



Patrick Harrington

Director, OLIM

OLIM

Investment Managers

Crisis? What Crisis?



Agenda

- Investment risk and how it affects equities
- The long-term case for equities
- Crashes and the factors behind them
- Where are we now?

Investment Risk

1. Investments are volatile
2. Chance of losing money
3. The level of uncertainty in achieving the expected return
4. Risk/return trade off
5. Inflation

Equities Investment Risk

- Investment markets can be bewildering to non-participants
- Stock markets in particular can seem scary and casino-like and consequently get a terrible press
- The media give the impression that losses are more likely than gains for equity owners
- Most people are concerned about investing before a market “crash”

Equities Investment Risk

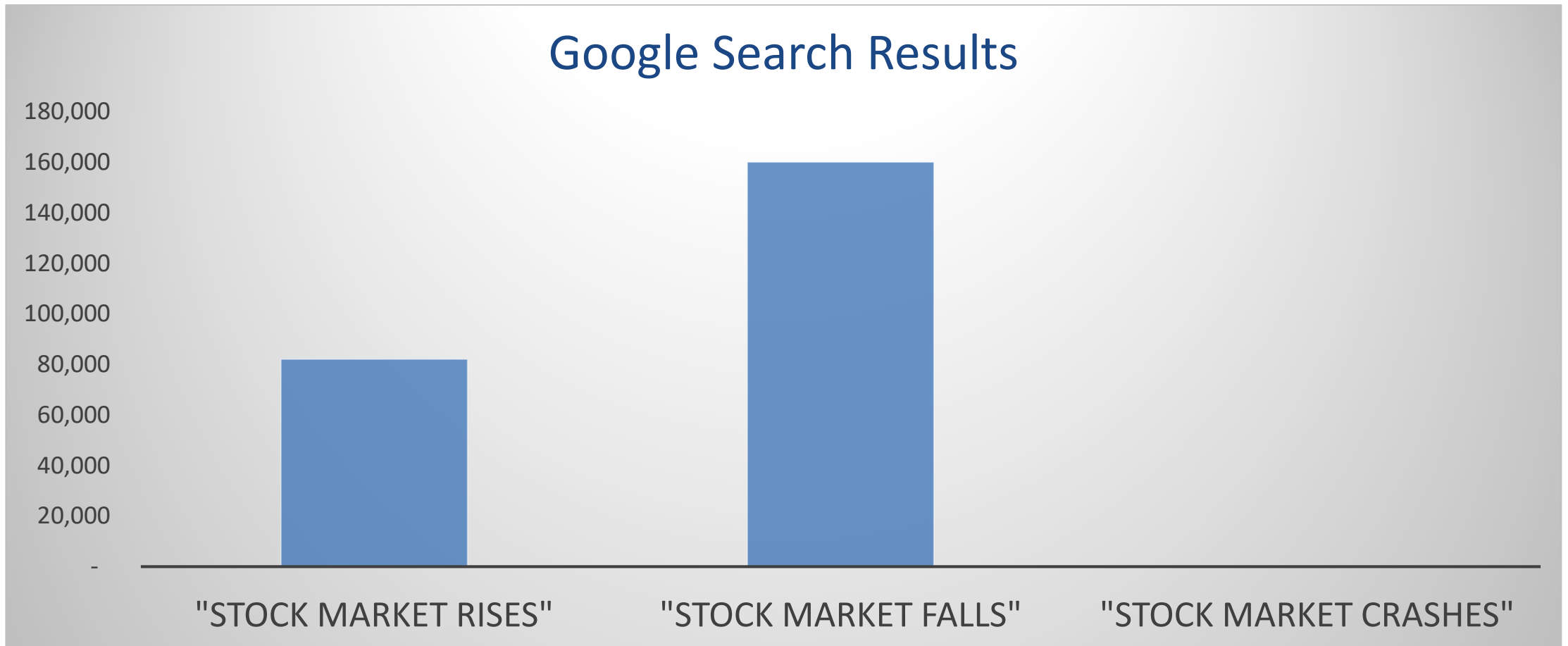


Equities Investment Risk



Source: Google, results as of 9/5/19

Equities Investment Risk



Source: Google, results as of 9/5/19

Equities Investment Risk



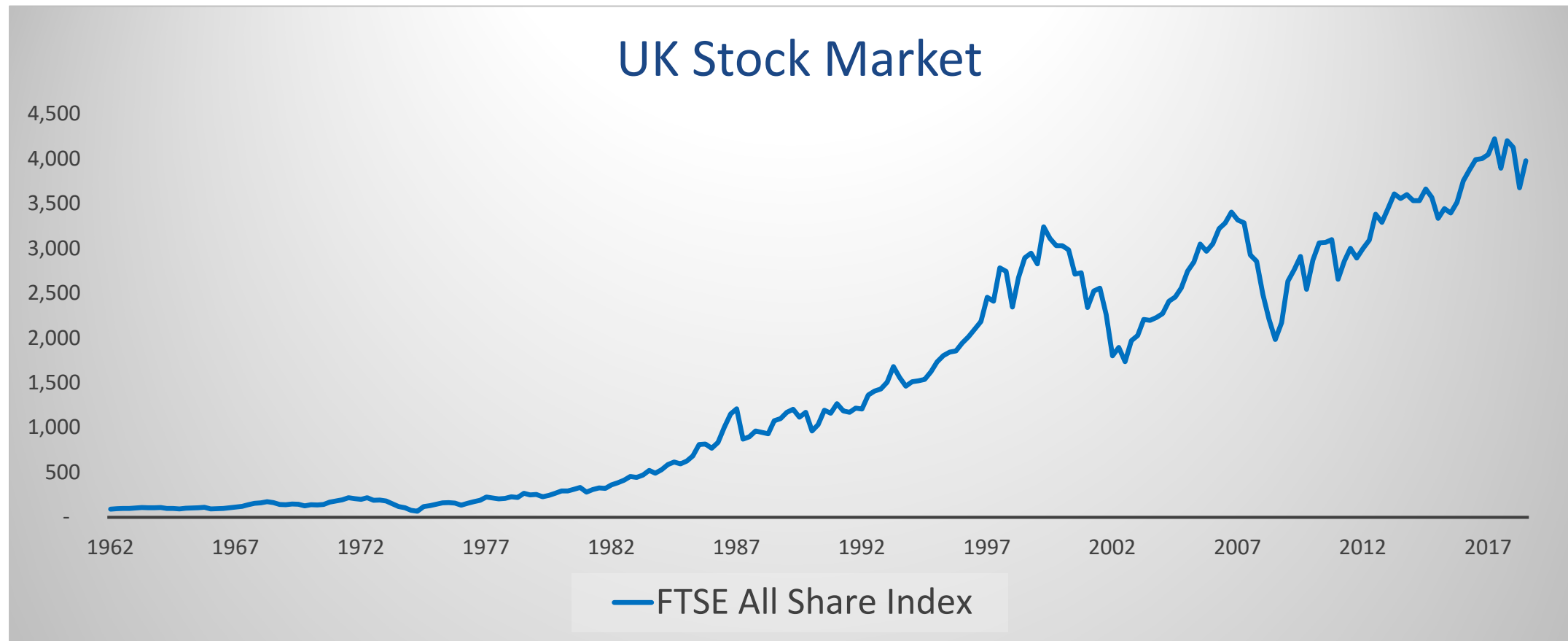
Source: Google, results as of 9/5/19

Equities Investment Risk

Why do stock markets fall?

