THE OUTLOOK FOR THE ECONOMY IS ROSY…WAIT…MAYBE IT ISN'T…OR IS IT? 10TH AUGUST 2020

Goldman Sachs today was said to be more optimistic about the arrival date for a Coronavirus vaccine, causing it to upgrade its expectations for economic growth and cut its projection for the unemployment rate. The firm suggests we may see at least one vaccine approved by the end of this year and ready for widespread distribution by the end of the second quarter next year.

This, they suggest will improve consumer confidence which will lead to us all going out again and spending like crazy – boosting GDP and creating jobs and making it all ok!

Meanwhile in Europe, German firms surveyed suggest that they expect Coronavirus restrictions to last at least another 8-9 months, with the leisure sector fearing another 13 months of restrictions. All of which will hurt their trade, and of course their profits.

As ever, forecasters want to paint as good a picture as possible, if their own institution has an interest in it being the way they suggest, while often, those more "on the ground", i.e. the businesses actually out there trying to survive in this virus storm are often more realistic.

Stock market analysts and the media in particular are notorious for getting it wrong – a great example from the recent past is when Jim Cramer of "Mad Money" on CNBC in America famously said on the 11th March 2008 – " Bear Stearns is fine, do not take your money out, if there's one takeaway, Bear Stearns is not in trouble". – 5 days later the famous US bank collapsed and was bankrupt!

History teaches us, when trying to see a way through difficult Financial Times, to be realistic, look at what is going on around us – and be patient.

At the moment, after seeing world economies grind to a halt and financial markets fall significantly (although not as much as they did in 2008 – so far!), we have enjoyed a rally in the markets, but many miss the point that this "V" shaped recovery everyone gets excited about leaves the FT100 still 21% lower today than it was on the 13th Jan this year.

The government furlough scheme comes to an end at the end of October this year and that is the point at which employers have to decide whether or not to keep their staff, because all of a sudden, with reduced income, or even no income in some cases for the preceding 7 months, those companies will once again bear the full brunt of the wage bill.

If those companies let a lot of staff go, those staff will have less money to spend, if they spend less money businesses will make less profit and their share price will likely fall.

If they don't let the staff go but the public don't get back out there and spend spend spend, they make less money and therefore less profit and their share price will likely fall.

If they let some go but keep some and the public do get back out there and spend spend spend, they make more profit and their share price could go up

If they…… oh, I think you get the gist by now…

The trouble is at the moment, there are so many variables that make this an almost impossible puzzle to solve. So what to do?

As I mentioned earlier, the best option at the moment is to position yourself for what may happen – the news will be bad and markets will go down – or it won't be so bad and markets will go up – it won't be as good or as bad as expected and markets will go nowhere!

The truth is no-one knows what will come next but be prepared and flexible and you will survive this financially, you may even make a profit.

How do you prepare? The answer to that could be different for all of us, because it depends how you feel about risk, but in short – set things up to limit your risk if things go bad in the markets again and leave some cash to the side ready to move if that happens and asset prices suddenly become cheap again as they did in late March and early April this year.

Whichever way this goes, as long as you believe capitalism will continue, Investment markets will return to profit, the only question is will you be one of the big winners? You can be – if you get organised.

Remember the words of iconic investor Sir John Templeton – "The four most dangerous words in investing are: – "This time it's different".