To all Invictus IFA clients and Social media subscribers.

I am spending most of my time at the moment listening to webcasts, reading bulletins, reviewing fund manager communications and the like.

I thought it would be a good idea to communicate with you all some of the points raised in those sessions and my own thoughts.

Overview

In a nutshell, the global economy has & continues to take a real battering amid the COVID 19 news and global geographical shutdowns.

It's not difficult to see that if massive parts of an economy are shut down for any prolonged period, we are all going to suffer on a personal and investment experience level.

The long term view though, is that global economies were very strong before the COVID 19 outbreak and this puts them in a good position for recovery when it materialises.

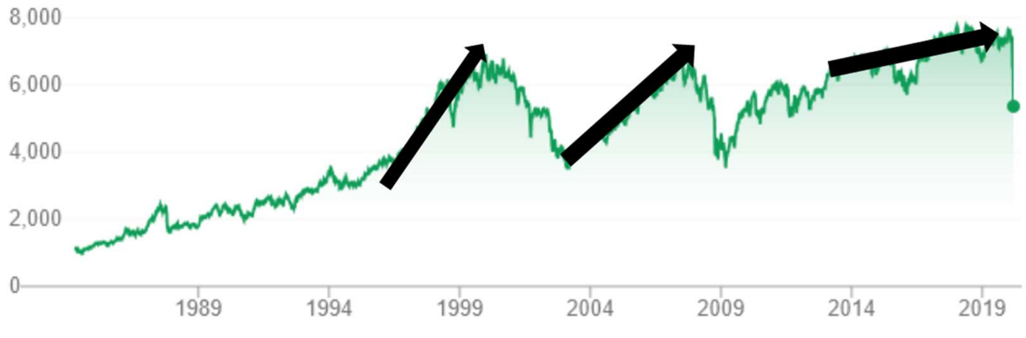
This is a very different market crash to the ones we saw in the early 2000's and again in 2008.

The early 2000's crash was due to a massively overpriced market that could not sustain the meteoric growth levels.

2008 was due to poor management and dubious decision making by the credit world which couldn't recover outstanding debts once defaults started to occur.

This crash is due to an outside influence, namely a virus that is difficult to contain, but which came at a time that the global economy was in a good position with good sustainable valuations across most of the markets.

You can see from this graph how the preceding market conditions for these 3 crashes have been very different.



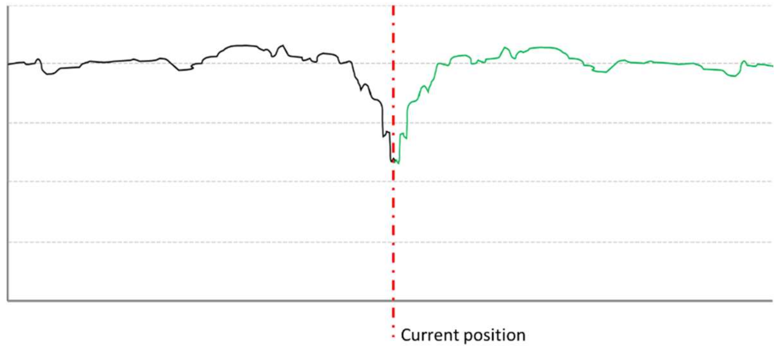
The underlying strength of an economy is very important to the recovery characteristics that we may see.

Recovery types

Most commentators have been talking about 3 key types of recovery, named “LUV” recovery styles.

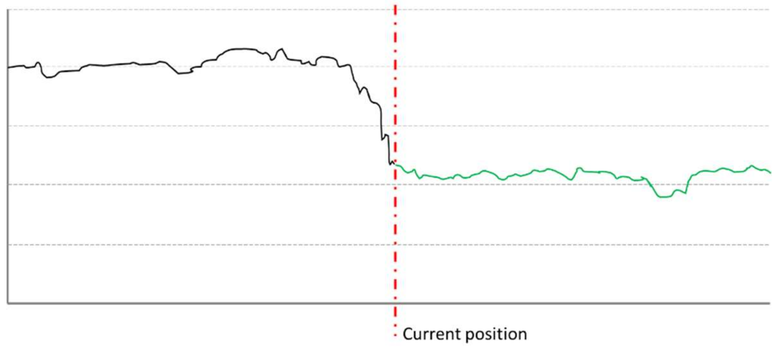
I’ll look at these 3 styles, but in the order that goes from least to most likely.

The V recovery

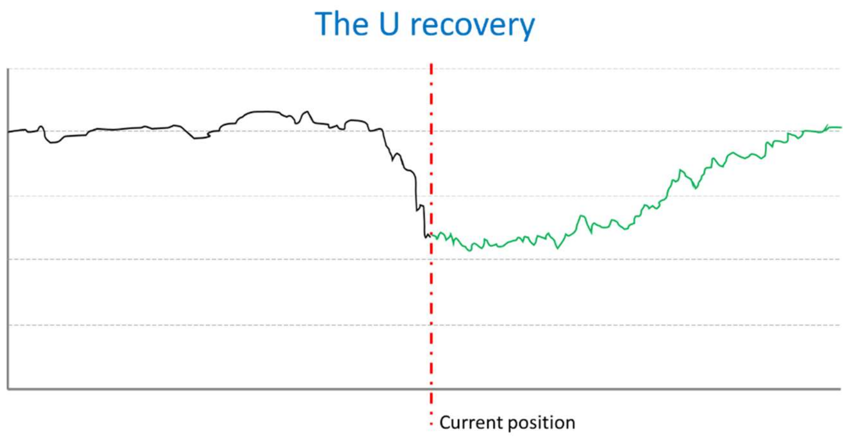


As the name suggests, with a V recovery any short term losses are recovered in a similar timeframe. This is unlikely to happen for this crash as scientists and health advisers have all stated that the virus will take weeks if not months to reach its peak infection point. There is no vaccine currently in place and it will take time to develop and distribute one once found.

