

Monthly Newsletter

Comfort Food

May 2020



'In this world, nothing is certain except death and taxes' Benjamin Franklin.

Certainly, it is a pertinent quote for our times, with the coronavirus devastating lives and the near certainty of rising taxes foreshadowed by government borrowing at levels unseen before. But the quote is missing something. It suggests that only the bad things in life are unavoidable. Not true. What about cake? More people in this world have surely eaten cake than paid taxes?

With the global pandemic keeping the world at home, sales of most goods have disappeared down the lockdown plughole. But not cake. UK car sales were down 97% in April!! However, with the supermarkets now stocked full of toilet roll, it is flour we should have been panic buying. At times like these cake tastes even better than usual. Perhaps that was what the misunderstood Marie Antoinette was getting at when she opined that the masses should eat cake?

Cake, or rather comfort food, for the stock markets is always the biggest stocks that have been the most successful in the recent past. Look at the markets of today: the big US stocks of Amazon, Apple, Microsoft, Google, and Facebook continue to fare well. The carnage of the rest of the market ignored. The value of Amazon shares alone is equal to half that of the entire UK stock market and Microsoft is more valuable still! Investors want cake in these dark times and who can blame them.

But as it was for Marie Antoinette, gorging on cake while the rest of the world is struggling for bread has rarely been a recipe for long term success. Carrefour, the French food retailer, moved to unprecedented highs in the 1990's as the market fretted over Mexican Banks. Likewise, Nokia remained calm as tech stocks collapsed around it in 2000.

In these times, a portfolio managers' job is not to eat cake, but to find those stocks where there is trouble. To look closely and decide whether the fire that is torching the share price is on its way out or whether it is going to take the whole company down. Being burnt by an investment is an apt enough term. Now fires are raging everywhere, we are experiencing the financial equivalent of the Great Fire of London.

But there is no fire in "Caketown" where the houses of Amazon, Microsoft et al sit. The queues of buyers for those stocks are similar to the socially-distanced queues outside the supermarkets. They are the only place to go for sustenance at the moment. But for businesses that have been caught in this "great fire" and manage to survive, they will see their patrons return. They will also see the patrons of those businesses that have not made it, make their way through their singed doors. Business will be better. Competition less. If past periods of great stock market upheaval and economic change are a guide, the best investment returns from now on are likely to be from the survivors of this "great fire" not those that have watched from afar.

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