SKERRITTS VIEW – JANUARY 2019

100% In The Hindsight Fund Please:

Well that was a torrid end to the year. December 2018 was officially the worst December for the S&P 500 since 1931. That's quite a feat. So what's next?

In almost all periods in the past, the worst thing that you can do is sell out after a sharp drop such as we've experienced over the past three months. The fact that it has taken three months to get this far makes it feel worse because, with hindsight, there would have been opportunities to have reduced risk earlier on, but unfortunately we can't use hindsight as a benchmark. The only time we'd put 100% of anyone's money into a single investment would be into the Hindsight Fund. Sadly, it doesn't exist.

Why Didn't You Sell?:

Of course, looking backwards, the obvious question is why didn't we sell some of the most badly affected holdings in our funds? No one can ever know for sure where and when the bottom of a correction will be reached, and to sell, but miss the bounce, only crystallises what would otherwise only be short term losses (assuming that we are not entering a multi-year bear market). **This is the crucial point**. At the core of our decision to hold through the correction is our belief that this is ***not*** a prolonged bear market that we've entered.

This is not just wishful thinking on our part. As you would expect, we get inundated with research and opinion on a daily basis, but there are those sources that we tend to take notice of more than others. Opinion is just that. However, when there are differing opinions it is our job to try to decide whose is more right than the other. This is what drives returns and also what makes a market. Without differences in opinion there would be no market, as no one would buy or sell at the price being asked by the counterparty.

Here are some that are shaping our own thoughts just now:

- In relation to 2019:

Will global equities rise or fall? Answer: Rise.

"We expect the MSCI All-Country World Index to rise by about 10%-to-15% in dollar terms from current levels by the end of 2019. The higher end of this range would leave it slightly below its January 2018 peak.

The index is currently trading at 13.3-times forward earnings, similar to where it was in early-2016. The U.S. accounts for over 50% of global stock market capitalization. As such, the U.S. equity market tends to influence non-U.S. stocks more than the other way around. Sustained U.S. equity bear markets are rare outside of recessions. With another U.S.

recession unlikely to occur at least until late-2020, that gives global stocks enough room to rally. Indeed, history suggests that the late stages of business-cycle expansions are often the juiciest for equity investors (see below).

Too Soon To Get Out

ANNUALIZED REAL RETURNS (%) PRIOR TO RECESSIONS	MONTHS PRIOR TO RECESSION					
	13-24 MONTHS	1-24 MONTHS	7-12 MONTHS	1-12 MONTHS	1-6 MONTHS	NON-RECESSION MONTHS
S&P 500	Returns tend to be strong in the late stage of the business cycle...			...but don't overstay your welcome		
AVERAGE RETURNS POST-1950s	14.2	6.8	8.0	0.1	-7.8	10.1
JUL 1953 - MAY 1954	21.9	12.0	17.8	2.0	-13.8	14.7
AUG 1957 - APR 1958	15.8	7.1	-17.0	-1.6	13.9	19.3
APR 1960 - FEB 1961	31.3	16.8	6.6	2.2	-2.2	15.8
DEC 1969 - NOV 1970	13.4	-1.3	-11.0	-15.9	-20.7	5.8
NOV 1973 - MAR 1975	16.9	4.9	-11.3	-7.0	-2.7	6.2
JAN 1980 - JUL 1980	0.5	2.2	6.8	5.4	4.0	3.1
JUL 1981 - NOV 1982*	...	...	32.2	10.5	-11.2	4.0
JUL 1990 - MAR 1991	14.3	13.1	22.2	11.9	1.6	14.0
MAR 2001 - NOV 2001	8.9	-0.7	20.0	-10.3	-40.6	12.5
DEC 2007 - JUN 2009	11.6	7.6	13.6	3.6	-6.3	4.0

In more recent business cycles, investors have reaped strong returns in the 7-to-12 months prior to the recession

* FIRST 2 COLUMNS OMITTED DUE TO OVERLAP WITH PREVIOUS RECESSION PERIOD.
NOTE: MONTHLY RETURNS ARE ANNUALIZED AND DEFLATED BY THE CONSUMER PRICE INDEX; CALCULATIONS ARE BASED ON TOTAL RETURN INDEX.

