VALUES TO VISION
FINANCIAL PLANNING

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Nick's Hat-Tip Newsletter

THAT WUHAN THING

THE BEST LAID PLANS OF MICE AND MEN. AND BATS.

Seems odd penning a newsletter when the only news is... well, you ***know*** what the only story in town is.

Chances are, by the time you read this, events will have moved on again and this prose will be even more redundant than normal.

Little did anyone know what was coming down the line late last year, when I committed myself the task of producing a quarterly newsletter.

But commit myself I did. And so here we are. All of us wondering what the hell is going to happen next. Trying to grasp if the Government has:

a) horrendously prevaricated and wasted valuable time in trying to get on top of this latest crisis, or

b) horrendously overreacted and caused immense unnecessary harm to our economy.

I lean toward (b) but what do I know?

Without doubt we are already in a severe recession. We have to be: you can't shutter enormous swathes of the economy without a recession-defining reduction in GDP. We don't need to wait for the end Q1 figures to know the mess we're presently in.

And the markets don't need to wait. In fact, they never wait for anything. ***They anticipate***. And they've done an awful lot of that in recent weeks.

Volatility has been evident in both directions (for markets can rise as well as fall). On 19th February the S&P500 ("***The Great Companies of The USA***") stood at a record 3,386. Barely a month later it had fallen to 2,237, a decline of 34%.

Apparently this is the quickest movement from a record market high into bear territory (technically defined as a decline of 20% or more). Use this uber-fascinating nugget at the next dinner party you want to escape from early - if we ever get back to dinner parties....

As of penning this missive, the S&P is hovering around the 2,500 mark. So what? That's cold comfort. Want some good news? In our lifetimes we may never see The Great Companies of The USA and World on offer again at such prices (in no way guaranteed, of course).

I take my own medicine: my pension and ISA funds are 100% in The Great Companies of The World. I use exactly the same underlying equity funds that nearly all of my clients (including you!) are in.

These companies were Great before the current catastrophe-of-catastrophes; they remain Great; and will be Greater still once we are through this turbulence.

Asked when is a good time to invest I have always replied "*now*". Ask me at the present moment and I would likely shout that three letter word (again, not advice etc).

There is a sale on and it will not last forever,

Really? In your mouth?

Nevertheless a handful of clients (from the entertainment and travel sectors) have momentarily put their regular monthly long-term savings plans on hold.

Not because of some knuckle-headed reaction to the temporary declines. Rather these alterations to their saving patterns have been borne of necessity: fearful of losing employment these clients have looked to rebuild their immediate short-term liquid savings.

THIS IS PERFECTLY SOUND. I TOO WOULD DO THE SAME - even if a part of me dies inside, thinking of the bargains to be picked up presently through a disciplined monthly savings programme: the concept of "pound cost averaging" is one of the very few free lunches in investing.

But let me be quite clear. In extenuating circumstances temporarily stopping your regular savings plan is fine. What is ***not fine*** is committing "***The Big Mistake***" - selling out of your investments because you "*just can't take it anymore.*" Looking to run to cash with a view to getting back in "*when things have settled down.*"

This is market-timing. it's a planned death for your financial plan. And we don't do assisted suicide here.

As legendary US fund manager Peter Lynch once said on the folly of market timing: ***"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."***

To date not a single client has committed this act of financial self-harm. This repeats the pattern borne out in the Great Financial Crisis of 2007-9. This gives me - if I'm allowed - a certain swell of pride.

Sticking with the portfolio; staying with the plan; keeping your head when all around you are losing theirs. Cheap words on paper because doing these essential things (or rather, doing nothing when every fibre of your psyche is screaming at you to "*do something*") is hard. ***Going against the grain is a grind***. Always was, is, and will be.

But the rewards remain there for those who have the mental fortitude to see beyond the short-term. As ever, the last page of this tome frames the retirement risk conversation not in terms of some notional market loss but rather in the petrifying loss of purchasing power over a typical three-decade retirement.