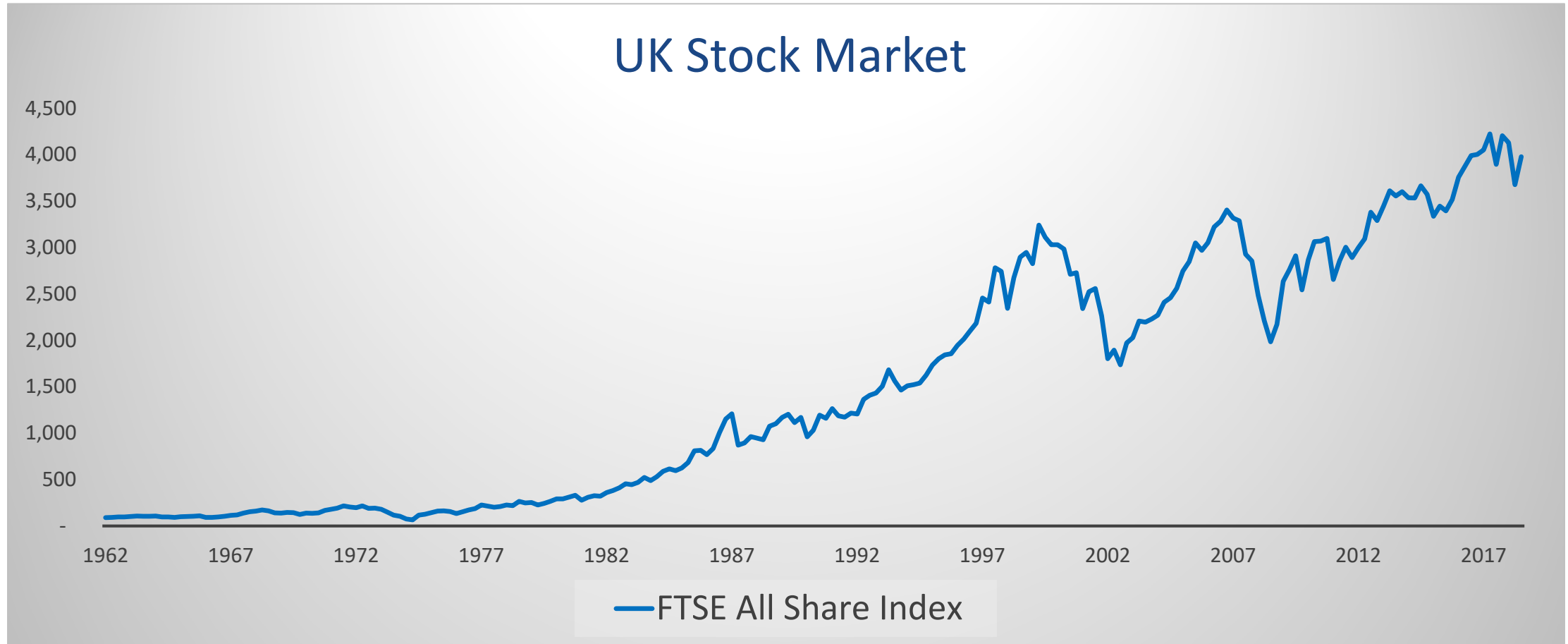
1. Sentiment/valuation
2. Uncertainty
3. Rising interest rates
4. Falling profits/dividends

