Market Update & Comment - July 2023

Mid-Year Update

The halfway mark of a calendar year is an excellent time to take stock of what happened in the financial markets during the first six months of the year. Learning from the past is a key trait in helping us navigate the financial challenges we will face in the future. It's only by internalising these lessons that the mature investor can learn to say with confidence in the face of a crisis, "It's no different this time."

What's Happened – Financial Fears Have Been The Headline News

The 2023 story starts in October 2022. The world's largest stock market had declined by 25% over nine months. During this time, investors were inundated with news about stubborn inflation, rising interest rates, an ongoing war in Ukraine, and fears of a coming recession. Not surprisingly, consumer confidence was lower than it had been in four decades. For the first time since 1999, the average forecast of "experts" and "economists" was for another year of negative returns.

Positive Markets – Confidence Can Prevail

We now know that, with no apparent warning, the market has risen by over 20% from the October lows. The official year-to-date return for Global Equities is 14% at the time of this writing.

2023 Year To date (30th June)	
Index, Currency, Bond	**Gain/Loss**
FTSE World Index (€)	10.2%
FTSE World Index (€) (x-US)	13.1%
Dow Jones Industrial Average	3.6%
S&P 500 Index (€)	15.6%
FTSE Asia Pacific Index (€)	14.0%
FTSE Emerging Markets Index (€)	12.4%
Euro Stoxx 50 Index (€)	16.0%
ISEQ (Irish Stock Exchange)	22.7%
Gold Price (€)	5.4%
Silver	-5.6%
Brent Oil	-12.7%
Rogers Commodities Index (€)	-6.9%

What We Have Learned

While the exact market dynamics will never repeat, we know that they rhyme. So for the benefit of our financial future, we reflect on three lessons worth remembering.

1. Timing the market is a fool's errand.

Our minds are wired to extrapolate the present into the future. During a market crisis, we assume that further declines are inevitable. However, acting on this premonition by trying to time the market is futile. Those who reacted in October and reduced their growth assets exposure (equites), expecting further declines, have sacrificed gains. For those investors who stood fast or increased their equity holdings markets have benefits from these gains - The Stock Markets June 2023.

2. The future is always uncertain.

You could be forgiven for thinking that, having almost reached the previous market highs, the future must look brighter. You would probably be surprised to find out that despite recent gains, the future is no more certain than it was eight months ago at the trough of the market decline.

- Inflation is still a huge challenge, and we will more than likely still see further interest rate increases.
- The war in Ukraine is still ongoing.
- A recession is still expected by many.

You should take comfort in learning that the biggest companies, with the best management, are actively working on initiatives and new ways to overcome the current challenges.

3. Proactive planning is the antidote.

While we are unsurprised about the market's recent recovery, we do not know what the short-term future holds for global markets.

Steadfastness is the Key Principle

Unsuccessful investors are continually reacting to current events. Our approach is to remain steadfastly focused on your long-term goals by proactively enacting your plan. The principles underpinning this plan are **patience, discipline, and rational optimism** inspired by a long history of human ingenuity. We are confident this approach will give you the best chance of lasting financial success.

Looking Ahead

The second half of 2023 will surely bring new and different challenges. However, we are confident that no future challenge will be too much for our structured investment approach. We continue to plan for the long term and do not react to current events. Diversified portfolios of superior companies have demonstrated the ability to increase earnings and maintain profitability over time.

