Those that do not learn from history…

A common refrain over the last two-and-a-half years is that we live in unprecedented times. While many of us are fatigued by the term “unprecedented” (and its close friend, “abundance of caution”) it undoubtedly feels like our current state is new but, to borrow from – and paraphrase – a quote attributed to American humorist Mark Twain, while history does not repeat itself, it often rhymes.

The many challenges of the current environment have historical analogues — pandemics are not new, nor are wars, commodity price shocks, high inflation and rising interest rates; even having these occur around the same time is nothing new. Just look back a century.

Similarly, the broad weakness and heightened volatility across financial markets experienced so far this year is not unique to today (and that goes for fixed income as well). It is not unusual for markets to disconnect from the fundamentals of valuation principles and pivot toward speculation and related investor emotion. Such emotions are often reminiscent of the swing at a playground, up from desolation to euphoria and back again.

Just like all previous periods of turbulence, we know that economic activity and markets will ultimately recover as the next chapters in this similar-sounding story are written in the months and years to come. So, for investors with long time horizons, the prudent strategy is to invest in a well-diversified portfolio of strategies, including equities, credits, and alternatives and rebalance toward an asset allocation consistent with long-term objectives and risk tolerances.

This is hardly a novel approach to investing — the “buy and hold” strategy has been espoused by famous investors for generations. Indeed, the stock speculator at the center of Edwin Lefèvre’s near-century-old Reminiscences of a Stock Operator (which recently was the focus of the Guardian Women Book Club) exhorted, “It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight!” [1]

Of course, such inaction goes against human instinct, especially in times of uncertainty where the urge to do something, anything, to assert a feeling of control over the situation can be overwhelming — or when others appear to be making money hand over fist amid a speculative fervor (to which we say, resist FOMO!).

The lack of clarity over the details of how things will play out in the near-term that has been a constant throughout the post-COVID-19 period appears unlikely to fade any time soon as risks to the outlook in both directions loom large. This suggests that markets are likely to continue to

[1] Lefèvre, E. (1923). Reminiscences of a Stock Operator. United States: Wiley.

be subject to the whims of investor psychology, with fear (both of losing and of missing out) resulting in some irrational decision-making — and with it, continued heightened volatility in the markets as speculators push prices beyond reasonable levels or fearful investors collectively drive down asset prices.

So, as we enter the homestretch of what has been another tumultuous year for markets, it is important for investors to stay disciplined and stick to their long-term strategy. The compulsion to either chase gains in the hopes of recovering this year's losses, or check out in the face of another inevitable bout of turmoil must be resisted lest investors find themselves doomed to repeat the mistakes of the past.

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