REPORT Nº: 24

Published for CMC Markets

INVESTING IN TIMES OF CRISIS

WHAT CAN HISTORICAL MARKET PERFORMANCE REVEAL ABOUT INVESTING DURING TIMES OF CONFLICT?

STOCKS TO WATCH:

- COCA-COLA [KO]
- CIGNA [CI]
- IBERDROLA [IBE.BME]
- LOCKHEED MARTIN [LMT]
- MOSAIC [MOS]
- NORTHROP GRUMMAN [NOC]
- NUTRIEN [NTR]
- ØRSTED [ORSTED.CO]
- STRYKER [SYK]

THE TRAGIC EVENTS THAT HAVE UNFOLDED SINCE THE END OF FEBRUARY 2022 HAVE LED TO

a devastating loss of human and physical capital

The proverbial Doomsday Clock has never been closer to midnight. When the Bulletin of Atomic Scientists conducted its annual assessment of the world's vulnerability to catastrophe in January 2022, the group had warned that Ukraine was a "potential flashpoint"

WORDS:
RICH MCEACHRAN

ABOVE
As Barton Biggs asserts, the markets were often better at predicting key events in World War II than the public or the press

As forecasts go, the idea that Russian troops would begin to invade Ukraine just a month later was not something that many would have expected. The escalation of tensions has since put western economies on the brink of recession as Europe's dependence on Russian oil, gas and crops is thrown into disarray.

Global financial markets have been sent into shock ever since, dragging down the value of assets and equities. But as the west reduces its reliance on Russia, this is expected to create long-term, thematic investment opportunities, especially when it comes to clean energy and local food production.

The tragic events that have unfolded since the end of February 2022 have led to a devastating loss of human and physical capital. The situation has rattled global markets, which were already dealing with a volatile cocktail of rising Covid-19 cases, inflationary pressures and increasing living costs. As this potent mix bubbles to the surface, it has refocused investment themes in order to weather the geopolitical crisis.

It might make us uncomfortable, but the Russia-Ukraine conflict is different because it's closer to home. As of mid-2022, there are geopolitical crises raging in Syria, Cameroon, Mali and South Sudan to name but a few. These calamities have gone largely unnoticed and unreported in the UK, US and across Europe because overseas conflicts can sometimes be seen to not have any implications for our way of life.

The fact that the Russia-Ukraine conflict is on the west's doorstep has made investors sit up and take notice of the impact geopolitical crises can have on their portfolios and investments.

1

A TUG OF WAR BETWEEN FEAR AND GREED

AN EASY ASSUMPTION to make is that major stock market indices have typically struggled during a geopolitical crisis as investors worry about the value of their portfolio and sentiment wanes. But this isn't a general rule of thumb.

The legendary Wall Street investor Barton Biggs, who set up Morgan Stanley Investment Management in 1975 and spent three decades at the asset management firm, wrote a book on how World War II intersected with the performance of stock markets. In *Wealth, War and Wisdom*, Biggs argued that the moves the Dow Jones Industrial Average (DJIA) and Germany's CDAX made during the war show that, in order for indices to start moving higher again, "the news doesn't actually have to be good, it just has to be less bad than what has already been discounted in prices".

Biggs pointed out that the markets seemed to be better at calling certain turning points of World War II than the public, press and policy experts. What he meant by this is not that investors were able to see into the future, but that they acted as a barometer for how the war was going at a time when TV ownership was low and people relied on newspapers to get their financial news.

Today's investors, however, run the risk of being overloaded with news and having too much information. They can quite easily fall into the trap of panic selling when a geopolitical crisis first hits the market.

"People might be watching and listening to the latest market news and have a bias towards action, i.e., selling to minimise losses. But investment success can often be more easily achieved through making fewer decisions. As [Berkshire Hathaway's vice chairman] Charlie Munger will tell you, it can pay to be patient," Robert Johnson, co-author of *Investment Banking for Dummies*, tells *Opto*. Johnson is a professor of finance at Creighton University and the chairman and chief executive officer of Economic Index Associates.

Investors need to be able to pre-empt "the anticipation of trouble and pay attention to the message of the markets", noted Biggs in *Wealth, War and Wisdom*. The former money manager summed it up best in his final book, published in 2008, *Diary of a Hedgehog: Biggs' Final Words on the Markets*: "Good information, thoughtful analysis, quick but not impulsive reactions, and knowledge of the historic interaction between companies, sectors, countries and asset classes under similar circumstances in the past are all important ingredients in getting the legendary 'it' right that we all strive so desperately for."

In order to understand that liquidating holdings at the start of a conflict isn't necessarily the best move, it's important to get a grasp on how markets have reacted and moved after previous geopolitical crises. ●

War worries:

The behaviour of equity markets during key events of World War II was telling of the battles won and lost. As a result, learning about the historic performance of different asset classes during periods of conflict can help investors not fall into the trap of panic selling

2

FROM BLITZ TO BOOM: HISTORICAL MARKET REACTIONS

INVESTING DURING A geopolitical crisis is a zero-sum game. The timescale for recovery can be uncertain and attempting to find the bottom is more about luck than skill.

