Dear Friends

<u>What happened to Spooky October?</u>

Well, we all had a great time in October, with share markets up by 8% – but how can that be with the decades old curse of Halloween in play?

The answer? The 'ghosts' of the stock market drove a huge rally – despite the 'ghouls' of economic gloom. Naturally, it has fallen from its historical highs, but that's the usual pattern of the stock market.

To use one of the truisms of investing "It is not timing the market but time **in** the market that counts."

If you were to look at a graph of investment returns over the last 100 years you would be able to see from two metres away, a beautifully rising right side of the index, and this is a delight to see. However, if you zoom in to a distance of 30cm, you will also see the massive descents – caused more recently by the pandemic, the supply issues out of China and the worker shortage here; with all of these effects topped off by the war in Ukraine.

As callous as it may sound, there have always been major global economic disruptions. Take for instance, the Spanish flu, WWII, the Asian financial market break, and more recently those disruptions currently occurring around us. Step back, and they become mere economic glitches – despite the personal tragedies for those affected.

As a guest speaker at a Russell Investment Summit in Sydney in 2010, I was fascinated by an actuary who clearly had too much time on his hands. Producing graphs reflecting an initial investment of $100,000 and reinvestment of all earnings, he demonstrated the proof of time IN the market after a period of 20 years, with an accumulated value of $500,000. Don't we all love compound interest?

The actuary then went on to present the result of his testing of 'timing' the market by using historical performance to pick the right times to buy and sell. In this imaginary world, he had generated $5million on his theoretical $100,000 investment. Recasting these figures, he calculated that had he invested or sold on each of the key days, plus 24 hours, he would have turned his $100,000 to $400,000 – proving that by sitting on his hands, he would have been better off than by acting 38 times to move money in and out of cash!

Timing the market is clearly riskier, as we are never sure if the market is experiencing what brokers call a 'dead-cat bounce 'or 'trying to catch a falling sword' – the point being that you can't say "this is the day to buy" unless you have a hindsight view. Creativity of expression also prevails in economic parlance, with a 'black swan event' being one which could not have been expected to arise. The pandemic and the Ukraine war are examples of this type of event.

Whilst October is traditionally bad for investors, they responded with their usual counter-intuitivism by saying collectively "this has gone far enough". They bought in, and drove up the value of their investments.

No one, including the RBA, economists, actuaries and other soothsayers have any real ability to know what will impact on financial markets in the future. We can point to the past as a guide, but if any of us knew what was precisely going to happen, we would be the wealthiest people ever. I like to point out to clients that I am smart enough to know that I am not smart enough to beat the market, and therefore I recommend stable investing.

Looking forward:

Using the economist's get out of jail card "Ceteris Paribas" (if everything stays the same), I expect the Australian community to ignore the Reserve Bank's interest rate hikes until January. This is because of our natural habit of denial, the tendency to shop big before Christmas and then pull back afterwards, and the fact that many Australian mortgage payers built a buffer in their mortgages during the pandemic. Therefore, they are not feeling the pain of interest rate hikes… yet.

We may be facing another global recession in 2023/24, given the signs that are about now, but as with ‘Spooky October’ nobody knows what’s ahead; it could be the reverse of what has happened in the past.

My most important advice is as always, not to panic, stick to your investment strategy, build in a buffer against tough times and ignore the media’s short-term views – remember how reporting of the Governor of the Reserve Bank’s comments about interest rates not going up until 2024 worked against home buyers.

Nevertheless, if you have concerns, please get in touch with us.

Media:

If you would like to see my latest contributions to the national retirement funding debate, please click here.

And One More Thing:

In mid-November, at the Board of Advice’s recommendation, the entire Marinis Financial Group team participated in a stress-test to see how we would perform if I were incapacitated for six-months. While we learned a lot from this exercise, I was delighted by our resilience.

As always, if I or any of the team can be of further assistance, please don’t hesitate to either call us on (08) 8130 5130 or email admin@marinisgroup.com.au

Yours sincerely

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