Source: BCA Research GLOBAL INVESTMENT STRATEGY - WEEKLY REPORT DECEMBER 18, 2018

- On the oil price (after its rapid decline at the end of 2018)

Will oil prices rise more than expected? Answer: Yes.

"Our energy strategists expect Saudi Arabia and Russia to cut production by enough to push prices to an average of $82/bbl in 2019." (**Source: BCA Report: 2019 Key Views**)

"Oil to rebound, headline inflation to rise. In spite of recent correction in oil prices, we expect prices to rise over the next six months, with Brent reaching $82 per barrel in the second quarter "(**Source: BNP Paribas Global Outlook: Bloomberg**)

"A tight oil balance should push Brent to $80 per barrel by end-2019" (**Source: Morgan Stanley 2019 Forecast: Bloomberg**)

- On the outlook for equities:

"….we recommend that clients overweight global equities during the next 12 months, underweight government bonds, and move cash allocations from overweight back down to neutral." (**Source: BCA Research Report December 19th 2018: The Correction Cometh, The Correction Came: Upgrade Global Equities To Overweight**).

"Higher U.S. rates, in conjunction with slowing Chinese growth, will keep the dollar well bid in the first half of next year, allowing U.S. stocks to outperform their foreign peers in dollar terms". (**Source: BCA Report as above**)

"We have therefore decided to take some profits on our sizable short US equity position we have held for the whole of 2018, thus tactically raising our directional equity overweight. We expect investors to follow suit early next year, once economic data confirms the Fed's, and H2O's, assessment on G3 economies." (**Source: H2O investment commentary December 2018**)

"For the stock market, we expect a soaring bull market, with the S&P 500 reaching the 3100 we projected for 2018 a year ago. Yes, we know that sounds bold, but our Capitalized Profits Model is screaming BUY.

The bottom line is that we're calling for the S&P 500 to finish at 3,100 or higher next year, which would represent a nearly 25% gain from Friday's close. The Dow Jones Industrial Average should end the year at 28,750. Yes, this is likely to be one of the most optimistic forecasts you see, if not the most optimistic one of all. But, in the end, we do best by our readers when we tell them exactly what we think is going to happen, without altering our projections so we can run with the safety of the herd. Grit your teeth if you have to; those who stay invested in the year ahead should earn substantial rewards." (**Source: First Trust Weekly Outlook December 31st 2018**)

"Bank of America Merrill Lynch's "Bull & Bear" gauge of market sentiment has fallen to 1.8, a level the U.S. bank's strategists describe as "extreme bear" territory that has triggered a "buy" signal for equities.

This is the first time the "buy" signal for risk assets has been triggered since June 2016 when the Brexit vote sent global markets spiralling lower, the strategists said, adding it was "time to buy". [**Source: LONDON, Jan 4 (Reuters)**]

- And on the US consumer:

"The best holiday since 2012…

You asked Santa for a Blackberry…..the last time Christmas looked this god. The numbers arrived, so we ripped off the bow and wrapping paper: Shoppers dropped $850B from Nov.1 to Dec 24, a 5.1% jump from last year – and the biggest gain in six years.

The Takeaway: Stocks ≠ the Economy…Political drama and macro issues have been messing with stocks lately (they were down 20% from highs they hit just a couple of months ago). But other fundamental elements of the economy still have mojo – And a key one is consumer splurging." (**Source: MarketSnacks December 27th 2018**).

Of course, there are counter-arguments to virtually every opinion that is put forward at the moment and the missing detail always appears to be the ***actual timing*** of what these forecasters are forecasting. The world has become ever-more short term in its outlook. We have to balance the short term with the medium and longer term, and it is this short-termism that is creating so many problems currently because people's memories tend to be quite short. We've seen many corrections come and go over the years and the world (so far) has not stopped turning through any of them. Like any good party, people don't want it to end. The credit boom party ended in 2008. The post-credit boom, liquidity driven party has been in full swing for 10 years and is getting long in the tooth. If we, and all of those commentators that we have listed above are right, it’s not quite time to get your coat just yet. Some people have left early though, and that is their prerogative.