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WHEN LESS COULD BE MORE

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The investment world is currently struggling with the conundrum that is the US stock market.

Looking at it on face value, the majority of US companies are struggling while a small number of the Tech giants drag the main indices up to new all-time highs. Contrast that with a debt-ridden economy, battling with China on tariffs, Coronavirus and a highly toxic election being fought this year and it all makes for a very interesting time.

The rest of the world is also struggling economically but no other stock market has seen the kind of growth we have experienced in the last 6 months in the US indices, so does that make the US different?

Does this mean we should be increasing our exposure to the US?

With around 60% of the shares in the US S&P 500 index negative for this year, where would you go if you wanted to invest in the US? The tech giants are the obvious answer.

Apple and Tesla, following meteoric rises this year have both just completed stock splits (offering a number of new shares in the company for every one you currently own, thereby reducing the share price but not the value of the company – if you owned 1 Tesla share worth $200 you now own 5 shares worth $40 each), making them easier to buy for many investors and many have dived right in buying like crazy on the assumption these stocks will just keep going up.

But are these valuations real or is this another tech bubble forming, like the one we saw in the late 90’s/2000?

One thing we can definitely say about this current run, is that now, unlike the last tech boom, the majority of companies involved are actually trading, making a profit and developing their businesses. (The last tech boom was all about what companies might be worth in the future if it all worked out well, but most had not started trading and almost all had yet to make a profit).

At the very least we would urge caution at this point, the world is struggling and while the US might be a great place to invest in, now may not be the right time and at times like these, it often pays to follow the smart money.

One of the world’s most successful investors, Warren Buffet, has just made some very interesting investment decisions. His company, Berkshire Hathaway, has recently increased its stakes in the world’s largest gold miner and bought natural gas pipeline and storage facilities.

Over the weekend, they also announced taking a stake of more than 5% in five Japanese companies, giants that include Mitsubishi, Mitsui and Co and Sumitomo.

This recent activity all looks very much like Berkshire Hathaway is taking a cautious approach to the coming months, maybe years and is betting on the commodities sector and the Japanese Yen.

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In other words, and very importantly, the world's most successful investor wants less of his investments in the US and more in other world economies – and that has to make one sit up and listen.

One of the biggest fears in the professional investment community at present is inflation. Inflation is usually bad for the stock market and that is why, among other reasons, the US Federal Reserve came out last week and announced their new average inflation targeting strategy in an attempt to smooth the effects of inflation that surely must come in the near future.

Warren Buffet has, for Berkshire Hathaway, created a significant exposure to energy, agriculture and gold – all of which have typically done well in inflationary periods.

So much news, that means what?

- We are definitely in a turbulent period for world stock markets and that should always make us that bit more careful with new investment decisions.
- Whilst Warren Buffet is not always right, one cannot ignore the decisions of the worlds most successful investor and his team of analysts with their incredible resources and experience.
- The US remains an excellent place to invest, but there are better times to do so than others and right now, with so many unknown factors thrown in to the mix, it may be better to stand aside and take advantage of any significant market corrections.
- Standing aside can mean your money is not working well enough, so it could be the right time to look at other options that do well in the current economic environment and include them in your portfolio.
- Now, more than ever, it is vital that you take a look at your investments and make sure you are well positioned to ride the storms of the investment and world economies over the next 18 months.

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