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Enough already of stock-market mantras

'Established truths' are bad for performance

A guest article by Uwe Günther

The financial markets repeatedly trot out facts which are regarded as incontrovertible and are hardly ever called into question. However, these 'established truths' often cost investors serious money.

In the current phase of the market, too, we are experiencing a whole number of presumed truths and theories which hardly anyone ever challenges. This is partly due to the fact that psychologically people prefer to accept the opinions of those who confirm their own views – until of course they suddenly turn out to be wrong, and those who simply follow the herd are one negative experience richer.

At the present time, too, we can clearly identify a number of mantras which are repeated with prayer-wheel rhythm – at least until the 'smart money' has divested itself of all the positions involved, while the 'dumb money' is still desperately looking for a way out.

Here are some of today's most popular 'established truths', which are regarded as indisputable. Some of them are entirely capable of taking investment targets to the point of absurdity and causing massive losses.

- The US dollar will continue to rise against the euro. Many banking analysts are already predicting parity.
- Investors are sure to lose money on government bonds, because interest rates will rise significantly.
- The US economy is growing robustly.
- Inflation is continuing to rise noticeably.
- The future belongs to China.
- Germany is and remains the locomotive for growth in Europe.

- Shares are solid assets.
- Gold is superfluous, causes only deposit costs and doesn't attract any interest.
- In the long term, active asset management will beat passive strategies.
  And to finish with, a classic which almost takes your breath away:
- dividends are the new interest!

However, investors should keep in mind that in essence all of these dogmas can be challenged. Here are some examples.

Is it really so improbable that long-term US government bonds will become subject to panic buying? They are already oversold anyway. This means that it will only take a relatively small crisis to send investors fleeing to nominally safe havens. US bonds are regarded as safe as houses, and would benefit from any further increase in risk aversion.

Are constantly rising inflation rates really predestined? What will happen then at the latest from mid-2017, if the effects of low oil prices evaporate again, and deflation comes to be exported by China and other countries? In recent years the agreed opinion on future price trends has almost always turned out to be wrong. This could be the case once more in 2017.

How solid is the supposed value of shares if companies build up ever higher debts, and the success of their business model is therefore increasingly dependent on interest rate levels?

What will happen with China if – in spite of all political repression within the country – the system begins to crack?

Is it really so improbable that drastic corrections on the securities market could nullify the dividend payments of 15 or 20 years? After all, it has already happened three times since the noughties.

Are the USA and Germany really as robust as is generally reported? The stock market deals in the future. Even if the situation were as rosy as it is currently often painted, the historically

cyclical nature of corporate profits should act as a reminder that forward-looking action is always advisable.

The fact is that in recent quarters the best performing investments have been those which the general opnion regarded as less promising: oil, gold, mining companies, commodities producers, many emerging markets, sugar, coffee and a range of corporate bonds. And what have investors earned by following the Dax and Stoxx since mid-21015? The bottom line is: nothing at all.

In this context investors would be well advised to check out various sources of information on one and the same subject. This very much includes those critical voices which are independent of the banks and aren't often heard. It doesn't necessarily have to be a subscription to Dr. Marc Faber, constant reading of Felix Zulauf or a regular visit to the webcasts of Jeff Gundlach. But it probably won't do any harm, either….

Yours,

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