Research by Bill Stone, chief investment officer at the Glenview Trust Company, shows that the stock markets don't tend to follow a certain pattern. While there is an initial selloff following the outbreak of a war, the fall isn't necessarily as prolonged as some might expect. In a study of 29 key geopolitical crises, Stone concluded that on average stocks are higher three months after the initial market shock. In two-thirds of the events, stocks were higher after one month.

The situation in World War I and World War II was different, however. The impact of the outbreak of the former in 1914 was immediate, with exchanges shutting down as countries and governments prepared for a protracted conflict.

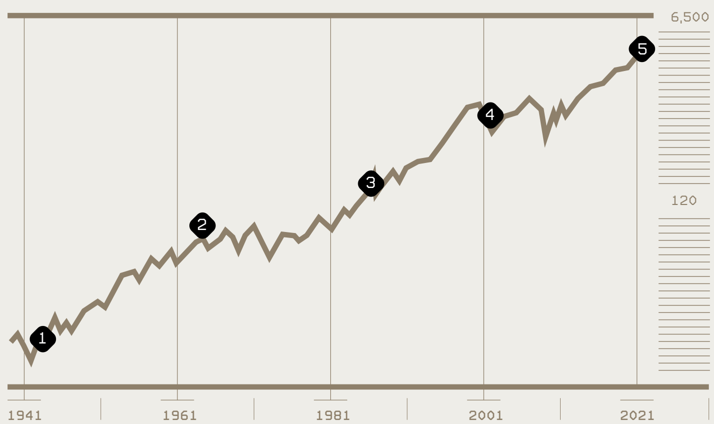
The New York Stock Exchange (NYSE) took the decision to suspend trading over concerns about a European-wide liquidation of US securities. When trading of stocks resumed on 12 December after four months of being closed, the DJIA reportedly lost around 24% of its value. It was the worst one-day drop since the index was launched in 1896. The index went on to gain 81.5% in 1915. In the UK, the London Stock Exchange closed for five months following the outbreak and almost one-quarter of the country's overseas securities were liquidated to raise capital to aid and finance the war effort. UK government bonds' share of the exchange's capitalisation rose from 9% to 33% over the course of the war. While the DJIA reached its bottom at the end of 1914, the FTSE didn't reach its bottom until 1918.

But both the UK and US learned their lessons from the first war. When World War II broke out, the London Stock Exchange closed for a week and the New York Stock Exchange remained open. Both exchanges reached a bottom in 1942.

While the markets moved differently during the world wars, one thing is clear: investor sentiment waned amid uncertainty. But this isn't the case when smaller geopolitical crises are factored in. In an analysis of market movements following 22 major events between 1941 and 2020, LPL Research found that the S&P had an average one-day return of -1.2% and reached its bottom on the 22nd day on average. Following Iraq's invasion of Kuwait, the index fell 1.1% in its first day, taking 71 days to bottom and then a further 189 days to recover. The drop following the US terrorist

Stock market performance under crisis

The histroical performance of the S&P 500 during crises, from wartime to isolated events, reveals extended down periods before eventually recovering



1
2 September 1945: During the year that World War II ended, the S&P 90 recorded an annual gain of 30.7%

2
22 November 1963: The S&P 500 fell 2.8% after the assassination of John F Kennedy, but recovered within a day

3
2 August 1990: The index fell 1.1% in the day following Iraq's invasion of Kuwait and took 71 days to bottom

4
11 September 2001: The 9/11 terror attacks saw the S&P 500 fall sharper at 4.9%, but the index bottomed out and recovered faster

5
24 February 2022: The S&P 500 dropped to a nine-month low after Russia launched its invasion of Ukraine

attacks on 9/11 was sharper, with a one-day decline of 4.9%, but it found its bottom in 11 days before recovering within 31 days. The index fell 2.8% after the Kennedy assassination but bottomed and recovered within a day.

What the data shows us is that, while conflicts can shake markets, these events don't always lead to protracted downturns.

Volatility can actually end up being lower during periods of war, as research by Mark Armbruster, president of Armbruster Capital Management, shows. Armbruster studied the period from 1926 through to July 2013. While small-cap stocks had an annualised return of 11.6% and a risk rate (which measures the risk of losses from interest rate changes) of 27.2% during the period, they returned 32.8% and a risk rate of 21% during World War II. Small-cap stocks returned 15.4% during the Korean War, with a risk rate of 12.7%.

"Our research found that while there is typically an initial knee-jerk reaction, this gives way as the markets begin to digest the reality of a conflict. Economic fundamentals then begin to take over again," Armbruster tells *Opto*.