For those readers presently in paid employment the last few weeks may have given you a sense of what it's like when the payslips potentially stop. It's daunting. Welcome to what your retirement will look like.

Until I'm shown otherwise, the only rational way to counter the effect of inflation over a three-decade-no-payslip retirement is to invest in human ingenuity, as captured by the eternally rising values of ***The Great Companies of The World***.

Of course, if you or someone you know has been touched by CV-19, then all this talk around the economy, markets and money is tangential at best, in poor taste at worst.

To date I have been nothing other than amazed at how well people have come together over this. About how well the social isolation has been complied with (we live in a country with a population north of 65 million - there will always be a few idiots to make the media froth).

Let's see how long this pans out. The endless Winter rains seem behind us. For those of us with decent gardens the sunshine allows us to get outdoors without leaving the home. For many more people, cooped up as Spring unfurls around them, there has to be a limit to their patience.

Talking of patience, this is way longer than any piece I would normally write. But the subject matter is so front-of-mind at present that ***not*** writing about it was never an option. And once you go down this particular rabbit hole it's a good few hundred words before you get out.

In closing, we will get through this current catastrophe-of catastrophes. This too shall pass. There will be some loss of life but there is ***always*** loss of life. Does that make it any less painful for those of us who may lose loved ones? Not at all.

But every second there is new life coming into this wonderful world. It was always thus and always will be.

Stay safe. Stay at home bar the daily exercise. Draw those you love close to you even if it can only be done via the internet.

I value you as clients but I value you more as friends. Let me know if there is anything more I can be doing now to communicate with you and to help you stay the course. I'm not going anywhere soon!

And for the love of God: if you find the blank black screen on the wall in the lounge giving you the old siren call, ask yourself this before reaching for the remote:

"What will I learn from the 100th news bulletin on CV19 that I hadn't already got from the 10th?"

WE HAVE NOTHING TO FEAR BUT FEAR ITSELF. NAMELESS, UNREASONING, UNJUSTIFIED TERROR WHICH PARALYZES NEEDED EFFORTS TO CONVERT RETREAT INTO ADVANCE.

Franklin D. Roosevelt, 4th March 1933

STAMPING ON YOUR RETIREMENT?

So the price of a First Class stamp rose in March by 6p, or 8.5%, to 76p.

So what, Nick, I hear you cry?

I use stamps as a proxy for the cost of living, or rather *increases* in the cost of living. Everyone knows what a stamp does; everyone knows

Price of a first-class stamp hits 76p

Emma Yeomans

Royal Mail is to increase the price of stamps significantly above the rate of inflation as the now private postal operator fights to remain profitable.

The company, which was privatised in 2013, said that the price of a first-class stamp would rise by 6p, or 8.5 per cent, to 76p and that of a second-class stamp would go up by 4p, or 6.5 per cent, to 65p from March 23. The consumer prices index (CPI) inflation rate is 1.8 per cent.

The increases were necessary for it to provide a universal service, it said.

Royal Mail said: "We are operating in a tough market, under the threat of making a loss by next year. These price increases will help us maintain the quality of service that is expected by our customers, while supporting the universal service."

The company said that it had considered the pricing changes "very carefully" and had sought to minimise the impact on customers.

The increase comes amid talks over a new pay offer for staff, who have threatened to go on strike.

The Royal Mail share price at close of business yesterday was only 2p above its lowest since flotation, two weeks ago. Then the company had warned that it could miss its turnaround targets amid threats of strikes.

The company said that Britain's stamp prices are "among the best value in Europe", claiming that its research showed that the European average for first-class postage is £1.05.

Last year Royal Mail apologised to the regulator Ofcom after its most recent stamp price increase was found to have breached the watchdog's rules. Last March the price of a first-class stamp increased by 3p and the price of a second-class stamp rose by 3p. The watchdog had put a cap of 60p on second-class stamps until April last year.

The present price cap for second class stamps is 65p, but this will increase in line with the CPI rate of inflation from April. There is no cap for first-class stamps.

