TIM
UNDERWOOD

Newsletter – June/July 2026

As we pass the mid-point in the year it is a good time to look back at what has happened in the investment world and highlight things to consider for the rest of the year and beyond.

Last week the Financial Times had an article and the writer explained his investment portfolio allocation which was as following:

30%	Equities	UK	21%	Equities	Asia
11%	Equities	USA	10%	Equties	Japan
9%	Equities	Latin America	19%	Bonds	UK Government

His return for the year to date was 7.8% which is in line with the 60-80% equity index. This might seem a good return but the question to ask is what risk is being taken to achieve this return? As we know return and risk are linked.

The term "return" is really the wrong word because nothing has been returned to the investor. It is really an increase in the asset prices of the holdings and this can be taken away at anytime. The US fund manger John Hussman thinks the current investment cycle will see a 50% fall in asset prices and he forecast the fall in the US Nasdaq index in 2008. Warren Buffet the famous US investor holds, at the moment, the highest cash levels he has ever held and although that might in part be due to him stepping down from investment management, it is noteworthy.

It is impossible to know how the investment world will perform in the coming period but we can look at value measurements. One of the most respected is the CAPE which is a measure of the price of a share in relation to its earnings adjusted for the investment cycle. Today for the USA that stands higher than in 1929 and is very close to the year 2000 and both periods experienced major stock market corrections. There is no guarantee the past will be repeated in the future, but it should be noted.

Of course in the big picture the stock markets did recover and equities bounced back but it can take years. So when investors consider return they should also consider the risk they are taking. Someone in their mid 30s who has a portfolio like the one above can wait years, if necessary, for values to recover. Someone in their 60s might consider the above portfolio far too risky.

Another point to consider is the current fashion to be invested in index tracker funds. The case is made that the index out performs most fund managers and over the longer term that may be true. But over shorter period that may not be as managers can look at a market and be risk adverse. Index trackers follow the index regardless of the price. Value is not considered and this leads to a situation where the more expensive a share becomes and the more the company's capital value rise, the more the index trackers have to buy the company's shares. In the USA the market has become dominated by a handful of very large companies and the index has become less and less diversified.

As an example consider the car company Tesla which is the 9th most valuable company in the USA's main index the SP500. That means 491 companies in the index have a lower capital value. But Tesla has a price/earning ratio of 300 which means that investors are paying $300 for $1 worth of earnings. Would you give me $300 on the expectation I return $1 every year?

Of course investors expect the company to grow earnings in the coming years and maybe it will, but at the moment the shares are expecting a big future for the company and index funds are buying them. Last week the shares fell 14% in one day.

The Nasdaq index added the company SpaceX on 7 July 2026 but the shares only went public on 12 June 2026. Over 100,000 individual UK investors applied for just under $1bn of shares in the company, introduced by a new rule that made it easier for foreign companies to offer shares in an IPO by reducing the full approval process. Leading UK brokers such as Hargreaves Lansdown, played a big role and see more IPOs of that type coming to the UK retail investor. However since that public offering the shares have declined by 50% in the month, so perhaps the retail investor is now more aware than before of the link between return and risk.

Beyond valuations there are the wars in Iran and Ukraine. The closure of the Gulf we have discussed in earlier reports and clearly the impact on the global economy and asset values will be negative. Things will not return to the pre war status. See

https://timunderwood.com/wp-content/uploads/2026/06/2026-May-report.pdf

But the war in Ukraine is a more serious threat to Europe and asset values. With ever increasing attacks deep into Russia, the risk of a reply that we cannot imagine grows!

The message is simple. Returns in the investment world can be good but come with risk, so it is important to recognise the risk and be comfortable with it. I call it the "sleep test" rule ... *which means that we do not have investments which keep us awake at night. (* See https://timunderwood.com/)

Best wishes

Tim 27 July 2026

Contact - tim@timunderwood.com