Equities Investment Risk



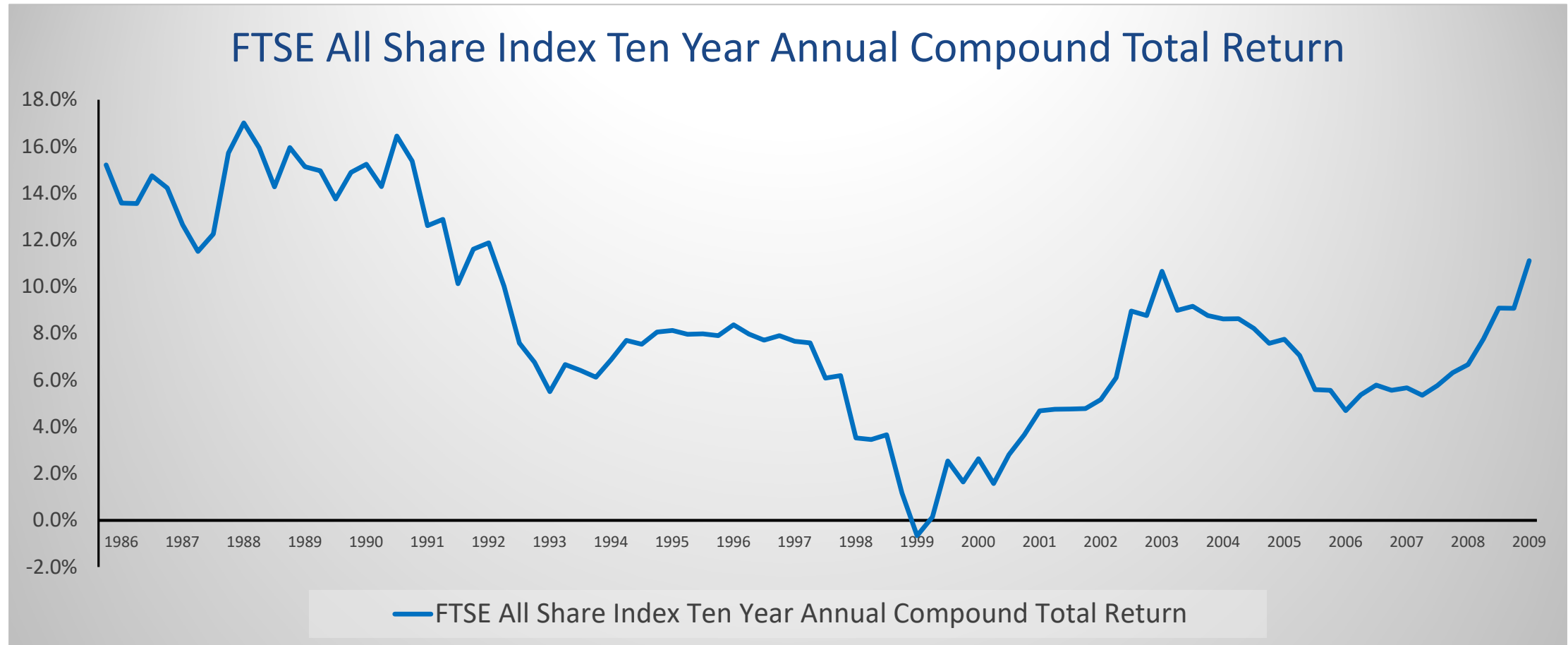
Source: Bloomberg, figures to 31/3/2019

Equities – An Attractive Asset



Source: Bloomberg, figures to 31/3/2019

Equities – An Attractive Asset



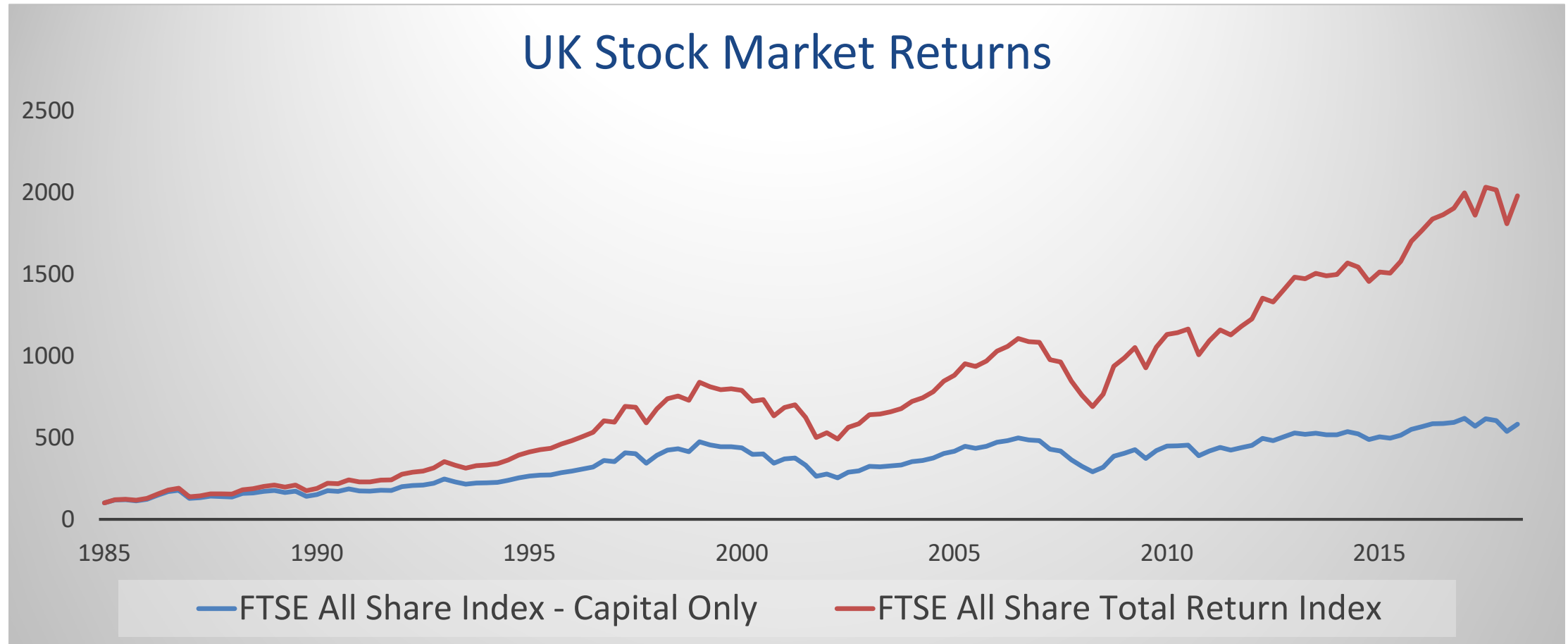
Source: Bloomberg, figures to 31/3/2019

Equities – An Attractive Asset

Why do equities generate positive returns over the long-run?

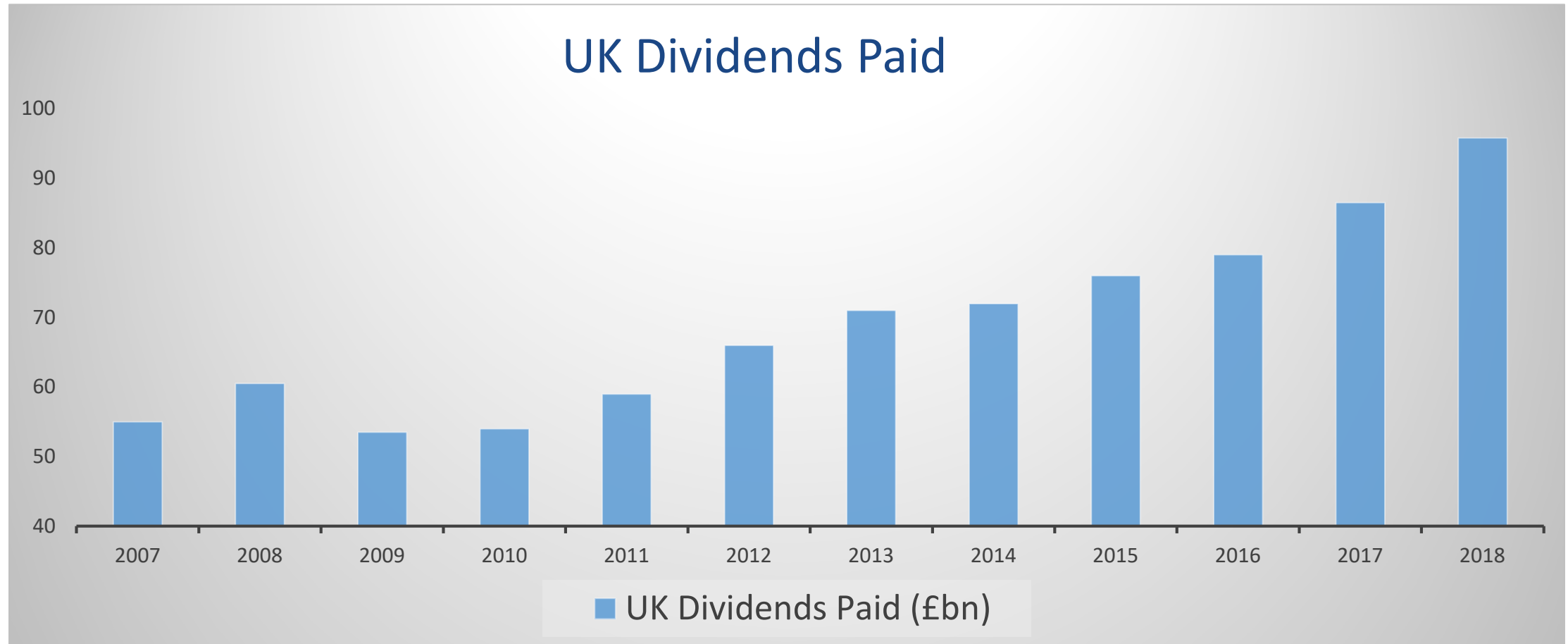
1. Companies generate profits
2. Companies pay dividends
3. Companies reinvest retained profits to grow

Equities – An Attractive Asset



Source: Bloomberg, figures to 31/3/2019

Equities – An Attractive Asset



Source: Capita UK Dividend Monitor

Equities – Investment Risk

Controlling risk

1. Commit to equities long-term
2. Remember the importance of income
3. Portfolio diversification

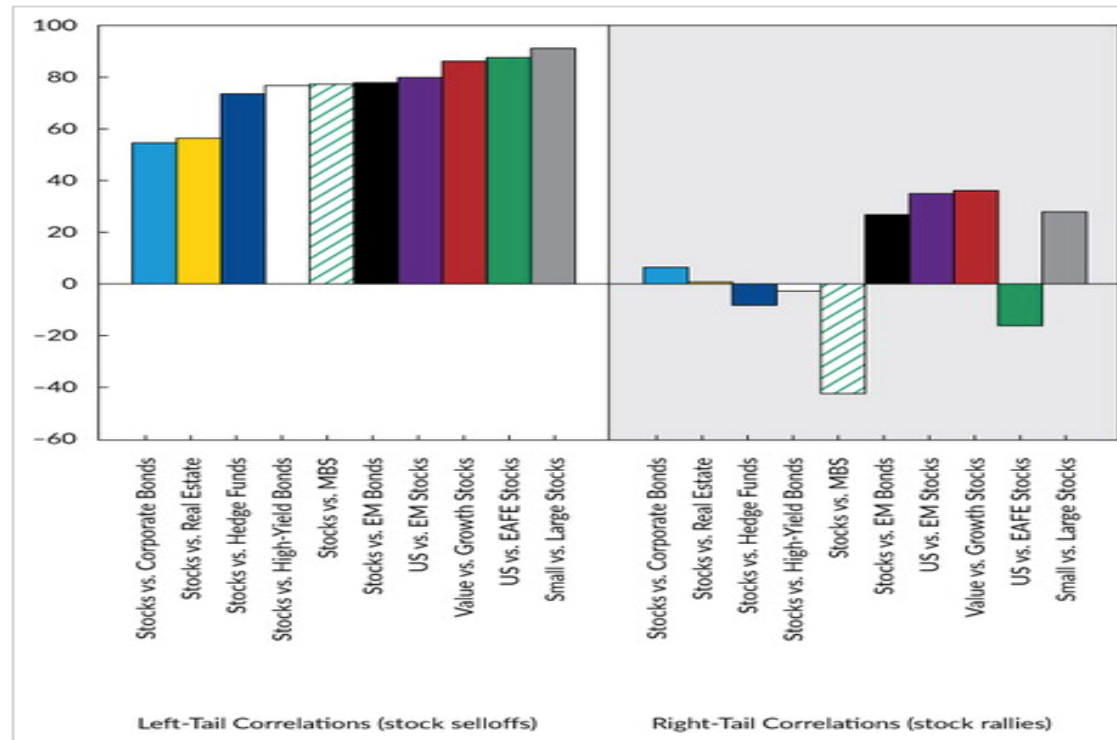
Equities – Investment Risk

Controlling Risk – Portfolio Diversification

1. Geographical stock market diversification has become less useful
2. Alternatives are not necessarily “uncorrelated”
3. Equity portfolio diversification important
4. Diversification doesn’t always work

