



INVESTMENT COMMENTARY - MARCH 2019

We have made a change to our asset allocation by buying further Emerging Markets equities, funding this through a disposal of European stocks. Though they have risen significantly since we made our first investment in this area toward the end of last year, we still believe Emerging Markets to be relatively undervalued and so are happy to modestly increase our exposure.

It seems to us that the sharp correction in share prices during the final quarter of 2018 is almost a distant memory to many equity investors and that they are once again pursuing the same investment strategies, namely buying the 'hot' stocks (hot meaning popular and showing price momentum) that suffered the worst during the downturn.

This shows us they have learned nothing from recent experience. We say investors, however as we have detailed here before, a large part of this trading action is down to machines with pre programmed coded instructions/algorithms so perhaps we should say those using such strategies have learned nothing. The folly of all this will no doubt again become apparent in due course.

The latest Bofa Fund managers report shows that money managers/investors continue to reduce their exposure to equities, as evidenced by global allocation being the lowest since September 2016. Simply put, many global professional money managers have been continuing to reduce their equity exposure and thus are missing out on the strong rally so far this year.

This means the 'pain trade' * for most fund managers is for equities to continue their upward path whilst they remain in defensive assets.

Only when they capitulate and start to buy equities again (which they inevitably will, and of course at much higher prices) will it mark the beginning of the end of this bull market.

**The term "pain trade" refers to the market direction that would cause most investors to underperform; when markets move in the opposite direction of the consensus view.*



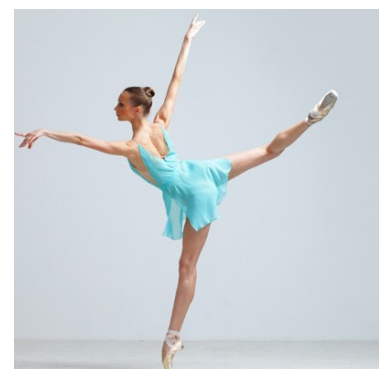
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