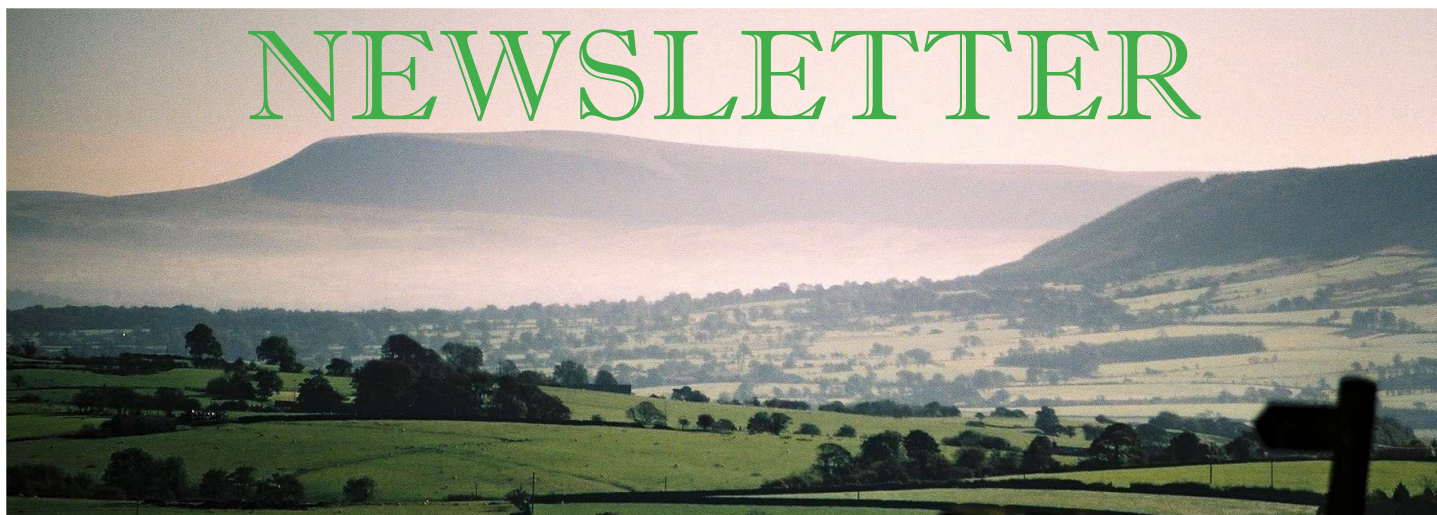


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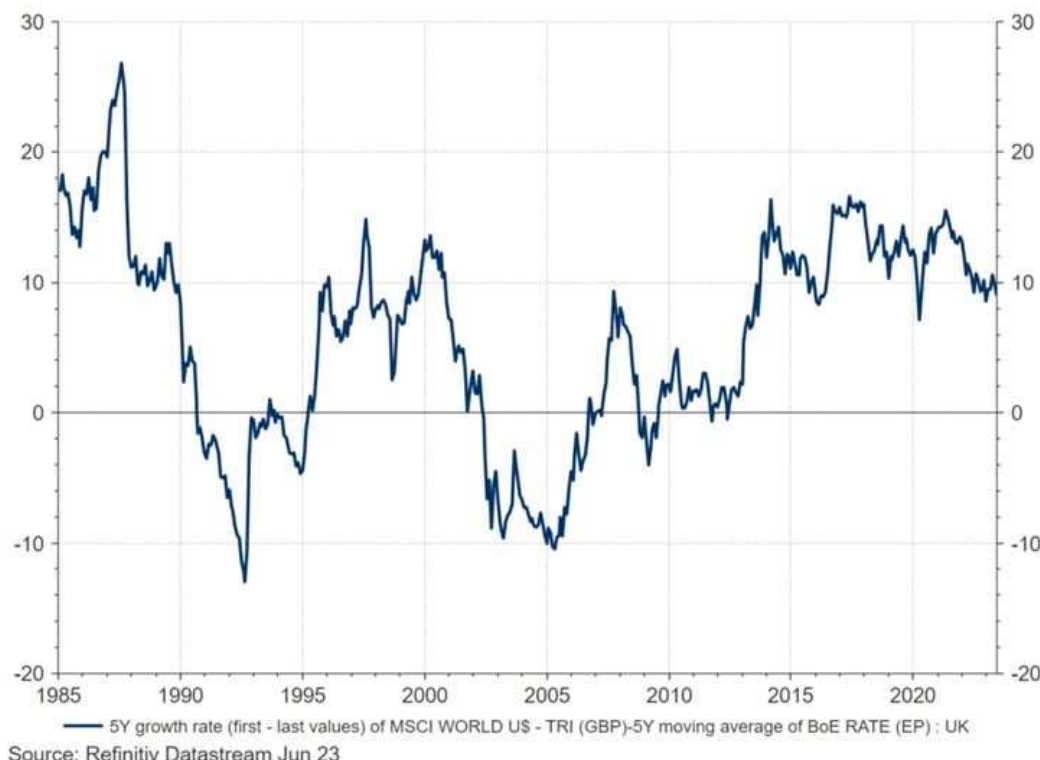
NEWSLETTER

