Monthly Report

'Forecasting is very difficult, especially when it involves the future' January 2020

You, me and most people take forecasts with a pinch of salt. Why? Because forecasts are generally wrong. Moreover, we are more honed to listen harder to negative than positive forecasts. Furthermore, listening to forecasts tends not to be too good for your wealth. Caution is the watch word. Even the UK's financial regulator, the FCA, has recently warned that people often get hit by holding too much cash over the longer term.

However, if we don't forecast the future and we don't listen to other people's forecasts, how can we invest money in shares and expect to get a good return?

Well investing is not about crystal balls and forecasts, it's really about trends. The difference may be subtle, but it is important when it comes to investing. Forecasting is a technique that uses historical data as inputs to make informed estimates that are predictive in determining the direction of future trends. Trends are just changing in behaviour, consumption etc that have an observable direction.

The reason then for investing is not to spot the change in direction of trends, which forecasting tries to do, but to invest with the trend. While trends do change direction, they tend to do so slowly. The direction of a trend tends to go on for a long while. Avid readers of this newsletter may not be surprised to know that we have an investment saying when we are discussing trends … "it is usually earlier than you think".

As a young man I had an early experience of this. While working in Australia I tasted my first cappuccino, and I loved it. Here was a business idea I could bring back to the UK and make my fortune. On my return a year later almost opposite my office was a brand-new Costa Coffee. Damn I thought, too late. The year …1991. I didn't realise I didn't have to be first or even second, I just needed to be part of the trend.

So, for MVAM investing means researching and looking for confirmations that the trend remains intact. Below are three headlines from one FT over Christmas that were within three pages of each other.

1. Japan's indigenous population set to start falling by 1 person per minute
2. Swiss ice masses have contracted 2% this year
3. Have we reached peak meat. US and European beef and pork consumption stalls

The first two are the results of trends set in motion decades ago and should come as no surprise. But it suggests Japanese food retailers may not be an area we particularly want to invest in. The third arguably is the start of the change of a trend. Again, we don't have to forecast what will happen in the future we just have to be wary of investing in the local butchers or funnily enough seed companies.

So, as we start the new decade the forecasts for the next ten years look somewhat bleak, there is plenty to worry about after all. But think how bright those forecasts were in 2000, or indeed how downbeat they were in 2010. Neither proved correct but the world kept warming, the Japanese kept getting older and there kept on being more and more coffee shops on the high streets of the world…. Trends remain friends over the long term.

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