Oakwood
FINANCIAL ADVISORS

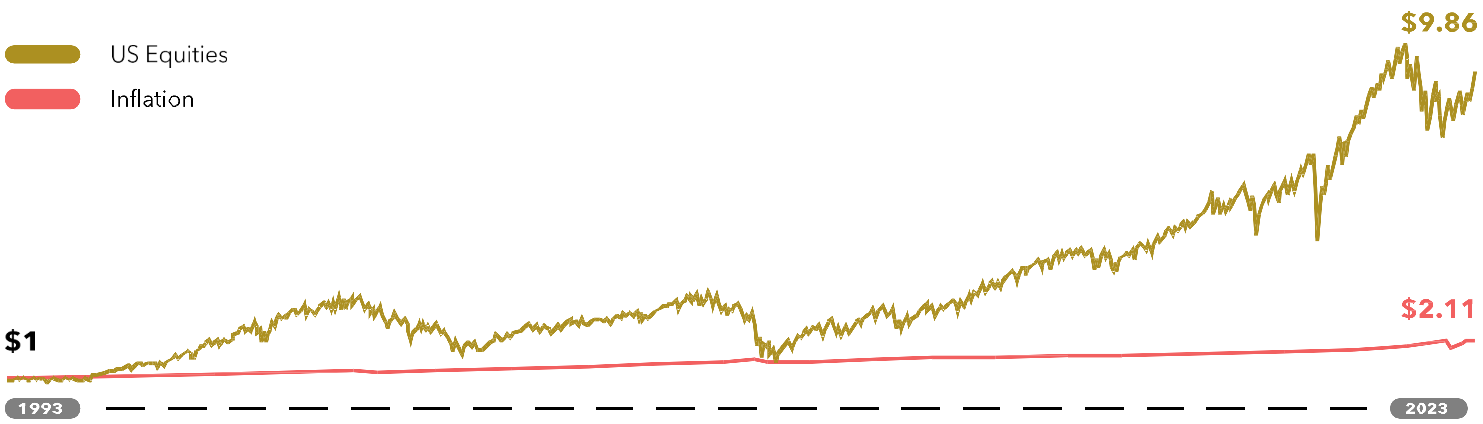
Inflation – The Real Enemy (updated June 2023)

The number one enemy of the long -term investor is inflation, the silent but steady increase of prices over time.

The only sane definition of money is purchasing power, and over the last 30 years, inflation in the USA has halved the value of your money.

But an investment in the American share market has consistently provided protection from this enemy. What did you have to do to earn this? Two (behavioural) things:

1. Invest and stare out of the window (much harder than it sounds).
2. Be willing to see your investment value *temporarily* decline by about -15% on average every year without being panicked into selling.

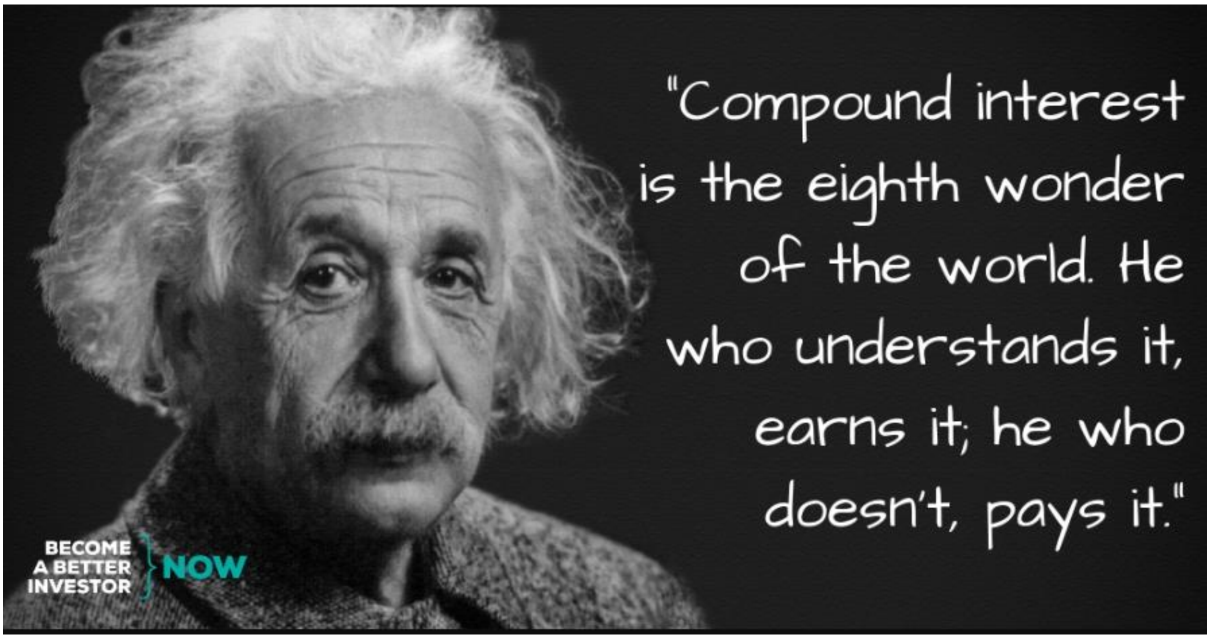


Source: FE Analytics, Humans Under Management.
Returns are based on the price return of the index, which does not take into account dividends.

Compounding of Returns

Your Proven Route to Long Term Gains

Compounding, **hailed as the eighth wonder of the world**, is the process of earning returns on prior returns. The human mind tends to grasp linear returns more easily, yet the investment world offers compounding returns for those who invest with discipline and patience over an extended period. Ultimately, it is this compounding effect that paves the way for long-term financial independence.



