IS THE STOCK MARKET ALWAYS RIGHT? 19TH JUNE 2020

There's a long held theory that the "market", as in Stock market, is always right – based on the assumption that in its simplest form it is just a collection of buyers and sellers meeting in the middle, so a shares current price, must be what it is worth?

As I write, at 10.48am today, the FT 100 index is around 6292, not all bad given the severity of the fall in March this year as the Coronavirus crisis took hold in the West, right?

It's always hard to make decisions in the middle of adversity and with so much news about today, so many opinions, it just gets harder. Add in to the mix the politicians telling us to expect a V shaped recovery, that they will throw everything at it to make a fantastic recovery, it can be easy to see why some feel quite positive about our economic prospects.

So, what should we do in the middle of all this information overload, opinion and uncertainty?

Whilst never professing to be the Oracle of all things market related, my 36 years' experience in this always exciting, constantly changing investment world has taught me one very important lesson – keep it simple and look at the facts.

Firstly, we simply don't know what the outcome of economic stimulus and government attempts to boost the economy will be over the short, medium or long term – it will be a story that will slowly unfold.

Secondly, we have to remember the two most important players in the recovery game – companies, and us, the people.

At the moment, sales are down across the world for most companies, but so are their costs. One of the biggest costs to an employer is its staff and at the moment, until August, in the UK, the Government (using taxpayers money) is paying 80% of the wage bill for an estimated 6.3 million staff. That will continue in a reducing format until October.

By then, sales will need to have gone up significantly, or staff will get made redundant. When people have less money, they spend less, so sales go down again. As sales go down, profits fall and a company can be perceived to be worth less, so its share price may fall.

So what will companies do? Firstly, if sales have not risen enough, it's most likely they will make staff redundant, secondly they will look to streamline and cut costs elsewhere which may mean getting rid of premises, moving online or moving out of the UK.

There are some winners of course, even at a time like this, online retailers, Pharmaceuticals and Technology sectors have all seen an increase in sales– but they alone are not enough to absorb the staff, premises and produce replacement sales for all of those other companies affected. That's mainly why we have seen a recovery in the markets since the March lows, but not enough of one to take us back to the highs seen earlier this year.

So what part do we play in this?

If we are unfortunate enough to lose our jobs, we will cut spending, having the effect outlined above. But, an often missed option is also possible here, maybe more so this time given our recent experiences.

We may change our behaviour.

The new world of fear about the virus may change us for a long time to come:

- We may travel less
- Having discovered we really can cook – we may eat out less
- We may buy fewer clothes – as we now realise we probably don't wear half of our wardrobe
- And we may simply decide to try to save more – in case this all happens again.

The latter happened in Japan in the early 90's and their stock market has never recovered to its previous highs!

So these are all options, but none of us really know. What we should do, is look at the facts now, make a plan and allow that to adapt to what we see happening.

In October 2008, we saw the biggest fall in the FT 100, for the next 4 months markets scrambled around, up, down, looking for some sense and security. In March 2009, the final capitulation came with the FT 100 falling to around 3,400, followed quickly by the realisation that a recovery was possible with the month ending up slightly on February's close.

We see this in almost all stock market crises, but we have not seen it this time - yet.

So, we should certainly plan for the possibility of another significant fall in the markets. Now may not be the best time to rush out buying equities and existing portfolios may benefit from reorganisation– for now, cash may well be king.