Mike Cherry, national chairman of the Federation of Small Businesses, said: "This latest rise in stamp costs for letters and for parcels is just another expense that small businesses will be forced to carry."

Stamps purchased before the price rise will still be valid.

Royal Mail said the increase comes as it is under the threat of making a loss

what a stamp looks like; and a stamp costs the same across the UK: there are no regional distortions.

No-one in actual retirement is going to spend their entire wealth on buying stamps. If they did, they would be what we call in the financial world "*complete loons*".

No, the stamp is just a proxy for measuring increases in Lifestyle Retirement Income cost.

In 1990 a First Class stamp cost 22 units of currency. Today you need 76 units of the same currency to buy exactly the same thing. You're not getting three and a bit times as much "stuff".

You're spending 245% more just to stand still.

I witter on about this more in episode 69 of my "***Money Hat-Tip" podcast***, which you can listen to by clicking here.

LORD OF THE CHARTS

Blinding clients with endless charts is the sign of a weak adviser. Trying to convince someone to invest / stay invested whilst bamboozling him or her with a pictogram showing the effect of missing out on "*the ten best days in the market*" is lame, to put it politely.

Having said that (!) here is the ONE graph that might just put That Wuhan Thing in some sort of context.

£1 invested in the Great Companies of The UK three decades ago (April 1990) would be worth £8.23 at the end of March 2020 (dividends reinvested). Entering a typical three decade retirement in April 1990 you would have needed your £1 to grow to £2.43 to keep pace with Retail Price Inflation (RPI) and maintain purchasing power.

You needed £2.43. By doing nothing other than investing and staring out of the window for the next 30 years the market gave you £8.23. Am I getting through?

As Tolkien almost said: "***One Chart to rule them all, One Chart to find them, One Chart to bring them all and in financial safety find them.***"

This is that chart.

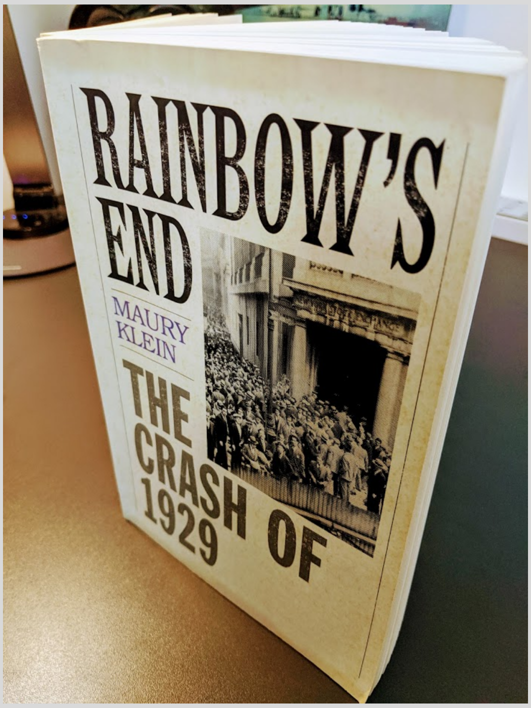
Source: Dimensional Fund Advisors (DFA). Great Companies of The UK is the FTSE AllShare. Figures include reinvested dividends, exclude fund management and advice costs. RPI is inflation. Log scale used.

"PERFECTION IS ATTAINED NOT WHEN THERE IS NOTHING MORE TO ADD, BUT WHEN THERE IS NOTHING MORE TO REMOVE."
ANTOINE DE SAINT EXUPÉRY

WOT I'VE BEEN CONSUMING

Sad sack that I am, I read Maury Klein's "***Rainbow's End: The Crash of 1929***" long before That Wuhan Thing came along and made everyone's lives a little bit miserable.

Seems like I was unknowingly girding myself for what many in the media seem to think (hope?) could be the next Great Depression.



Klein's book came out in 2003. You can get it for couple of pounds and postage on Amazon (see link at end).

The story is timeless however, so it being 17 years old detracts not one jot.