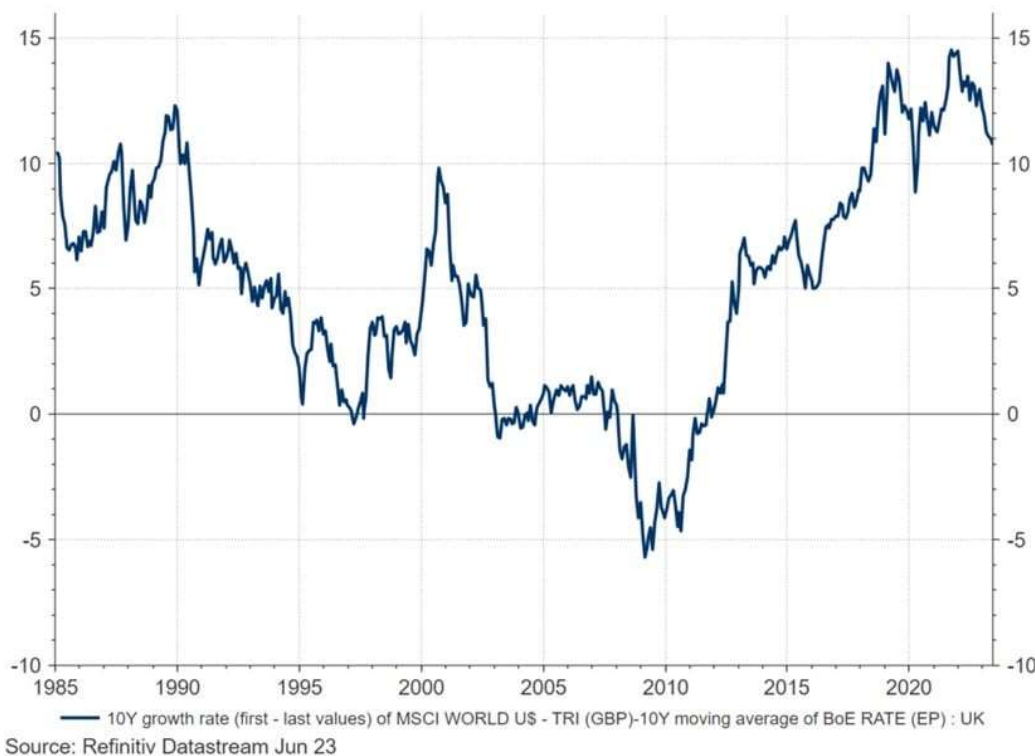


WINTER 2023

The last two years have seen unprecedented (or so it seems) levels of stock market volatility, with Vladimir Putin's unprovoked invasion of Ukraine in February 2022, Kwasi Kwarteng's (in our view, somewhat inspired, but in the City of London's view, disastrous) mini-Budget of September 2022 and most recently the October attack by Hamas on Israel, all having a significant impact. "When will this volatility end?", you may wonder, since the basic premise of investing in stock markets is that, by taking a risk with your capital, you should receive a better return than if you had chosen not to take any risk and keep it in the bank. When the rate of return that you get for taking no risk is next to nothing, it is easy to see why accepting risk in order to generate growth (and/or income) is necessary, hence the traditional use of equities and other investments; however, the risk-free rate of return is no longer next to nothing – it is, in fact, the highest it has been in some fifteen years, and with the Bank of England Base Rate currently at 5.25%, this might seem attractive to cautious (and even not-so-cautious!) investors since they have, for many years, been starved of anything resembling a decent return from cash. But now, if taking risk isn't generating returns in excess of cash, what is the point of investing at all?

