February 2015 *MoneyMinute* – Weather vs. Climate

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Notice how TV news puts finance next to the weather report? In each, talking heads point at charts and intone about intraday events that are quickly forgotten. Meanwhile, the long-term wealth building story gets overlooked.

Many investors feel that they are not properly informed about the financial world unless they have checked daily, or even hourly, on how the Dow, FTSE, or Nikkei have moved in the intervening period.

In most cases, it's a pretty harmless activity. It at least provides a bland conversation starter in fleeting social encounters, just as keeping up to date with tomorrow's weather forecasts can fill an awkward silence.

But our very human focus on the day-to-day can often encourage us to make bad decisions that affect our long-term interests.

That's because while we live moment-to-moment, what often affects us most are imperceptible, gradual changes that occur over many years.

Look at the way markets have begun in 2015, as reflected in daily news headlines from Reuters:

- January 6: Wall St. in Longest Losing Streak in 13 Months
- January 8: Wall St. Jumps for Second Day, Helped by Economic Optimism
- January 14: US Stocks Fall Heavily on Growth Concerns
- January 20: China Seen Posting Weakest Growth in 24 Years
- January 20: UK Stocks Gain on China's Growth

The China GDP story is a good example. The curtain-raisers announced it would be the weakest economic growth number for nearly a quarter century. And, sure enough, it was. But because the result was a fraction higher than what the market had priced, Asian stocks rallied.

As always, markets price expectations for events like this and then move if the outcome varies with what is in the price. It is hard enough for professional investors to keep track, never mind a layperson.

So, from minute to minute, market sentiment shifts in reaction to news – news about the economy, companies, governments and politics, and the wider world. Prices rise and fall in response to this news, which by definition is unpredictable.

To use an analogy, the market news is like the weather. One day it's sunny. The next day it rains. It's unseasonably warm one day but cool the next. The narrower is your frame of reference, the greater is the apparent variability.

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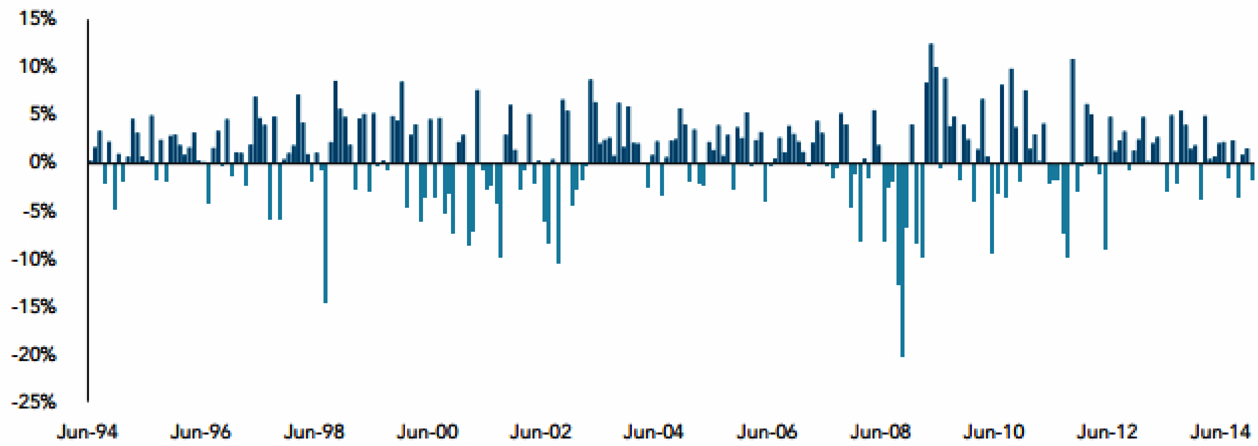
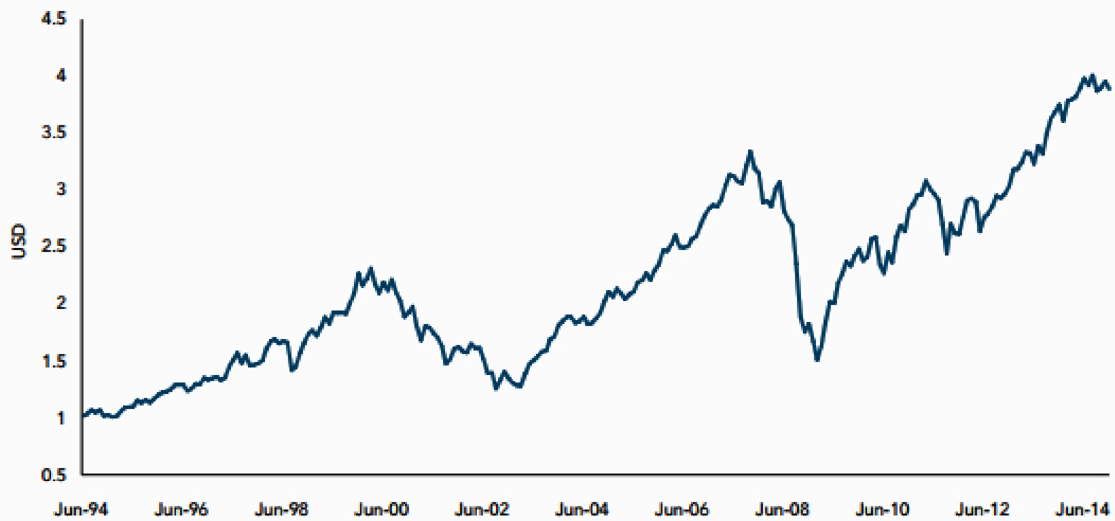
Exhibit 1 The Weather: Monthly % in MSCI All Country IMI Index (Net Div, USD)



Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. MSCI data © MSCI 2014, all rights reserved.

Look at Exhibit 1 (in US dollars) above, showing monthly moves in a common barometer of the global share market. All you see are the monthly ups and downs – the regular changes in "the weather."

Exhibit 2 The Climate: Growth of Wealth: MSCI All Country IMI Index (Net Div, USD)



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Another way to look at this movement (see Exhibit 2) is to measure the growth of wealth. This way we are less focused on the day-to-day or month-to-month movements and more on how wealth accumulates through time.

For a long-term investor, this is the more important measure because it takes into account cumulative gains. The media, by virtue of its publication schedule, must focus on the short-term. They need a different story every day.

These two ways of looking at the market are like the difference between the weather and the climate. The former changes constantly, the latter more gradually. With long-term investment, it's the climate you need to think about.

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