Equities – Investment Risk

Assets become more correlated at times of stress



Source: “When Diversification Fails” – Sebastien Page, Robert Panariello

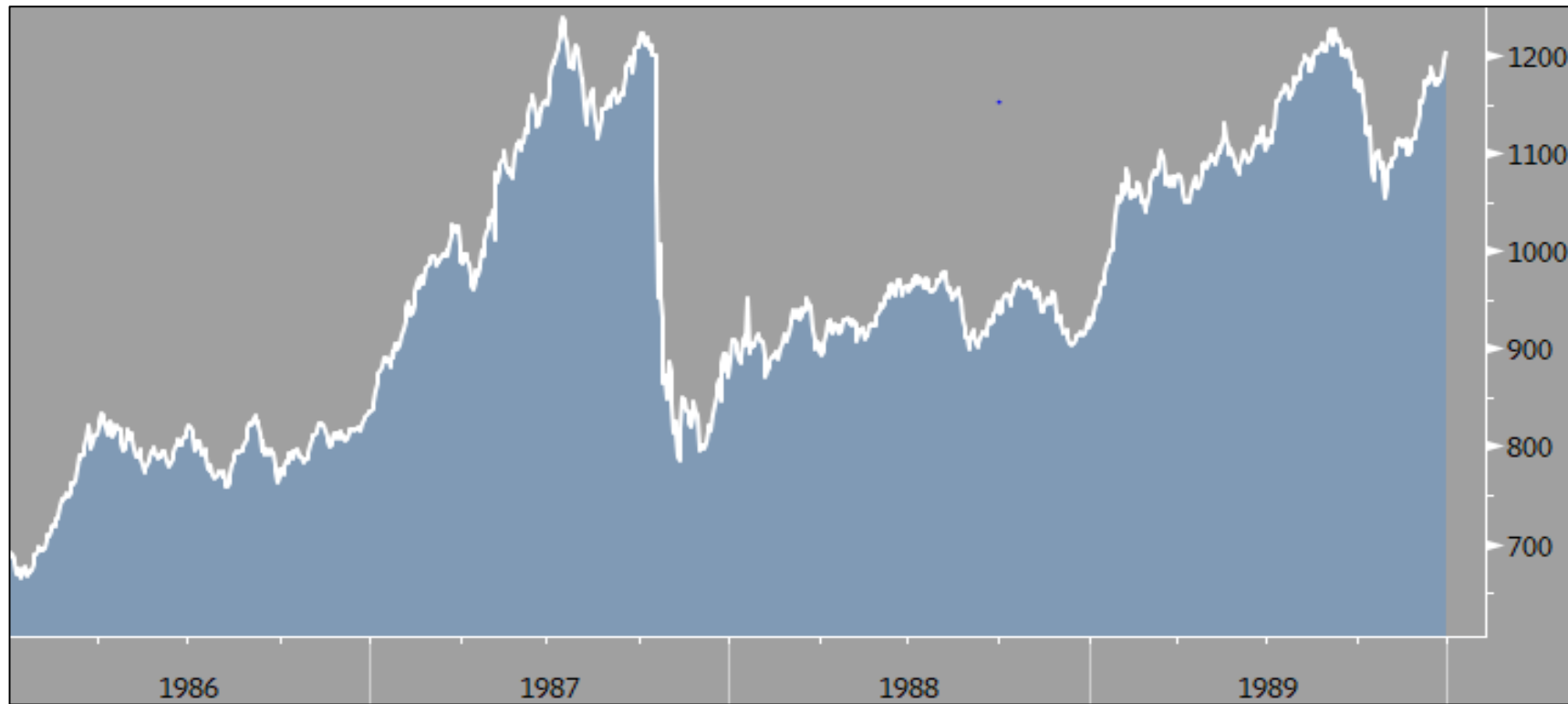
Equities – Investment Risk

Controlling Equity Portfolio Risk

1. Diversify by industry
2. Number of holdings
3. Stock selection - profitable companies with strong balance sheets
4. High yield

