December 2015 – Commentary

Dear Investors,

Below are some words of wisdom from Warren Buffet, referring to times of immense volatility. His message is essentially hold onto your hats – it will likely be a wild ride, but those that can stomach the short-term gyrations will be amply rewarded in the end.

Clearly since the start of the year, we've been in the midst of a market correction. This volatility has been caused by a confluence of factors including:

- Oil trading in the $30 range – possibly heading lower.
- Low Chinese GDP growth expected of just 6.5% (2016).
- Strong US$ hurting S&P 500 global earnings.
- Weak US retail and manufacturing data for the recent holiday period.
- Central banks less willing to act as shock absorbers

Despite all the doom and gloom – the US has now added 6 million new jobs in just the past 2 years. There is no looming US recession, as the job growth rate continues to power along. This remains a very different market and set of circumstances from the 2008 financial collapse.

There is very little inflation on the horizon, as US wages have barely risen the past few years. This is partly due to the US labor participation rate being at multi-decade lows. With the commodity super-cycle truly dead and buried, it is the emerging markets that continue to suffer the most. Despite many of their currencies losing between 25%-30% against the US$ (last 18 months), they have reaped few export benefits. As China continues to shift from an investment and export-led economy to one that is more consumption and services based; it is no longer the huge pillar of support to be relied upon by many commodity producing countries.

Unfortunately as the world economy shifts and rebalances – we are likely to experience further turbulence this year. However with blood in the streets, history shows this is typically a great buying opportunity. In particular, by conservatively investing into the market via dollar cost averaging.

Lastly, please see attached GinsGlobal's most recent Index Fund performance figures and Fund fact sheets.

Kind regards,

Anthony

Warren Buffett’s Advice - words of wisdom

- “We continue to make more money when snoring than when active.”
- “Inactivity strikes us as intelligent behavior.”
- “The only value of stock forecasters is to make fortune-tellers look good.”
- “Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the patient.”

Buffett recommends that if you simply cannot resist the temptation to time the market, then you “should try to be fearful when others are greedy and greedy only when others are fearful.”

While it is tempting to believe that there are those who can predict bear markets and, therefore, sell before they arrive, there is no evidence of the persistent ability to do so. On the other hand, there is a large body of evidence suggesting that trying to time the markets is highly likely to lead to poor results.

For example, a study on the performance of 100 pension plans that engaged in tactical asset allocation (a fancy term for “market timing,” allowing the purveyors of such strategies to charge high fees) found that not one single plan benefited from their efforts. That is an amazing result, as even random chance would lead us to expect at least some to benefit.

Warren Buffett has accurately stated that “investing is simple, but not easy.” The simple part is that the winning strategy is to act like the lowly postage stamp, which adheres to its letter until it reaches its destination. Similarly, investors should stick to their asset allocation until they reach their financial goals.

The reason investing is hard is that it can be difficult for many individuals to control their emotions (greed and envy in bull markets, and fear and panic in bear markets). In fact, I’ve come to believe that bear markets are the mechanism by which assets are transferred from those with weak stomachs and without an investment plan to those with well-thought-out plans—meaning they anticipate bear markets—and the discipline to follow those plans.

A necessary condition for staying disciplined is to have a plan to which you can adhere. But that’s not sufficient. The sufficient condition is that you must be sure your plan avoids taking more risk than you have the ability, willingness and need to take. If you exceed any of those, you just might find your stomach taking over. The bottom line: If you don’t have a plan, develop one. If you do have one, and it’s well-thought-out, stick to it.

Source: Larry Swedroe 1-14-16