It's a really well written book. You don't need to be a finance geek to be quickly immersed in that halcyon Jazz Age where moneyed behemoths like the Morgans, Rockefellers et al carved out their names for all time.

We've all been unnerved by the recent temporary falls in share prices around the world. Without making a silk purse etc the 1929 crash puts current market events into some kind of perspective.

The US stockmarket peaked in September 1929 and then over the next 32 months fell by 86%! It wasn't until September 1954 that the S&P 500 got back to the level it had been a full 25 years earlier.

Naturally, having a Great Depression and a Second World War in those two and a bit decades did nothing for anybody in any context. But those are gut-wrenching figures.

The book is excellent at painting an absolute scene of FOMO (Fear Of Missing Out) as the market continued its upward roar through most of 1929.

Clerks, factory workers etc who should never have invested began doing so because of FOMO. Because of FOMO people started to invest their life savings, thinking the market could only go one way. Because of FOMO people were borrowing to invest in the stock market (please don't ever do this. Ever).

And the American economy was in-part propped up by people spending those illusory market profits.

So when it all came to an end - as it had to - it did so rapidly. Klein lays this all out superbly.

You can buy the book here.

If you're a real glutton for punishment, you can listen to me talk through my review in Episode 67 of my ***"Money Hat-Tip" podcast*** here.

INFLATION IS TO RETIREMENT WHAT CARBON MONOXIDE IS TO HEALTH

THIS IS A RECURRING PIECE. EACH QUARTER THE FIGURES WILL BE APPROPRIATELY UPDATED. WHY? BECAUSE WHILE THE NUMBERS WILL CHANGE AROUND THE EDGES, THE MESSAGE IS ETERNAL!

A typical retired couple may well see one partner live for three decades or more. Over such a long period, the annual cost of ***Lifestyle*** could more than triple. Says who? Says me: financial planning involves enormous ambiguity. If you want certainty, *die now.*

So an example ***Lifestyle*** cost of £50,000 per annum entering retirement could later escalate to £150,000 a year, just to keep standing still. If you really must, some prosaic evidence: in 1990 a First Class stamp cost 22p. Today? 76p. *Source: just Google it.*

Some nuggets to lessen the gloom (past performance is no guarantee of future returns etc):

- Three decades ago - Spring 1990 - the S&P 500 (The Great Companies of The USA) was valued at 338;
- Today, 30 years on - Spring 2020 - The Great Companies of The USA are valued at c.2,488;
- In three decades ***these Great Companies have grown in value by a factor of seven***;
- ***In addition***, the dividends paid by these Great Companies have risen five-fold in those 30 years.
- In those three decades there have been ***three*** severe "*get me out of here I can't stand it anymore*" bear markets (2001-3, 2007-9 and now Q1 2020) and ***numerous*** smaller temporary declines.

Source for US market figures: ***click here.*** *Why US data and not UK? Because the Yanks have this kind of thing publicly available and we don't - yet.*

Dear Reader, the big risk to a dignified, independent retirement ***Lifestyle*** is the destruction of purchasing power via inflation. Like carbon monoxide you can't hear it, smell it, see it, taste it. Yet inflation will silently, stealthily kill your wealth. The cure? Possessing a Financial Plan fueled by ownership of The Great Companies of The World: ***equities***.

The problem with the cure? It's really *really* hard to stick with your Plan and stay invested through the horrendous-but-always-temporary-declines. The cure for the cure? Having a tough-loving, empathetic counselor to stand between you and "the big mistake".

HAVING STATED THE PROBLEM, AND MAYBE SCARED YOU WITLESS, I HOPE THE ABOVE FIGURES GIVE YOU A GLIMPSE AS TO THE ONLY RATIONAL, MORAL SOLUTION FOR A HEALTHY COUPLE FACING A THREE-DECADE PLUS RETIREMENT!

"INFLATION: ODOURLESS, TASTELESS, AND UTTERLY POISONOUS TO A DIGNIFIED, INDEPENDENT RETIREMENT."

We hope you enjoyed reading Nick's "Hat-Tip" Newsletter.
Thank you for your precious time.

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