The L recovery



With an L recovery, the market reaches a low point and then hovers around that level for a prolonged period. Most feel this is unlikely as the global economy was in a strong position before the crash, putting it in a better position than in the past to build on any recovery signs. We are also a very resilient breed and everybody’s eagerness to get back to living a ‘normal’ life will push growth. When we know more about the virus and have a better understanding of how to control its spread and stay safe, markets are likely to build on this optimism and start to recover.



A ‘U’ recovery is a slower more cautious recovery than the ‘V’ style discussed previously.

The recovery will depend on progress with managing the virus, our ability to keep ourselves safe and rejuvenating optimism of the population over time helping to get working life back to normal.

Most economists believe this is the most likely recovery style.

How long the ‘U’ is will depend on a number of factors such as infection rates and how long self-isolation remains in place. The quicker we are back to normal, the quicker any recovery will be.

Should your strategy change?

It is important to remember that none of the clients of Invictus IFA has all their capital invested in the FTSE 100. This index is merely the one that people see when they turn on the news. It only represents the value of 100 companies listed on the UK stock market (hence the name).

In fact, only a small proportion of an investment portfolio invests in the companies represented by this index.

All investors, myself included have seen a sharp fall in our investment values, but not to the same degree as the FTSE 100 index fall. This is because our investments are diversified.

All client’s investments are diversified across a wide selection of assets including stocks and shares, Commercial property, Cash, Bonds and Gilts. Not all of these assets are affected in the same way and they react differently to these severe market conditions.

Switching assets just to cash to try and avoid any further losses could also mean that you miss the first shoots of recovery, which are often the most important periods to capture.

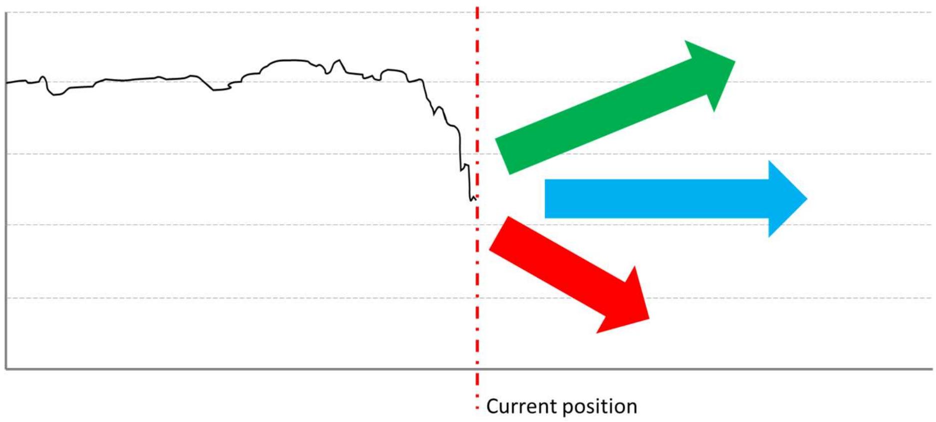
I am a firm believer in a long term strategy. Second guessing or trying to predict what the markets could do next could mean stunting your own recovery.

Switching assets to cash will turn what is currently a ‘paper loss’ into a ‘real loss’.

What will happen next?

Short term: nobody knows.

If somebody says that they ‘know’ what will happen to markets in the very short term, they are simply guessing. The fact is that we have not faced this type of crisis before and we do not KNOW what will happen over a very short period. Over a matter of days and weeks, markets could increase, stay level, or decline further. We simply don’t know.



History has shown that those who attempt to ‘time’ the market fail more often than win.

Long term: Most agree that in the long term, we will be able to control and vaccinate against this virus. The wheels of economy will start to turn, and we will see a return to more normal market trading which will lead to an increase in global market values, which in turn see’s our investments growing again.

With any long term strategy your overall success will be because of time you spent in the market, not because you tried to time the market.

It boils down to this

Take a look at this chart and stop for a minute and think about your own future.

Will we be going on holidays again? Will we be eating out and socialising with friends and family again? Will we be out shopping and living a normal life again?

I think we will.

If you believe that markets will recover to somewhere in the green triangle in 5 years, then you should stick with your long term investment strategy. Ride out the storm, batten down the hatches and wait for the recovery.

If you genuinely believe that markets will be somewhere in the red triangle in 5 years time, then you should cut your losses and opt out. But remember, if you do this now and markets do recover, you could have jumped out at the worst possible time, cementing any losses, and if you want to get back in, you will have to buy back in at higher prices.

Times are tough, there really is no escaping that. I much prefer communicating and meeting with you all when its good news and we are all making money. But likewise, I am here for you when times are not so good as well.

If any of you would like to discuss your own personal circumstances, please do not hesitate to contact me.

I will keep you all informed with regular updates but felt that now was a good time to communicate these thoughts.

Stay safe.

Richard Scott Dip PFS
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