Monthly Commentary 3rd of May 2023

April was a quiet month in the markets, with world equities up a little more than 1% and bonds and commodities were up slightly while the dollar fell less than 1%. Bitcoin rose a modest 3%..

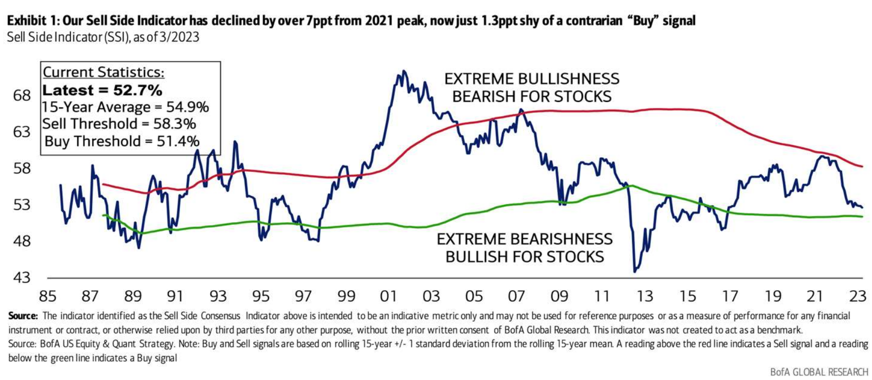
Dour forecasts - followup

Last month we mentioned that many professional forecasters are very negative on equities. April, and the year-to-date performance has confounded these predictions.

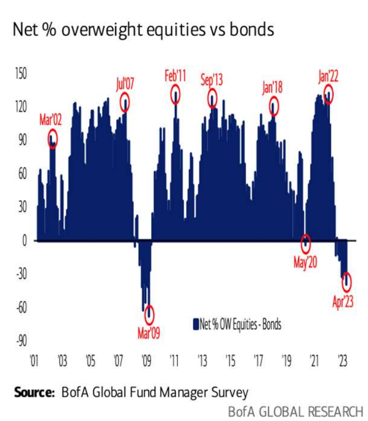
Recently, Merrill Lynch posited that too much negativity is proving to be a tailwind for the markets. We quote them:

… everyone hates stocks and loves bonds: individual investors are selling stocks to buy bonds, institutional investors and asset allocators have the lowest stock v. bond allocation since 2009…

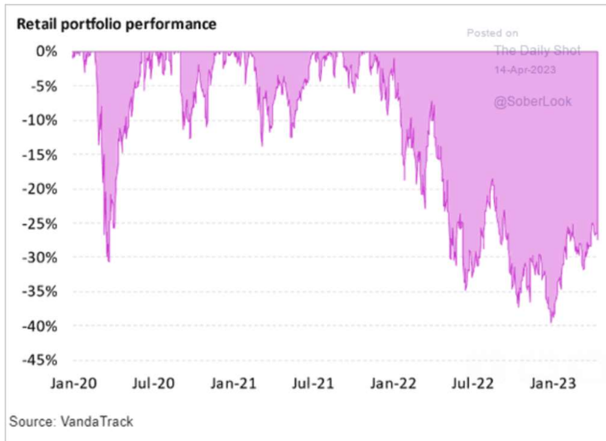
Some of their evidence is in the two charts below:



The chart above shows almost extreme bearishness, which has traditionally been good for stocks. The one below shows that bonds are much preferred to stocks – in fact the most since 2009!



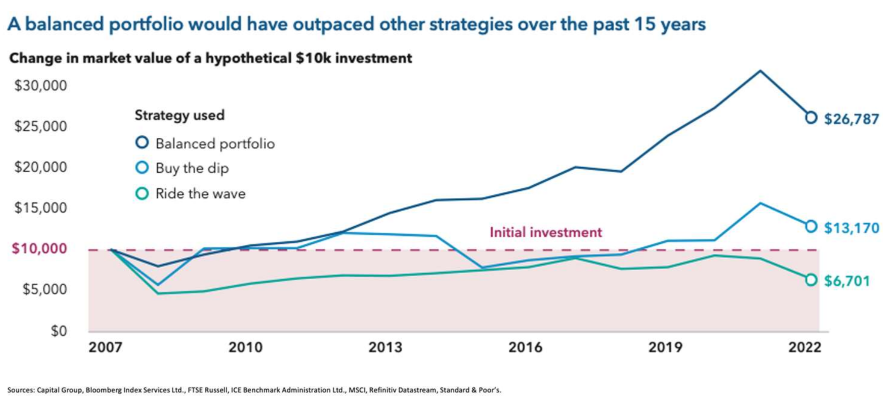
Last month we also quoted two professors at UC Berkley who said, after a long study, that "*trading is hazardous to your wealth*". The below graphic from Vanda Research corroborates this:



As you can see, retail investors, on aggregate, are still losing big in their portfolios from January 2020. On the average, they are losing about 25% since then! The reason? Among others, they make two mistakes:

1. Recency bias (Ride the wave). I.e. investing in last year's winners
2. Buy the dip. Every time the market falls, they go in and buy.

Below shows the results between a balanced portfolio and these two strategies since 2007:



So whenever you are sold "active or pro-active" portfolio management, you should question it.

The Elgin Analysts Team

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