However, before you telephone Emma and ask her to cash everything in, the good news is that, historically, equities have outperformed cash more often than not over all reasonable timeframes, irrespective of interest rates. This chart shows the excess return generated by global stock markets (using the MSCI World Index as the basis for comparison) versus cash (using the Bank of England Base Rate moving average) over rolling five-year periods since 1985. In simple terms, when the blue line is above zero, you would have been better off invested in stock markets than cash over the five years preceding that date. As can be seen, equities have beaten cash – in 74.20% of the five-year time periods – and over ten-year rolling periods, stock markets have outperformed cash some 85.50% of the time (see graph overleaf).

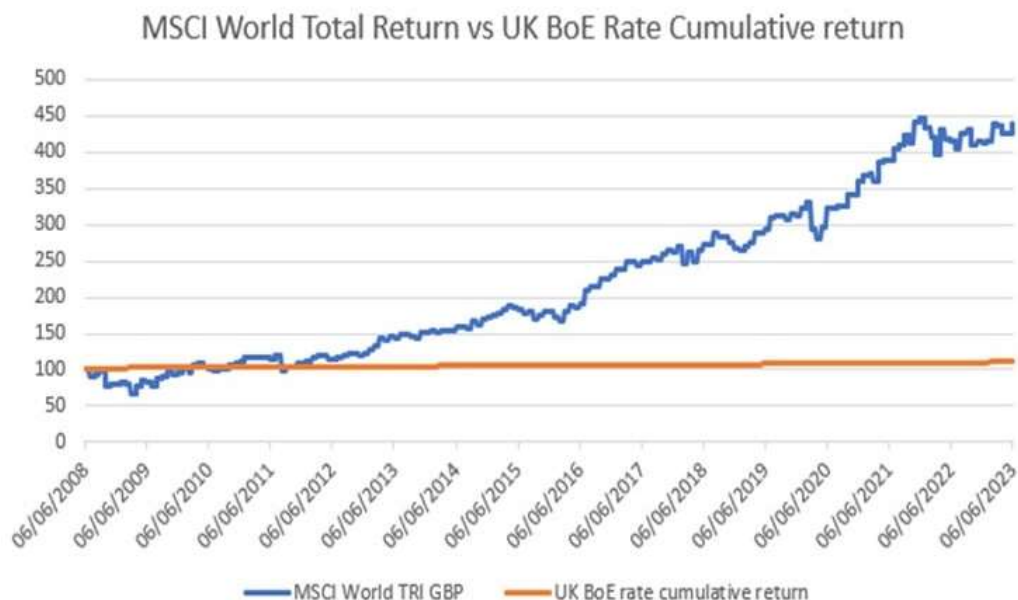




“Yes, Steve, but interest rates have been zero for most of the last ten years, so beating cash was easy”, you may say. However, interest rates in the 1980s were regularly over 10%, and it was only in 2010 that the moving average of the base rate dipped below 4.50%...

This is only half of the story, however; when equities have outperformed cash, they have trounced it – over rolling fifteen-year periods, by some 4.70% per annum on average; in contrast, when cash outperformed equities, it has been by only 0.80% p.a.

That is why longer-term charts of equity returns v cash look like the graph shown here on the right. Of course, interest rates are only where they are at present due to inflation. Keeping cash earning 5% or less in the bank isn't the best of ideas when inflation is running at much higher levels than this – in fact, it means **accepting a historically high erosion of purchasing power in real terms**. There is no such thing as a risk-free return, in our view...



If we want to protect the real value of capital for the medium- to long-term, after taking into account inflation, there is no option but to accept the short-term volatility of the stock market that goes with it. Of course, by diversification the risks are reduced (part of our investment strategy) and our advice remains to sit tight, don't look too frequently at investment values, and be patient. As the Guinness advert says, “Good things come to those who wait”.

Along with this Newsletter, please find enclosed our summary of Jeremy Hunt's Autumn Statement – widely regarded as a mini-Budget – along with our 2023 Christmas card; we apologise for this being slightly earlier than normal but felt it better for the environment (and our costs!) to send everything out in one envelope, rather than two or three a week or so apart... We sincerely hope that you have a wonderful end to 2023 and that 2024 sees us head into a period of lower volatility and better returns than we have seen of late – and, in terms of human suffering, an end to the current strife in the world. We wish you peace and happiness.

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