Brexit – The Current Crisis

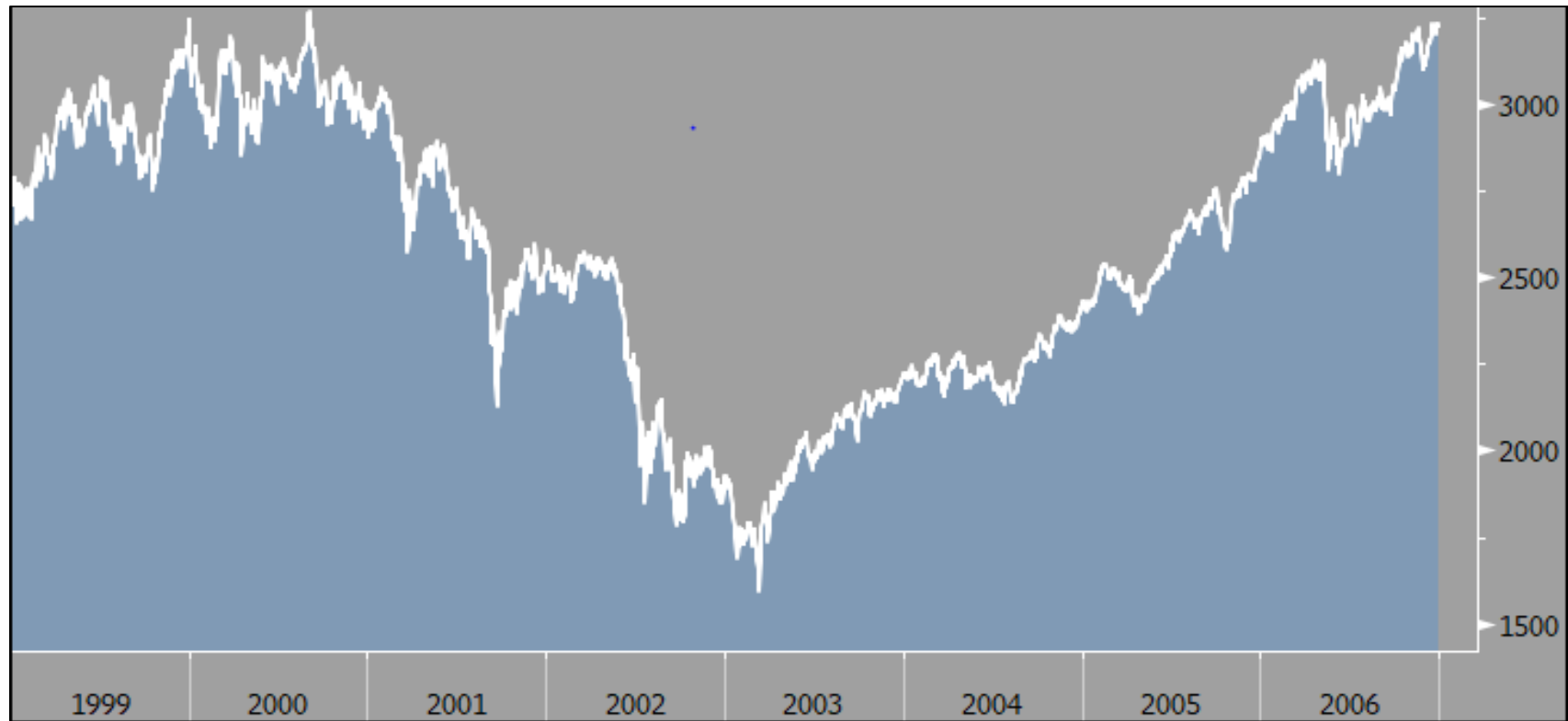
The 1987 Crash



Source: Bloomberg

Brexit – The Current Crisis

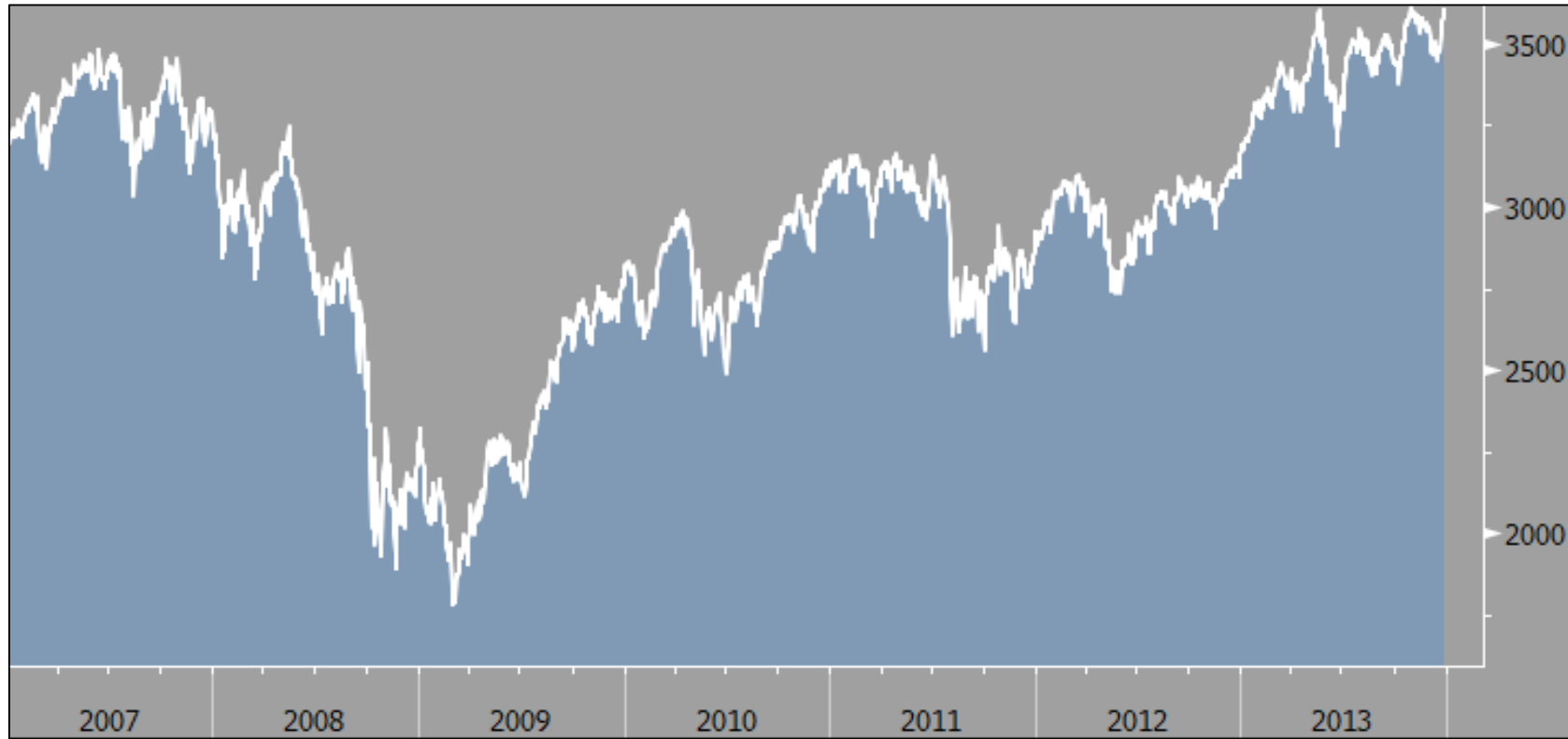
The Dotcom Bubble



Source: Bloomberg

Brexit – The Current Crisis

The Financial Crisis



Source: Bloomberg

Brexit – The Current Crisis

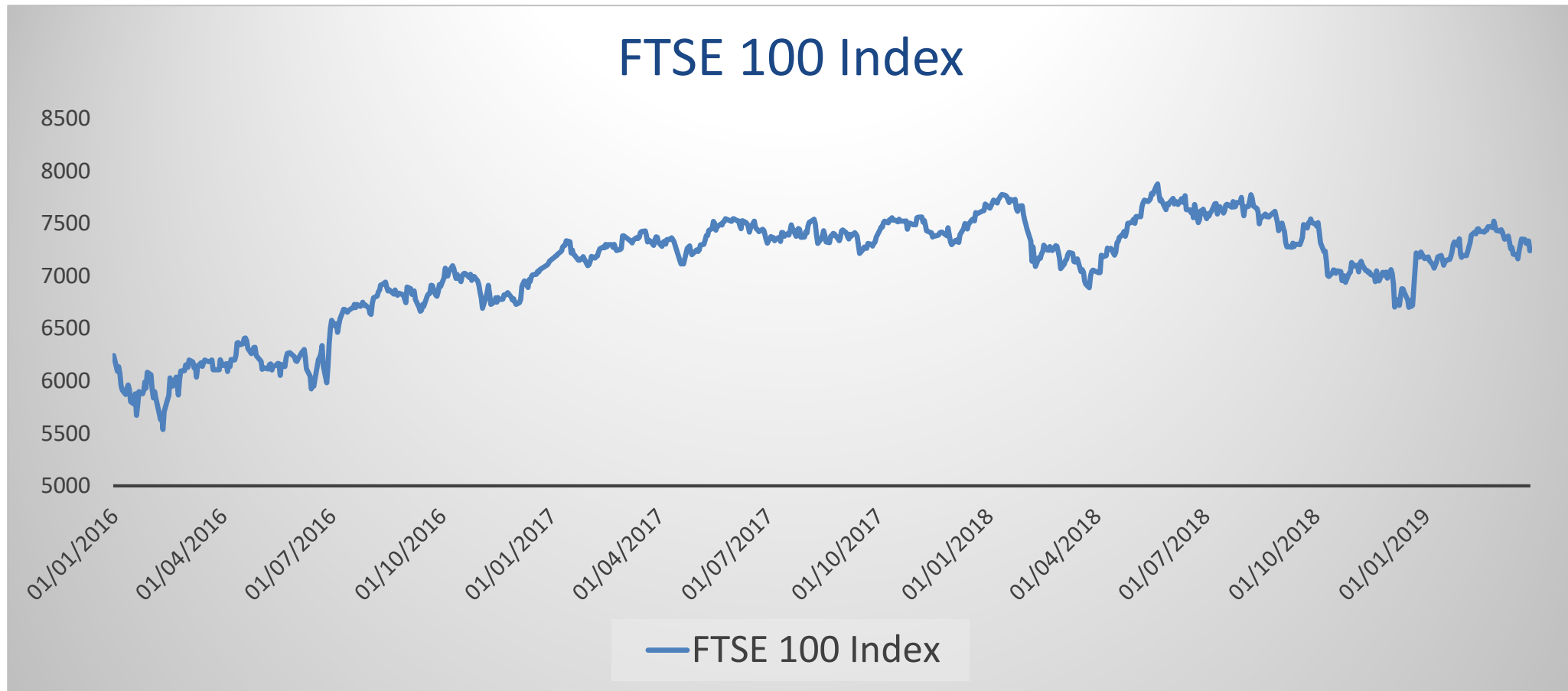
	1987	Dotcom Bubble	Financial Crisis
Easy Money	✓	✓	✓
Irrational Exuberance	✓	✓	✓
Equities Overvaluation	✓	✓	✓
Above Average Economic Growth	✓	✓	✓
Structural Banking Weakness			✓
Profit Fall			✓
Economic Contraction		✓	✓

