

JUSTIN'S COMMENTARY

SEVEN 
Investment Management

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



YOU MISSED IT! IT WAS THE BEST OF TIMES AND THE WORST OF TIMES...

So when are the best and worst times and what happens if you miss them? So are we all trying to be too clever? And can we really time the market?

So whether showing off or just being very clever, doesn't there always seem to be some clever clogs who says he anticipated some news, political or even stock market event. Whether they actually did or not is often open to question, or more to the point did they actually do anything about it, like tell anyone or did they invest or sell something.

Of course there are always those doomongers who will tell that the "end is nigh" for investment assets like property or certain types of shares, and of course one day and at some stage they will be right. I often think back to Tony Dye, the analyst with Phillips & Drew, who quite rightly identified the 'dot-com' mania and boom of the late nineties as an unsustainable bubble of hot air. He bravely shouted against the mob as a true contrarian (as opposed to those who criticise from the edge and pretend to be brave) and sadly lost his job just before his predictions came true and the whole "TMT" (Technology Media & Telecom) edifice and fashion fad collapsed into smouldering financial ashes.

In the investment world, I suspect the most common question asked is whether the 'market' is going to go up or down. Well why wouldn't you? After all it must just be possible that you were talking to the only investment analyst with the astrological powers to foretell the future. Of course the reality is far more likely that you will end up either with someone who will tell you the truth and say "actually I don't know" or someone who will blag to you about his apparent expertise and make it up, just to inflate his ego. So this reminds me of some numbers which I think reveal the danger, or is it stupidity of trying to guess or gamble your way to investment success. I found some data covering the quite broad US index, the S&P 500, which as the name implies covers 500 companies. With this Index we can measure its success over a period and see the impact of what happens if you missed some of the key dates. For this, I have taken a period from 1st January 1995 through to 31st December 2014, which is made up of 5,036 trading days in the market.

Now over that period if you had invested a nice round sum of \$10,000 and left it alone you would have ended up with quite a healthy sum at the end of that period of \$65,475.13, which works out as an annualised return of 9.85%. However, during that time if you had been ducking and diving out of the market and managed to miss the best 5 days (out of 5,036 remember) your returns would be some 39% less at \$43,435.75. Let me take this a little further. Supposing you had been out for a while and managed to miss the best 40 days then what would have happened? Well in fact you would have lost money and seen a return of -101.54% leaving you with less than you started with at \$9,143.46.

So what happens then if I look at some of the worst days? Well if I take out the 5 worst days over that period, then your annualised return rises to 12.24% and your value increases to \$100,688. Then to follow the same pattern, let me take out the 40 worst days and the result is even more staggering. **Your \$10,000 would have now risen to an annualised return of 22.19% giving you a huge \$550,011.**

Of course given that you don't know when any of those days are going to be, the calculations are somewhat academic, but you can certainly say that you can't afford to miss the great days. We would all be better off if we just stayed where we were and left the money invested.

Well at least you would have made a profit of over \$55,475.13 on top of your original \$10,000, without having to suffer all the pain and angst of deciding when it was the right time to buy or sell. So it's not trying to time the market that is important, but rather time in the market.

Haze

For those who have lived in Singapore, the filthy acrid haze that seems to occur most years is an appalling atmosphere to live in. It emanates from its huge neighbour Indonesia and the regular forest and old plantation burnings that occur in Kalimantan and Sumatra. Some actually can't be extinguished as they have caught hold underground in areas of peat and just carry on burning and heating the soil with the smoke seeping through it. The cost is already high around at \$35bn but that will increase with international legal claims for health damage, flights delayed as well as sports and schools being shut and cancelled. Apparently Indonesia states that some 136,000 people are suffering with respiratory diseases directly related to it.

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And finally...do you like having a kip on a train or a bus, or like me just doze off sometimes? Well if you do, can I recommend that you don't go to Sacramento in California.

It seems that under a local ordinance, sleeping people will soon be asked to leave buses and light rail trains.

The proposals come as Sacramento enjoys a downtown building boom that will eventually add a high-end basketball arena and a soccer stadium, amenities that officials hope will draw patrons to the area by light rail, bus or train.

"If we can make it more attractive or make it more enjoyable to use the light rail or bus, then people are more apt to use it," said a spokeswoman for the Sacramento Regional Transit District.

Like many American cities, Sacramento fans out toward its suburbs in a sprawling metropolitan grid built more for automobiles than transit in most areas, and has struggled to win middle-class riders to its bus and light rail system.

Under the ordinance, passengers will no longer be allowed to get on a bus or train unless they are covered "above and below the waist" and wearing shoes. They will also be banned from playing sound equipment that is audible to other passengers and will be banned from sleeping on a train that has reached the end of the line.

However, a separate measure that would have barred people who let off noxious odours was removed from the rules for some reason.

Actually for me, I would be banning people eating smelly things next to me which I find especially unpleasant on the tube. As for banning people producing noxious odours, I think that would be a great idea and they should be issued with shaming bars of soap to go and get clean!

Have a good pong free week.

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