April 2020

The Premier Partnership Limited

Your Family Office

The Value of Long Term Investing

News LETTER

First, a note of praise to every single one of you, our clients, for your tremendously positive attitude during these troubled times and a big thank you from all of us here at The Premier Partnership Limited for your kind words and wishes.

The message is strong - We are still here, and we will be when it's all over. We will look forward to catching up again soon, in the meantime - keep safe.

Coronavirus Update

Just four months after surfacing in the Chinese city of Wuhan, the number of infected people across the globe has now passed 1 Million. This will in turn cause the global economy to shrink by 2% - 3% this year. We have written much about the markets and the incredible volatility we have witnessed since January and so we do not want to repeat ourselves here. Instead this quarter we are writing on the positive value of long term investing and having the ability both financially and mentally to ride these wild storms and to come through at the other side.

What are the benefits of long term investing?

Staying invested

Investing for the long term gives your money the greatest chance of increasing in value. However, this also means you have to hold your nerve during difficult times in markets. It is an adage that we have used many times before:

'It's Time in the market, not Timing the market that creates real returns'.

If you are relatively new to the world of investments your first market drop can be particularly unnerving. Your first instinct may be to sell your investments. However by jumping ship you will crystallise your losses and make them real. By cashing in your investments, you also risk missing out on any recovery, which usually include the best days in the markets in terms of performance. The global stock markets and economies have endured plenty of adversity over time, and they always recover – given time.

Investing typically beats cash

Savings accounts typically struggle to keep pace with inflation, so savers lose real value if interest rates are below inflation – currently the position.

If you are prepared to accept the risk and volatility that comes with investing, and have time on your side, you will give your investments the greatest opportunity of growing and staying ahead of inflation over the long term. The ball may drop but you want to make sure you are there for the bounce.

A long term approach will prevail

We are often asked what is the long term? Well the long term is defined as 3 - 5 years minimum. Your overall view of your finances should be led by your head and not your heart. Create a plan and stick to it. It may be one of the few instances in life where a less emotional approach is better.

A simple financial plan

Analyse your income and outgoings and hopefully the former will be higher than the latter. Then place 6 months of outgoings into an easy access savings or current account so that you always have an 'emergency fund' of 6 months' cash available, should we all find ourselves in a situation that we are in now.

Then analyse your proposed capital expenditure for the next two years – change the car, big holiday, wedding, university costs, house extension or house move. Whatever the costs are, place that amount of money into a longer term deposit account or National Savings to obtain a better interest rate than a simple deposit or nil interest current account.

By creating the above, you have covered your known immediate expenditure and potential future expenditure for the next 2 - 3 years. Whatever is left, invest. This simple analysis then guides you into the long term investing mode of 3 - 5 years minimum, because you are only investing money you do not need immediately. Markets can therefore fall and rise without affecting your planning and not worry you about values on a daily basis. Long term investing comes with many benefits and the statistics don't lie. With a composed approach and a real plan, you will keep your long term perspective intact and that way you will be less likely to make irrational decisions.

Three things to remember

1. **Try not to let your emotions take over when investing. If there is a dip in the market, try not to make knee jerk reactions, and keep to your plan.**
2. **Consider your goals. If you invest for a minimum of 3-5 years, and preferably longer, you vastly increase the potential of your investments recovering from short term falls. This will help you achieve your overall financial goals, such as planning for retirement, or planning income in retirement.**
3. **Allow time: Stock markets do not move in straight lines. Never have, never will do, but they have the potential to recover from short term shocks.**

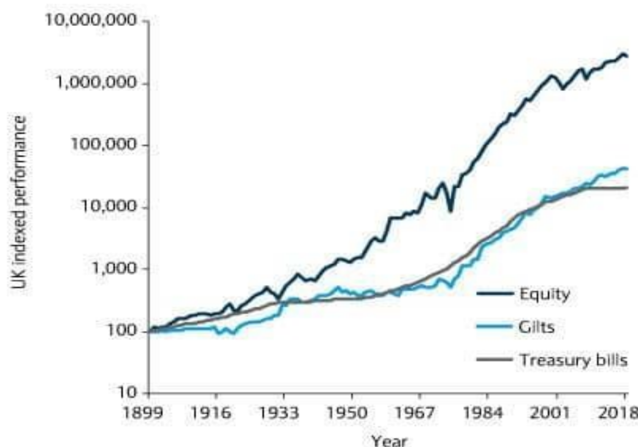
History

The whole point of investment is to put money aside to meet medium to long term financial objectives, such as providing family security, an income in retirement or legacy planning as examples.

Only two things should ever be considered by investors, the price you buy at and the price you sell at. What happens in between is irrelevant. Unsettling though that might be at times – it's true.

The FTSE 100 Index was launched in 1984, the same year as the British Telecom flotation, which introduced 2 Million people to share investing for the first time. This index is the most widely used UK stock market indicator, and the FTSE indices generally are used by investors worldwide for investment analysis. Having started life in March 1984, the FTSE 100 Index made an inauspicious start, going down from its initial starting value of 1000 to reach an all time low in July 1984 of 978.7.