Brexit – The Current Crisis



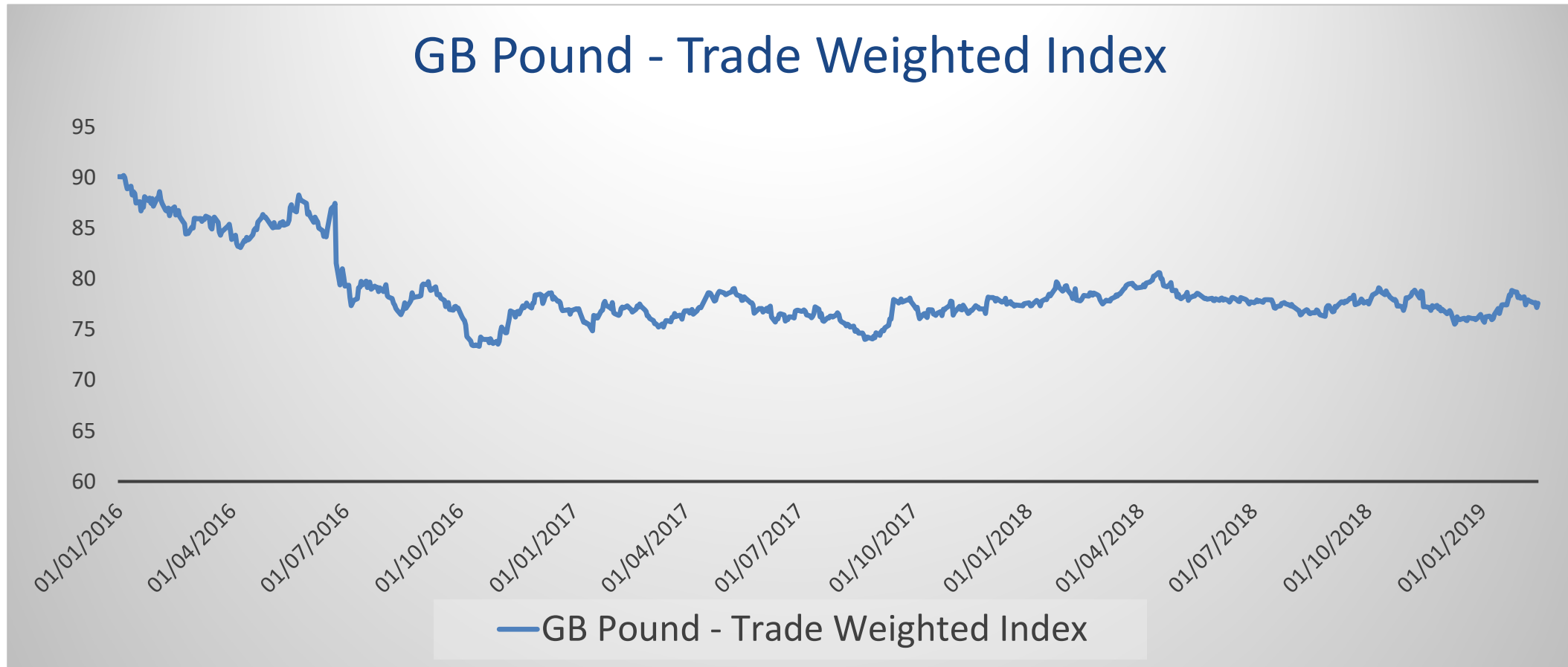
Source: Financial Times

Brexit – The Current Crisis



Source: Bloomberg, figures to 31/3/2019

Brexit – The Current Crisis



Source: Bloomberg, figures to 31/3/2019

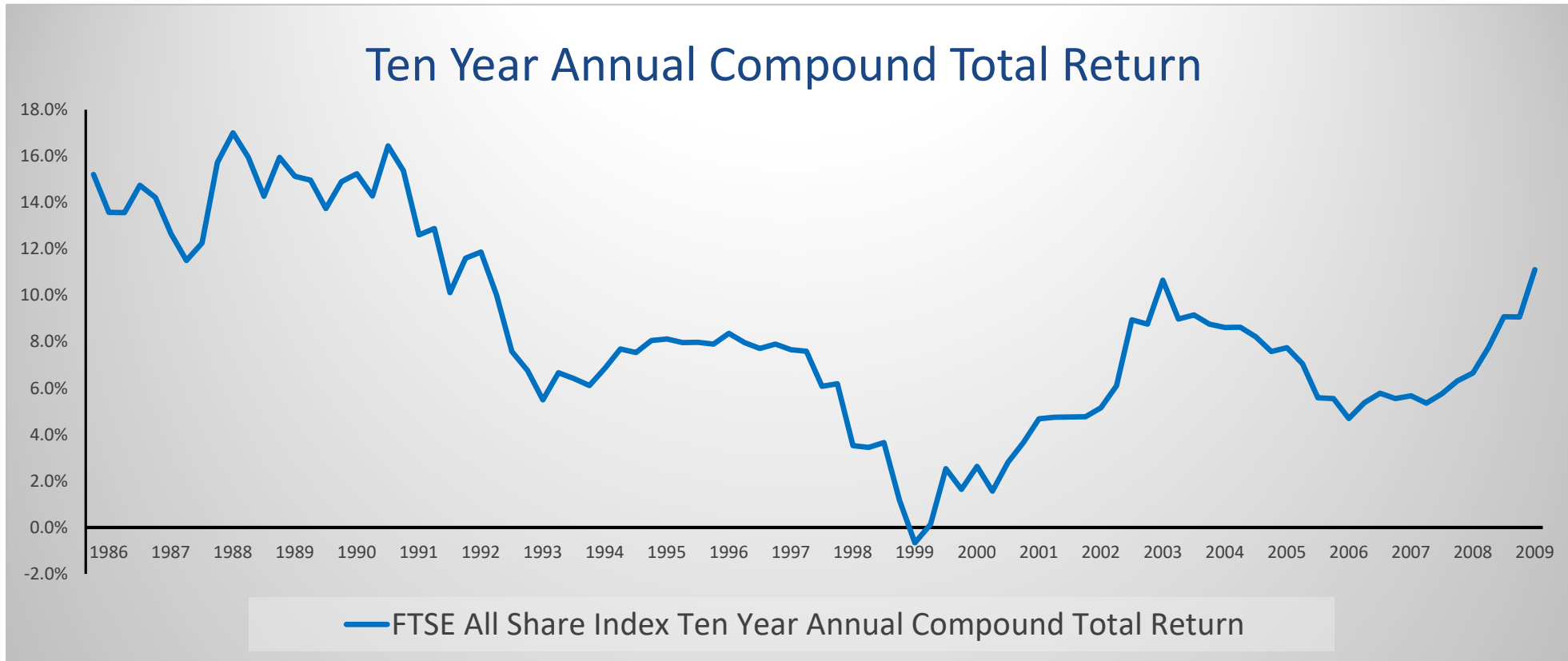
Brexit – The Current Crisis

	1987	Dotcom Bubble	Financial Crisis	Now
Easy Money	✓	✓	✓	X
Irrational Exuberance	✓	✓	✓	X
Equities Overvaluation	✓	✓	✓	X
Above Average Economic Growth	✓	✓	✓	X
Structural Banking Weakness			✓	?
Profit Fall			✓	X
Economic Contraction		✓	✓	?

Brexit – The Current Crisis

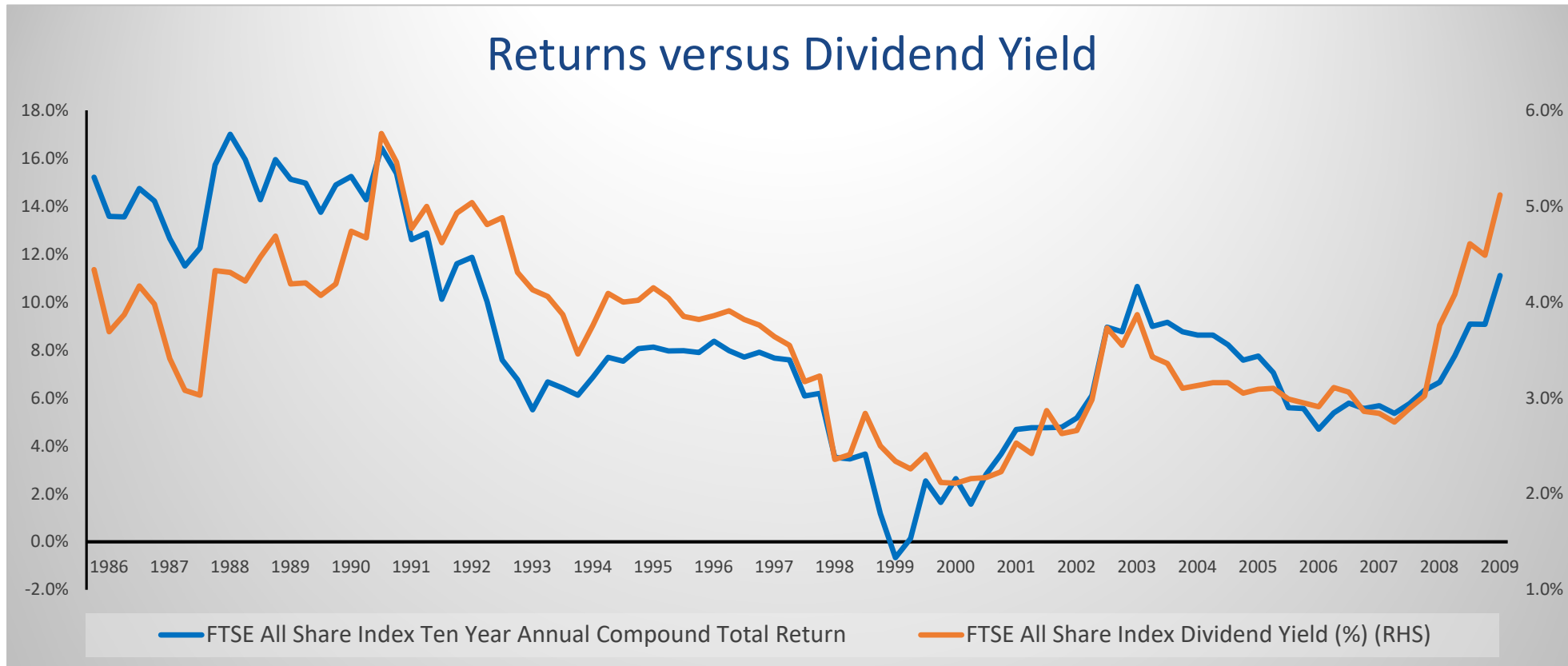
1. UK stock market \neq UK economy
2. Equity returns negatively correlated with currency strength
3. UK indices have significant overseas earnings
 - FTSE 100 c.70%
 - Mid 250 c.40%
4. Half of UK stock market dividends declared in \$ or €