Be Prepared to See a Dip Before The Rise

Investors often embark on their wealth creation journey because they have grasped the power of compounding returns in theory and want to see it in practice. However, the early stages of this journey can be deflating as the expected growth is slow in coming. You diligently contribute money to your investment pot, but the balance seems insignificant.

Dramatic Turnaround From 2022 to 2023

2022 was such a year with markets down circa -20%. If you started investing in 2022 or set up an ARF or investment policy, this would have been a worrisome period. There is still a constant flow of negative news from the financial media. However, markets in 2023 have given a positive return with global equities up over 14% year to date.

Short Term Focus is Misguided

Due to short term focus, unfortunately some investors make the mistake of giving up on their investment strategy before witnessing the power of compounding. In this early phase, any new investment strategy with promising returns has the potential to distract them from their initial plan.

The danger is that they an investor gives up just before the snowball gathers enough speed to become dangerous. They look at the short term volatility instead of the long term returns.

Long Term Horizons Produce the Best Results

Warren Buffett, widely recognised as one of the most accomplished investors of all time, serves as an example of the power of compounding. Often overlooked, however, is that Buffett started investing in his early teens and continued throughout his life, well into his nineties. The 80-year investment horizon significantly contributed to his massive wealth accumulation.

Equities Have Been the Bedrock To Success

Attributing his success to solely his investment decision-making would be a mistake. Had Buffett followed the conventional path of investing from age 25 to retirement at 65, his story might have been different and less remarkable. He is still fully invested in equites at 98 years of age.

Combined with Patience and Time

Investing doesn't stop just because you reach a certain age. The key to Buffets success is that he's been a phenomenal investor for three-quarters of a century. Most retirees now will have almost a third of their lives to look forward to in retirement due to medical advances. Your investment strategy needs to be cognisant of this and enjoy the compounding benefits.

The Two Magic Ingredients

The first that compounding demands is **time**. This is a challenge for those who are impatient and just focus on short term performance. Our minds are designed to think linearly. The investment world operates exponentially. For this reason, it can be challenging to extract the right lessons when we study models of success.

Time, An Essential Component of Compounding

Compound interest is simply earning interest on interest. In year two, it may seem insignificant, but given enough time, the numbers become substantial. Think of it as a snowball that slowly grows into an avalanche.

Don't Let Your Confidence Be Shaken

The second key requirement is **patience**. For healthy compounding, you have to be willing to see your investment value, perhaps, temporarily decline by about -15% on average every year without being panicked into selling. **Invest and stare out the of the window** – it's much harder than you think!

The Best Way Out Is Always Through

It can be argued that time is a more critical input than investment returns when it comes to long-term investment success. Unfortunately, at the start of the investment journey, time has not yet been able to play its part.

For example, for a regular investor, after ten years of annual contributions, two-thirds (or more) of your investment pot will likely be your contributions, with a third being from the investment returns. If we extrapolate the same contributions for thirty years, approximately three-quarters of your portfolio will be attributable to the growth within the portfolio.

The only way to get to thirty years is by not giving up in the first ten years. As the American poet Robert Frost famously said, “The best way out is always through.”

Accelerating The Process

The investment process is a life-long journey, and having realistic expectations when you set out is essential. For those starting out on this journey, consistently contributing to the portfolio, and maintaining faith in your investment strategy will ensure that the compounding effects unfold over time.

Keep Building Your Future Wealth

While you can't skip this phase, you can speed it up. Instead of succumbing to distractions while waiting for tangible outcomes, investors can focus on increasing their contributions to expedite growth. Treat this initial phase as a "rite of passage" towards financial independence, using it as a learning opportunity and laying the foundation for future wealth.

Compounding Will Inflate Your Financial Status

Combined with consistent contributions, the power of compounding cannot be overstated. For any investor (whether an investment fund, pension or ARF) it’s important to remember the impact of time and compounding on Warren Buffett's success. It’s notable that more than 99% of his wealth has been achieved after age 55.

Ultimately, investment growth comes to those willing to persevere, remain consistent, and give their funds the time and space needed to grow. We encourage you to keep the faith, stay patient, and wait for compounding growth to become visible within your portfolio.

As always, I welcome your comments, questions and concerns.

Ronan McGrath
Managing Director
Oakwood Financial Advisors

3rd July 2023

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