

When a 'barbell portfolio' works

2022 has seen an unprecedented negative impact for long-term growth only investors. Some of the biggest, most renowned and highest performing funds of the past years have taken a quantum hit, falling anywhere between 13-30% in 6 weeks. Wow.

At the same time the FTSE100, the UK bellwether index has gone… nowhere. If clients have not yet been asking what is happening… they soon will.

The core of the problem is that the US equity indices are universally down but with the darling of the 2010s, the Nasdaq, down circa 13%. That's a big hit in 6 weeks and leads to the inevitable question, is the growth game over? Or is it merely in short-term retreat, just a blip and thus the hero investors of the past decade will re-emerge to grab their crowns, which are presently just slightly slipping? As always, I anticipate the truth will probably lie somewhere in the middle.

The present set back was inevitably going to happen - although of course no-one was to know when. Since October 2020, slowly but surely the value side of investing (in this case I mean undervalued, poor

performing but improving entities, smokestack industry, commodities and financials) has been quietly making better headway than the growth bulls wanted to believe.

Success in investing often causes hubris. By that I mean a self-confidence that, having been right for so long, will therefore be right now. Having managed money for 40 years, I know to my cost that this is simply not the case. That's just when the markets will kick you in the shin.

6 weeks/one quarter is far too short a timescale to worry. But even a cursory glance at the big growth funds that the "world and his dog are invested in" shows that they are now only making small single digit annual gains to February 2022. That number is shortly to go negative and will likely then quickly stretch to 2 years of mediocrity, in performance terms. I do appreciate the argument for those who have had a 5-year investment, it's just a dent in super profits, but for newer investors over 12-18 months it just doesn't look too dandy.

What lies beneath this rhetoric is the fact that the market has quite fundamentally changed, although the stale growth bulls will still not see it.

Inflation, the raising of interest rates and curtailing of quantitative easing are impacting. Value is having a ball. Putting that in perspective, some of the core value funds are up in a market where the growth players are 15-25% down. That is a paradigm shift and difficult to ignore.

For 2 years we have banged the drum of creating a bar bell of a portfolio with solid value plays as one component and growth funds as the other. That tilted to value in the first quarter of 2022.

As we have said from 2020, growth will always have its day and will have bouts of strength, but the growth-only super returners of the 2010s will most likely not repeat in the next 1-3 years. This sector is likely to remain at best only hanging in with the pack for the next 12-18 months.

After all, with the Nasdaq rise of almost 1000% since 2010, what is a 13% fall?

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