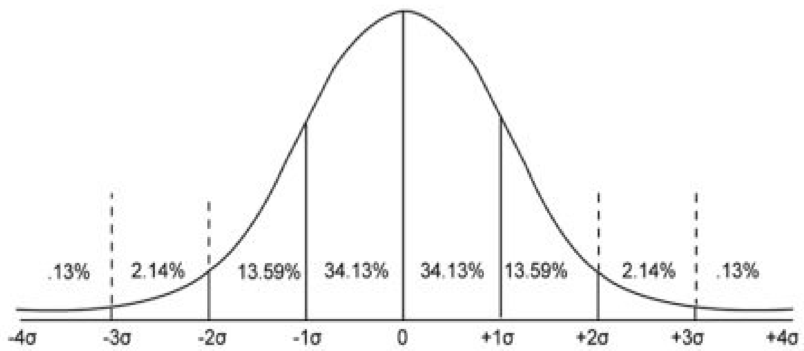
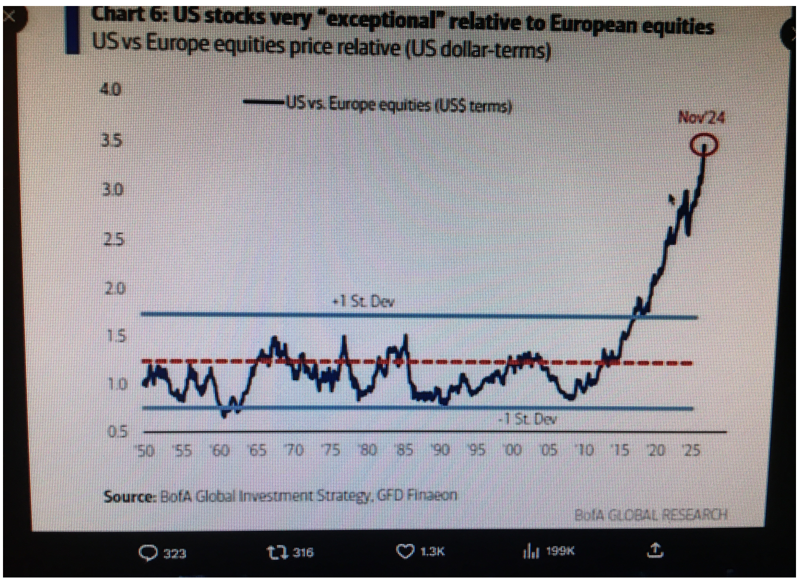
TIM UNDERWOOD

Newsletter – November 2024

A series of data numbers can be used to find an average or a mean for the data. Mathematicians use the standard deviation concept, as a measure of the exception to that average or mean. A one standard deviation includes 68% of all the data, both above and below the mean. A two standard deviation includes 95% of all the data. A three standard deviation includes 99.7% of all the data.
See the chart below:



The chart below compares the price of the US stock market price relative to the European stock market



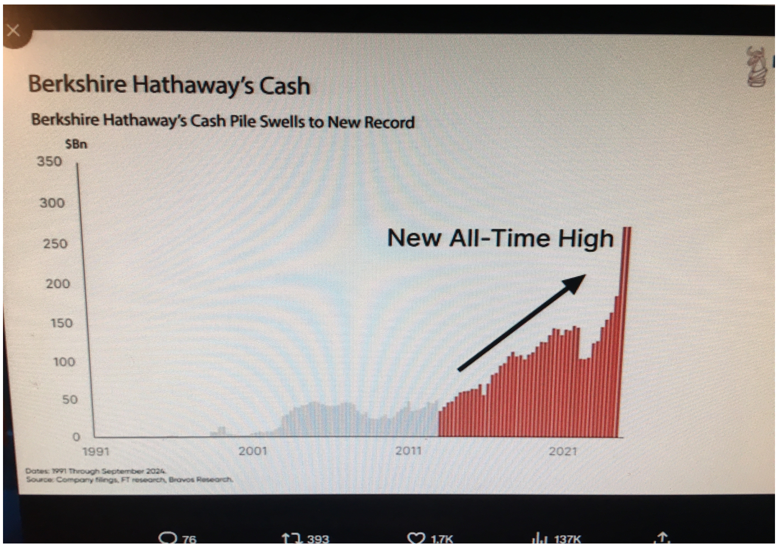
It shows a 3 standard deviation from the average.

Are we therefore seeing in this data, a once in a century deviation from the value of the US stock market compared with the value of the European stock markets. If so, as we look ahead, one of three things can occur.

The deviation can move further away from the mean and become even more unique. That would require the US stock market to rise even more compared to the European markets. Secondly the US stock market could hold value and the European markets could surge to close the gap. Thirdly the US stock market could drop significantly more than the European markets to close the gap.

There are some who explain this current huge deviation in valuations by the fact that the USA stock market is now dominated by high growth tech industries. The so called FAANG companies, meaning Facebook, Amazon, Apple, Netflix and Google corporations. After this year we should also add to this list Nivdia Inc, the leading Artificial Intelligence tech company. The leading companies in Europe however build cars, sell oil, make drugs or are banks. Old industries and are therefore worth less, so the argument goes. But they pay good dividends, while the US tech companies do not and keep the cash generated to invest in their businesses.

Clearly no one knows what will happen in the investment world in the future, but lets have a look at someone who does have a reputation for success, namely Warren Buffet the leading US investment manager. He has thrived for 53 years and is what is called a "value investor". He invests in companies he considers undervalued and a bargain. He has been a large investor in Apple for many years but over this last year he has been a big seller of his US holdings (including Apple) and built up the biggest ever cash on deposit holding. See chart below:



With a market value of US$ 1 trillion, his cash holding is about 25%. Maybe he thinks he will be able to find better bargains in the near future and wants to have some cash ready for that day.

Furthermore now that Donald Trump has won the US presidential election there has been a positive reaction on Wall Street, to further enhance this stock market deviation. But his key economic policy is to impose tariffs on imports. That is expected to increase, or at least, not reduce inflation and that is not good for stock markets. With Europe and China already facing recession and a growing threat to the USA, a bit of caution going into 2025 makes sense.

Wishing you a wonderful Christmas and all the best for the New Year

Tim Underwood 10 December 2024