Brexit – The Current Crisis



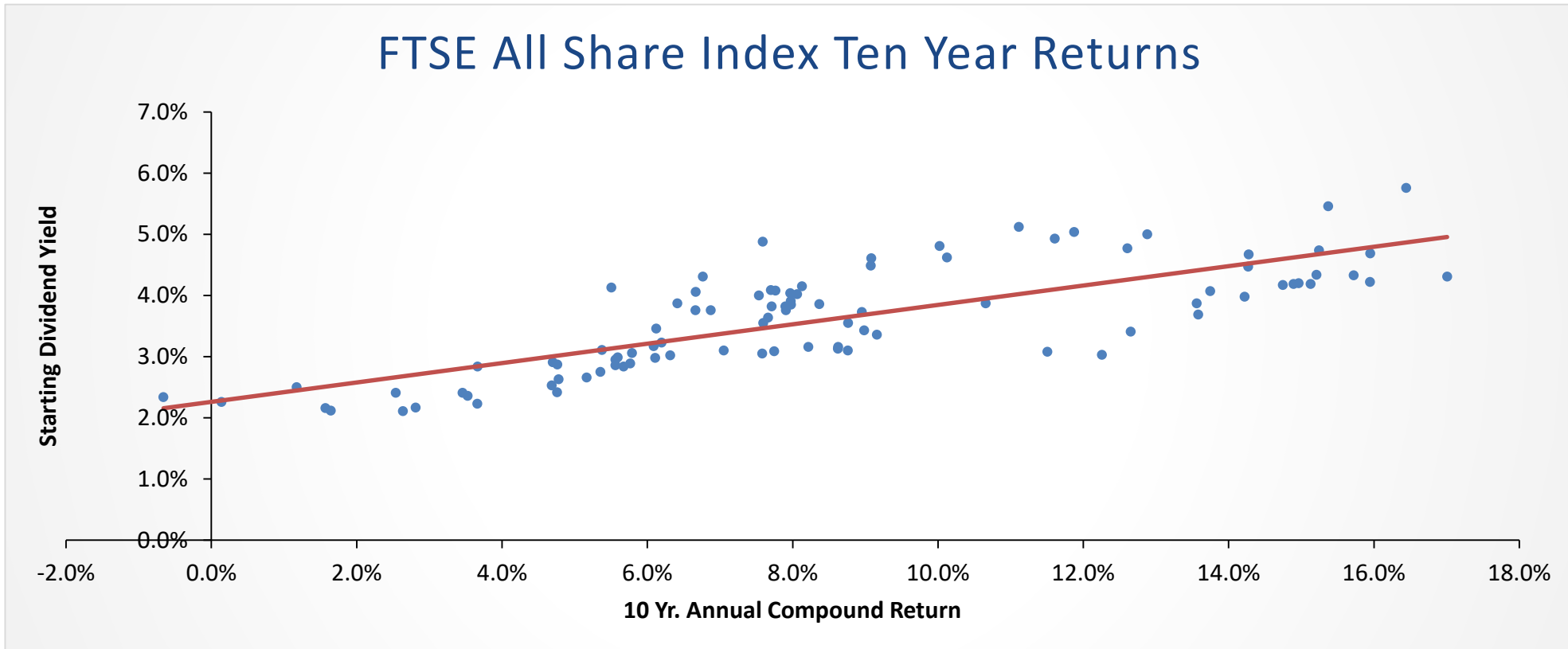
Source: Bloomberg. Data as of 31/3/19.

Brexit – The Current Crisis



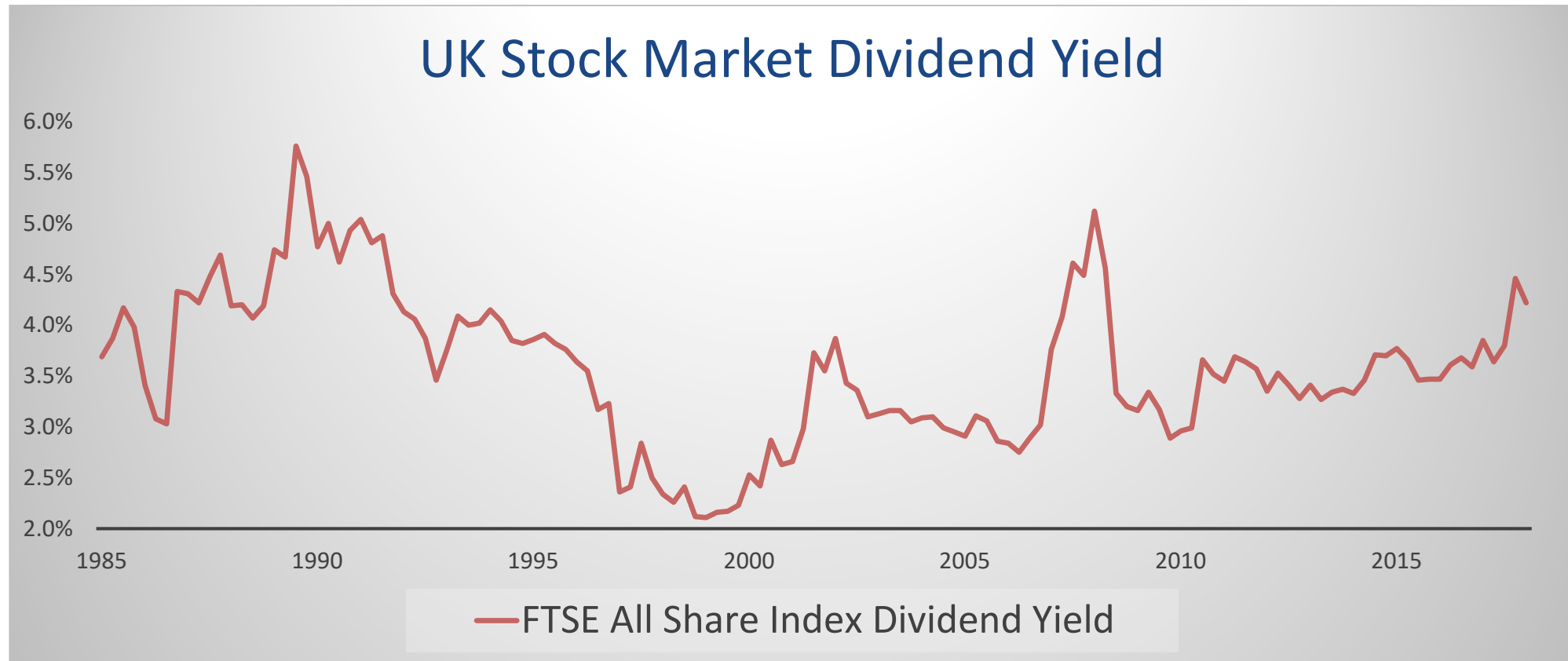
Source: Bloomberg. Data as of 31/3/19.

