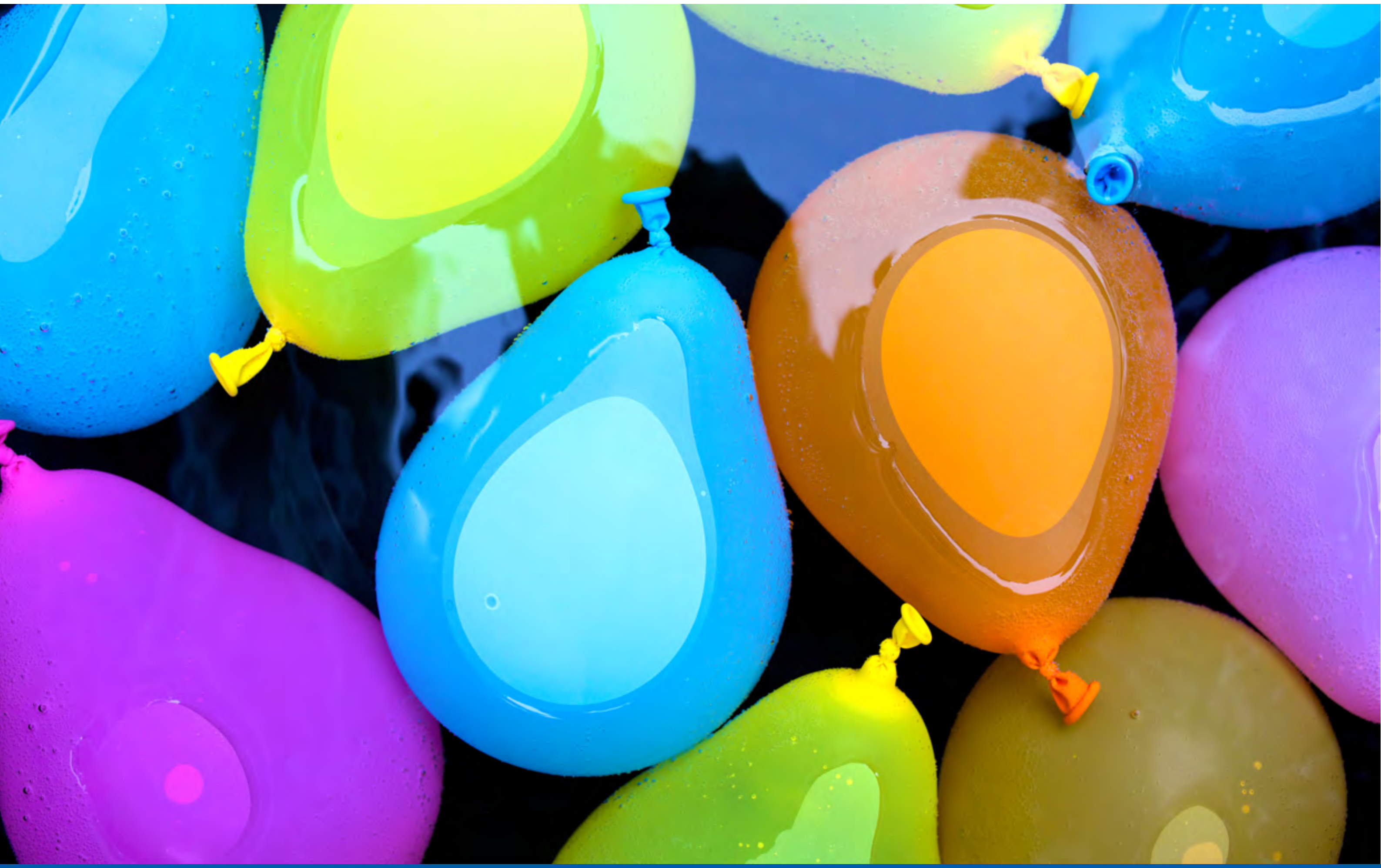
INSIGHT FROM THE CEO



Ever pulled a balloon under water?

With such high volatility the big question is, do we do nothing, or when do we sell and when do we buy?

Timing in volatile markets is a very difficult game, and can be a speculative one after the biggest one day market gain in US history. You will be well aware that at TAM, we are not speculative investors. After the "mad dash for cash" in the second week of March, as our CIO James Penny described it, how do we decide what to invest in and when?

Before we go there, let's discuss the present massive rally - why it's happening and what might happen next. To be clear, these are my personal opinions.

Let's start with Gold - a safe haven in a crisis isn't it? Well, in this period Gold fell from $1700 to below $1500. The sole reason was investors in the US demanding cash leading to the sale of everything liquid. Whilst the US Government threw the kitchen sink at the economy, margin investors headed for the door and metals, cash funds and their equivalents suffered massive liquidity issues.

US mortgage products are in a huge bear liquidity crunch as I write this note. Funnily enough, as soon as the Gold investors were satiated, what happened? Gold rallied by $100 in a day that stock markets rose 10% and the Gold bulls are back talking of $1700 Gold, because after all, it's a crisis isn't it! Imagine pulling a balloon underwater - it's easy to get sucked in.

With equity markets having rallied 10% in a day, are we over the worst? I think the answer is no. The balloon has been released again and this time, short equity traders (those investors who sold the market but didn't own it) and investors who had significant shorts (heavy sell structures in the market) were in profitable positions. Some were leveraged, like Gold (but in reverse) but massive upticks would cause margin calls.

All it needed to scare them out of shorts was a pick-up in something to cut them loose. The US economic package is impressive enough to have warranted them to cut those ties, shorts get covered and a huge rally begins. The balloon pulled underwater - it's easy to get sucked in.

Balloons only float to the surface once like this in an asset class. The virus impact and the economic response will not impact clarity on markets for at least another three months, and then a new bull market can begin!

So how do you deal with this? Discipline is buying in on very weak days for the long-term and selling overbought short-term assets on the "balloon scenario". 5000, give or take, is a solid-looking level on the FTSE 100, (5600 today, 4800 some three trading days ago). When it trades below that 5000 level TAM will be topping up allocations.

The safest way to enter a hugely volatile market is to enter at several pricing points in small incremental pieces - essentially, the old fashioned "pound cost averaging". By doing this, we are not just mitigating market risk, but also ensuring we get a fair pricing for our clients - trying to time the peaks and troughs in a market is a dangerous game and sits outside their remit.

After this present rally, most clients have given back only what they gained in 2019, which was a great year for markets. I urge you to reread my last note on perspective in a crisis, as real returns are still strong over anything other than the short-term. TAM is proud of its Defensive and Cautious account performance during this period – they really have done what they say on the tin!

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