3%	MSCI EM -2.3%	Global HY -0.1%	Global HY -4.2%	REITS 1.3%	Global IG 9.3%	S&P 500 -4.3%	US Treasuries 3.7%
Global IG 6.0%	MSCI EAFE -11.7%	US Treasuries 2.2%	US Treasuries -3.3%	MSCI EM -1.8%	Gold -10.4%	US Treasuries 1.1%	Commodities 7.6%	Commodities -12.9%	MSCI EM 2.0%
US Treasuries 5.9%	Commodities -13.3%	Cash 0.1%	Commodities -9.5%	MSCI EAFE -4.5%	MSCI EM -14.9%	MSCI EAFE 1.0%	US Treasuries 2.4%	MSCI EAFE -13.2%	Cash 1.0%
Cash 0.1%	MSCI EM -18.2%	Commodities -1.1%	Gold -27.3%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	MSCI EM -14.3%	Gold 0.4%

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg. *YTD returns

As you can see, returns are all over the place, and the above is a strong argument for diversification.

Another argument is to always question predictions from investment gurus. Below is more evidence in favour of not timing the markets and being skeptical about recommendations from professionals. Every year, the Sohn conference in New York hosts the "crème de la crème" of fund managers in order to raise money for charity. Famous managers are asked to give their top pick for the next 12 months. At the same time, columnists from the Wall St Journal's "Heard on the Street" column, throw darts at a similar number of stocks.

HEARD ON THE STREET

Making Monkeys Out of the Sohn Investing Gurus

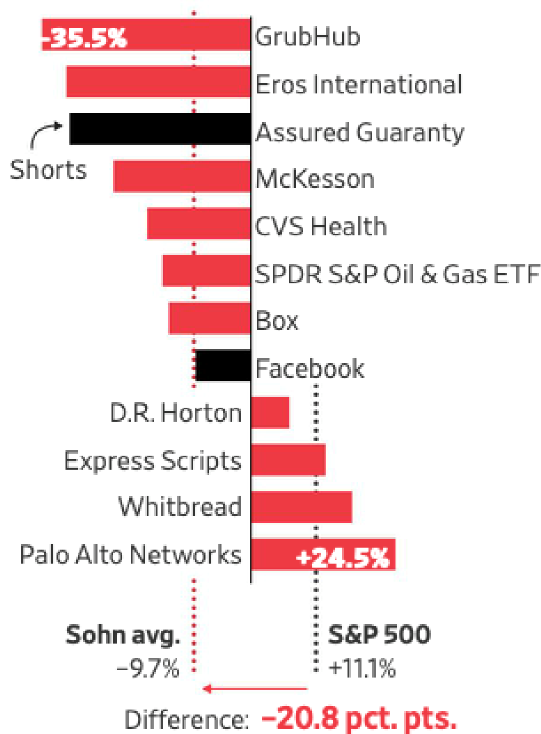
Randomly selected stocks beat the picks made by last year's Sohn Conference headliners

The results were most revealing, and quite brutal for the investment pros. The columnists' picks outperformed the pros' selection by 27% in the one year since the previous conference! The pros also lagged the main US market index by almost 20%. See below:

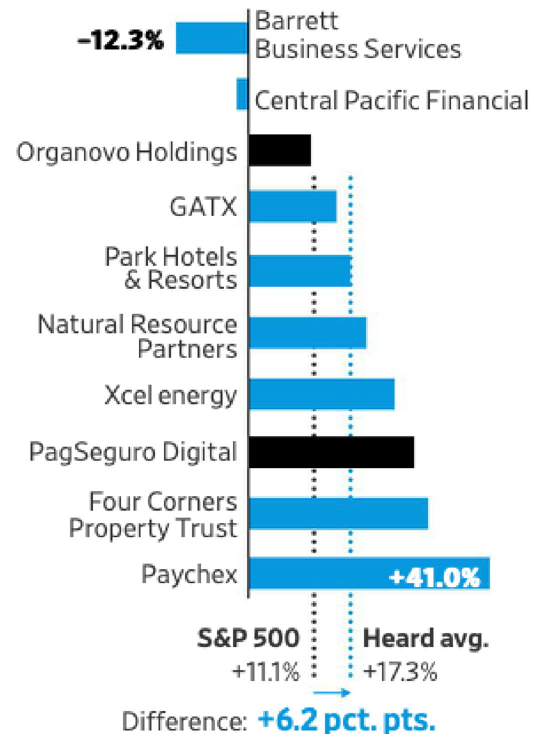
Random Walk Down Heard Street

Absolute return of long or short picks April 23, 2018–April 22, 2019

SOHN EXPERT PICKS



HEARD ON THE STREET'S DART PICKS



Source: WSJ calculations using FactSet data

The Elgin Analysts' Team

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