Brexit – The Current Crisis



Source: Bloomberg. Data as of 31/3/19.

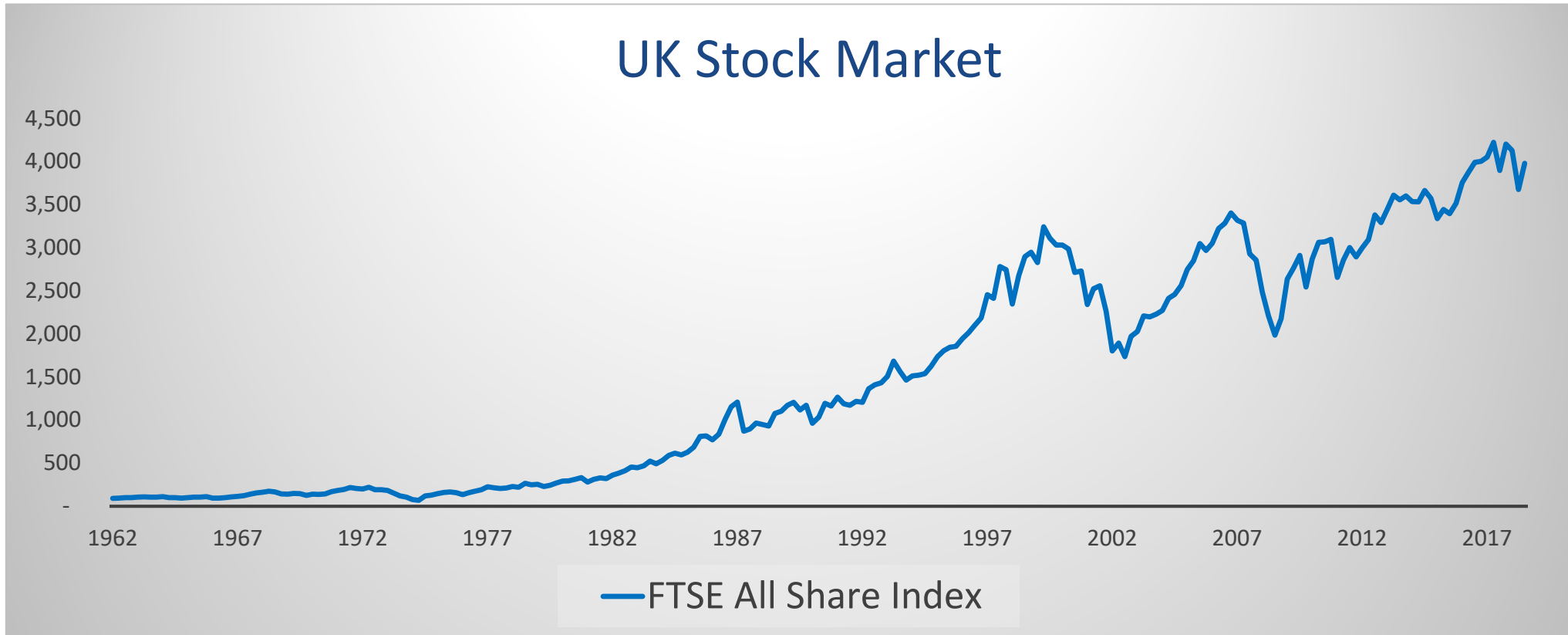
Brexit – The Current Crisis



Source: Bloomberg. Data as of 31/3/2019.

Brexit – The Current Crisis

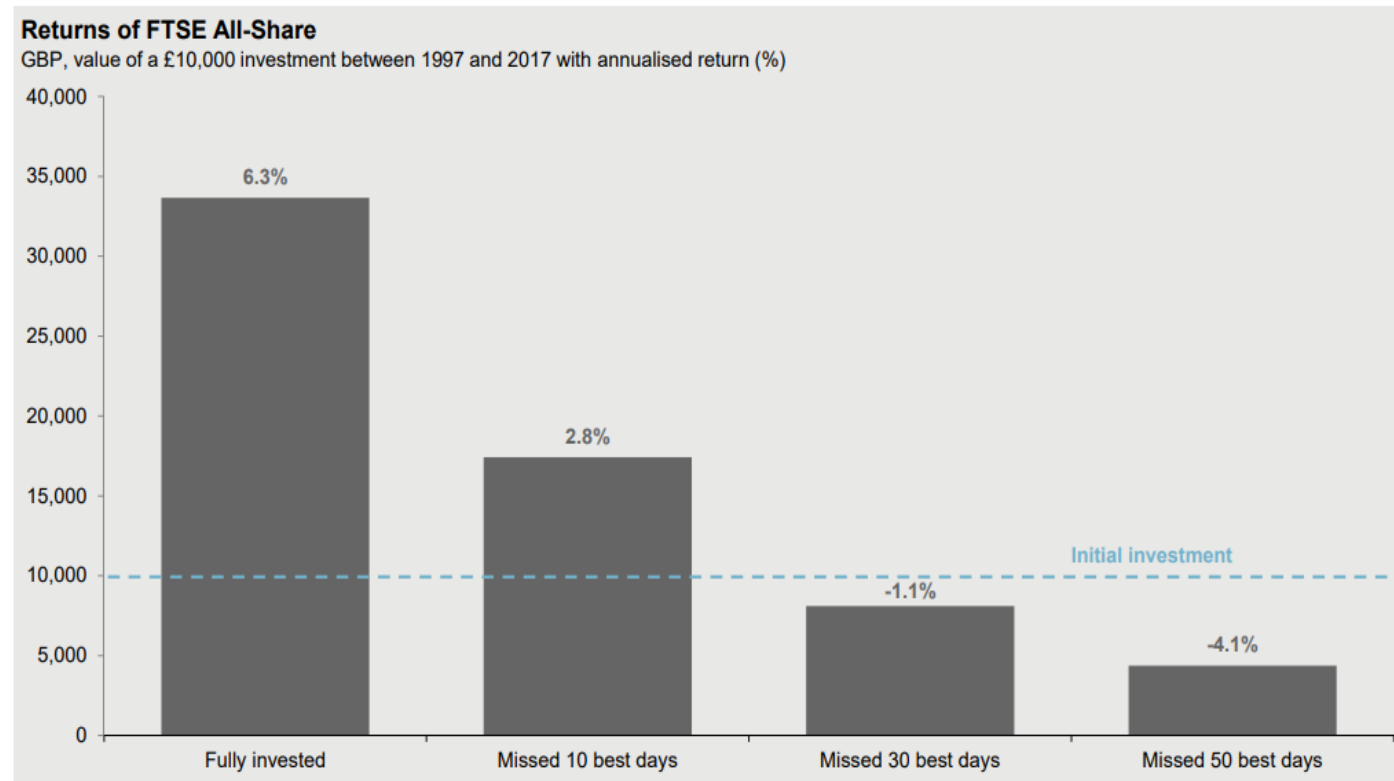
Market timing is difficult



Source: Bloomberg. Data as of 31/3/2019.

Brexit – The Current Crisis

Market timing is difficult



Source: Bloomberg, FTSE, J.P. Morgan Asset Management. Investment outcomes based on price returns. For illustrative purposes only. Returns calculated daily over the time period assuming no return on each of the specified number of best days. UK. Data as of 31 March 2018.

Conclusions

1. Equities are an attractive, positive return asset for long-term investors
2. Risk can be controlled but not eliminated by sensible diversification and a focus on income
3. Crashes are rare and external conditions do not suggest another crash is imminent
4. There is always another crisis just around the corner
5. Current dividend yields suggest UK stock market investors will be well rewarded over the longer term