MIDDLETON
PRIVATE CAPITAL

FACTS, NEWS, OPINIONS AND ACTIONS **28TH OCTOBER 2020**

Whatever the current movements in world stock markets there are always numerous varied opinions as to what is going on and what to do next. In the middle of all the news and opinions is the reality and that reality is actually quite simple.

The share price of a company generally goes up because people believe that the company is in good shape and it is likely to carry on making a profit, indeed larger profits. This reality of profit and perception of potential make it more attractive to invest in. There is an element of speculation as well, share prices often move because individuals trade in company shares when it is fashionable to do so. This kind of activity has definitely pushed some prices higher this year in the US after a massive rise in activity on the Robin Hood share trading APP.

This is where the opinion gap opens up because opinions differ and these opinions often lead to actions, that sometimes don't make sense. Take Microsoft for example. Last night (27th October 2020) the company released its results, which, given the current climate, were excellent. The results beat estimates across the board. So, the share price went – you guessed it – **down**.

Many commentators blame a slightly negative or cautious tone in the statement about the company's expectations for the next quarter. Others think it's just a general market correction, with investors selling ahead of the US election next week.

Shares in the company are up about 36% in 2020, compared to the S&P500 being up around 5%. So, the company has had quite a year and now released good results, so why would the share price go down?

It's not possible to attribute this movement in share price to any one factor, because no-one really knows how news or opinions will affect a market with any certainty and no-one can predict the way markets will go.

It's the differences in opinion that lead to actions, most of which are taken for different reasons. For example:

If you had made 36% growth in Microsoft shares this year, you could be forgiven for thinking it would be a good time to take some profits, with the intention of buying back again at a lower price in the future if you still believe in the company.

It might be private investors, pension funds or fund managers making this decision, but if enough of them take that view, the share price is likely to fall. Observers watching a falling share price may then be tempted to sell themselves as they see the value of their investment go down, leading to the share price falling further.

So, nothing wrong with the company, just a decision by some people to take the profit they have made to date and put it in the bank. Many others just want to be out of the markets right now, because of the rising Covid-19 cases and lockdowns across Europe and the US Election next Tuesday.

There are many other reasons that we see selling in a share and some would be justifiable in that the prospects for the company may not look great. Take Rolls Royce for example, after a horrendous fall in the share price this year, driven by the knowledge that air travel has changed for the immediate and near term future and the fact that the company makes its revenue from providing and servicing jet engines.

In this article I have made reference to just two shares in a vast market, but the principle applies to all shares in all markets and an awareness of how opinions drive decisions that drive markets is vital to ensure success in investing.

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How does this all affect an investor

Whether or not you have a portfolio invested in shares or in managed funds, the research, opinion and actions of your investment manager will affect the performance of your investments.

If your investment manager largely ignores the news and market action, believing in the long term view for a company, (as many passive and "long term investors" do) this can significantly affect the value of your investments at a time when you may need them most.

For example, without an active approach to investment management, investors in passive FT100 tracker funds, who invested in May 2012, would find they have still lost money today, over 8 years later. The same could apply to those who had invested in these types of fund in February 2016.

Summary

Whatever your investment goal, you need to know that your investment manager is not just an asset gatherer (fund managers who focus on accumulating funds under management rather than the performance of investors capital). You need to have confidence that your investment manager has a process that ensures your returns are the best possible.

This year we have seen significant opportunities for those who have been nimble enough to work with market news and actions and today we are seeing a broad sell off of markets across the world creating new opportunity in the near future.

In the US, many investors are positioning themselves before the election next week, preferring to hold cash until we know the result. This is driven as much by preparing for opportunity as it is by fear. In addition, the rising Covid-19 cases are adding fears of a new lockdown and the effect that may have on the economy.

In Europe, markets have sold off generally as a reaction to the new lockdown restrictions being put in place in Germany, France and the UK.

Depending on how active your investment manager is, by the year end, you will either be watching your portfolio try to recover its losses on the year or looking at a significant profit from an unusual and exceptional year.

To review your investments and make sure you are getting the service you are paying for from your investment manager, make an appointment for a free no obligation review of your investments by calling 01909 511247, email us at info@middletonprivatecapital.co.uk or book online at www.middletonprivatecapital.co.uk/invest-with-us

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