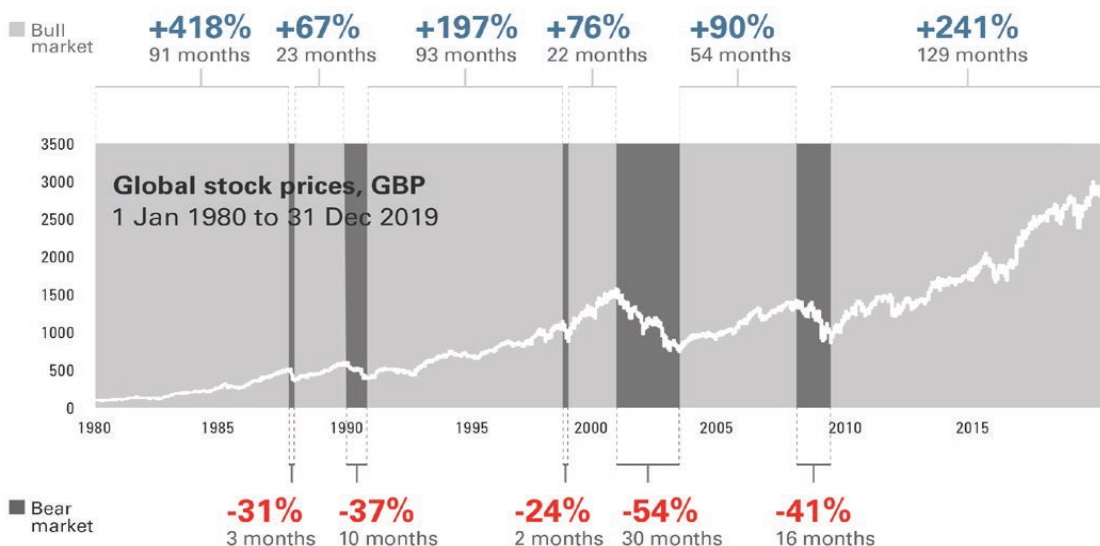
On 20 July 2019, the FTSE 100 Index reached an all time high of 7727.49. So, £10,000 invested into that index at the start would have seen an initial loss but would have been worth on that date £77,270. What these figures show is that over its entire history, encompassing the crash of 1987, the bursting of the Dot Com bubble (2000), 9/11 and the global financial crisis of 2008 and several recessions, the discipline to hold on to the investment paid off.



Bear Markets

A bear market is a period of time when stock markets fall in value and is caused by external economic events such as Brexit, Coronavirus or recessions. It is defined by a drop of 20% or more in asset values and up to present events, we have experienced two major bear markets over the last 20 years that have lasted more than a year and at the worst, declines of 50.2% were seen (2009).

Bear markets are a normal event, but following the years of rising markets, they can sometimes be difficult to understand. It is also easy to lose sight of the fact that bear markets, like recessions always end. Global bull markets have more than made up for bear market losses. Since 1980 there have been seven bear markets in the USA and five in the UK. However, investors often assume that bear markets and recessions go hand in hand. Not true. A bear market occurred in only 3 of the last 14 US recessions and positive market returns accompanied 7 of those recessionary periods. Similarly, and conversely, it is not uncommon to see poor or lacklustre stock market performance in years of solid economic performance. No one knows what the future holds, but understanding the past can give us perspective and help us avoid impulsive decisions.



Note: Bear markets are measured as a 20% decline in securities prices from recent highs.

Source: Vanguard analysis based on the MSCI World Index from 1st January 1980, to 31st December 2019, and the MSCI AC World Index thereafter. Both indexes are denominated in GBP. Our count of corrections excludes those that turn into a bear market. We count corrections that occur after a bear market has recovered from its trough even if stock prices haven't yet reached their previous peak. Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

3 Things to remember when investing

1. In order to preserve the long term purchasing power of their wealth, investors need to generate a return that is higher than inflation.
2. For long term equity investors the most effective time to invest is generally when the headlines are the darkest and markets are weak.
3. Investors are vulnerable to buying high and selling low.

The light at the end of the tunnel

A long term view of the market can hide the ups and downs. A closer look shows that global bull market returns have more than made up for bear market losses. The picture below is worth more than a thousand words and confirms our view, and should shape yours.

Bull years

A bull market is defined as a price increase of more than 20%. Values show the maximum % gain that occurred relative to the previous trough.

Bear years

A bear market is defined as a price decrease of more than 20%. Values show the maximum % loss that occurred relative to the previous peak.

Log of indexed performance: 10, 1, 0.1

226% 29.7 years · 142% 4.5 years · 25% 5 years · 341% 11.3 years · 160% 5 years · 168% 3.2 years · 185% 6.5 years · 130.45% 1.9 years · 180% 1.2 years · 1675% 10.9 years · 571% 12.8 years · 135% 4.8 years · 183% 9.8 years

-45% 2.8 years · -30% 1.8 years · -34% 0.3 years · -22% 0.7 years · -20% 0.6 years · -21% 1.3 years · -30% 1.3 years · -67% 2.6 years · -27% 0.8 years · -34% 0.1 years · -43% 2.4 years · -41% 1.3 years

"Great crash" of 1929 · Oil crisis · Black Monday · Tech bubble · Global financial crisis

1900 1910 1920 1930 1940 1950 1960 1970 1980 1990 2000 2010

103.1 total bull years

7.9 years average bull period

16 total bear years

1.3 years average bear period

Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.

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