

Plus ça change...

The speed with which market events take place is increasing. Investment Manager Julian Dieppe considers whether this modern-day phenomenon calls proven investment approaches into question or merely further validates them.



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I must confess that I was slightly perturbed when I realised it was my turn for Investment Insight duty again. “Well,” I thought to myself, “the world hasn’t really changed since I last took up the reins. I don’t really know what I can say.”

As you might imagine, this sort of lame excuse isn’t likely to wash with the folks in charge of content creation. I was therefore quietly delighted when, upon reflection, it occurred to me that something *has* changed – and that it’s worth discussing.

Before we get to that, though, it’s first helpful to highlight a few things that have stayed the same. At least for the purposes of this article, we might usefully think of them as our three pillars of present-day investing. Let’s rattle through them at pace, since they represent ground we’ve covered before.

First, market volatility is still ever-present and frequently pronounced. This has now been the case for so long that it doesn’t even make sense to use the term “new normal” anymore. It’s just “normal”.

Second, diversification is still a prudent safeguard against the potential perils of near-relentless up and downs. If there’s always a bear market somewhere and a bull market somewhere else, as seems to be the way nowadays, then there’s a lot to be said for avoiding concentration risk.

Third, panic is still a less than ideal response to an environment of ongoing uncertainty. You’ll have read many times on these pages that time *in* the market beats timing the market, and this remains one of investing’s most reliable axioms.

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Investing's great acceleration

So what's different? In my view, the relevance of each of these three pillars has been significantly amplified of late by the sheer speed with which market events now take place.

There are several aspects to this phenomenon, all of them closely related. Again, we can tick them off in pretty short order.

First, asset cycles are becoming increasingly compressed. Once measured in years, they're now likely to be much more rapid. In particular, pronounced swings in sectors such as energy, metals and agriculture have created what might reasonably be described as mini-cycles.

Second, volatility patterns are less asymmetrical than they used to be. Traditionally, equity markets fell abruptly and recovered slowly. Resurgences can now be every bit as swift as the downturns that preceded them. A classic illustration: the trillion-dollar plunge and almost immediate bounce-back experienced by Asian chipmakers over a matter of days in late July and early August.

Third, market shocks are more commonplace. They might not be genuinely monumental – in the vein of, say, the global financial crisis (GFC) or the COVID-19 pandemic – but they're sufficient to make their presence felt. To put it another way: periods of equanimity are now comparatively rare beasts.

You may think this all sounds rather alarming. Sure enough, I wouldn't exactly call any of the above a welcome development. Yet this brings us to one last thing that *hasn't* changed.

A validation of our approach

I joined Fiske in 2010. The ensuing decade is now regarded as nothing less than a golden age of investing – and not, I hasten to add, because yours truly had sensationally arrived on the scene.

The lingering impacts of the GFC compelled central banks to favour quantitative easing and loose monetary policy. Interest rates were ultra-low. Inflation was largely stifled. The era of the tech giants was dawning in earnest. By any standard, markets were ripe for outperformance.

There's no question that the investment landscape is more challenging today. Yet what we do in trying to extract the most we can from it is essentially the same now as it was all those years ago.

Specifically, we look for high-quality companies that are likely to deliver healthy growth and solid returns over time. In doing so, we cast our net as widely as is sensible. We prefer businesses that have strong cashflow, pricing power and sustainable dividends.

Crucially, we seek out opportunities in the face of calm and turmoil alike. We aim to react to the unforeseen in a composed and considered way. We make tactical adjustments rather than abandoning a long-term strategy rooted in in-depth research and informed decisions.

In my opinion, compressed cycles, reduced asymmetry and a greater incidence of shocks don't cast doubt on such an approach. Quite the opposite: they arguably render it more important than ever.

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