The problem is that the economic landscape of early 2022 isn't exactly ideal, Armbruster adds. Rising interest rates, ballooning inflation and the spectre of another recession looming over the US economy mean that many stocks are overvalued, and this has spooked investors. As a result, many investors may struggle to see similar returns in the weeks and months following previous geopolitical crises. ●

Sizing conflict

Looking back at how stock markets reacted to a crisis reveals a key difference between wars and conflicts. While market crashes were recorded during both world wars, smaller geopolitical conflicts have shown varying patterns

Image: © Getty images UniversalImagesGroup

"THERE ARE DECADES WHERE NOTHING HAPPENS

—VLADIMIR LENIN, RUSSIAN REVOLUTIONARY

AND WEEKS WHERE DECADES HAPPEN"

3

RUSSIA RATTLES MARKETS

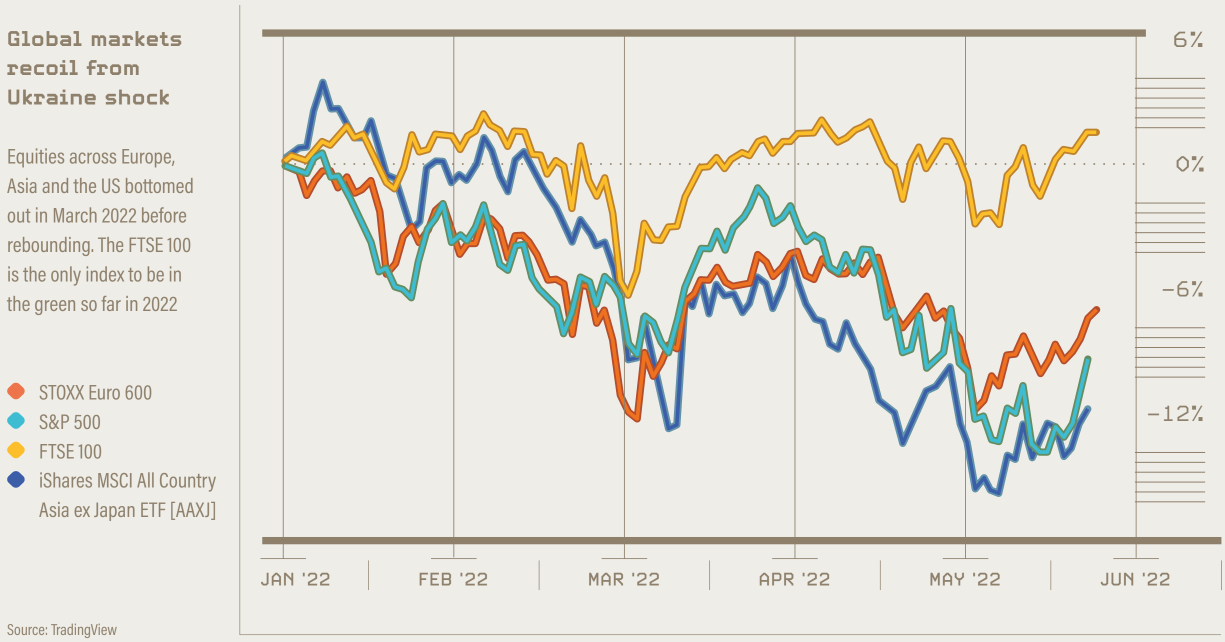
VLADIMIR LENIN, A former Russian revolutionary, is famously quoted as saying: "There are decades where nothing happens and weeks where decades happen." This was the case for the week that began on 21 February 2022, which by the end of it had exposed the vulnerability of the global economy.

Russia taking military action against Ukraine had been on the cards ever since the former invaded the latter and annexed Crimea in 2014. Vladimir Putin had not held back in declaring his concerns about the nation on the south-west border of Russia potentially assimilating into the west.

When Putin ordered troops into Ukraine on 21 February, he defended the move as a peacekeeping exercise, though US ambassador Linda Thomas-Greenfield described this as

Global markets recoil from Ukraine shock

Equities across Europe, Asia and the US bottomed out in March 2022 before rebounding. The FTSE 100 is the only index to be in the green so far in 2022



Source: TradingView

Past performance is not a reliable indicator of future results

"nonsense". The markets were clearly not convinced either, with the S&P 500 closing in correction territory after falling more than 10% below its record high set on 3 January. The index exited its correction at the end of March.

Both the FTSE 100 and FTSE 250 also recorded the worst trading week since March 2020 on 4 March but clawed back these losses after a fortnight or so.

Unsurprisingly, Russia's MOEX index dropped like a stone and remained below its pre-invasion level by early April. In early March, the UK suspended trading of 27 firms with links to Russia, including mining giant Evraz and energy giant Gazprom. The S&P Dow Jones Indices dropped Russian stocks from its benchmarks in a move that saw the country lose its emerging market status and become a 'standalone' market.

The weight of sanctions levied against Russia toppled the value of the ruble, which dropped to an all-time low after crashing around 40% on 28 February. The Moscow Stock Exchange was closed for almost a month to avoid billions being wiped off the value of listed companies. A partial reopening on 24 March saw share prices rise sharply.

Russia-focused hedge funds have been upended too. They were the best performers among emerging market hedge funds in 2021, returning 20.7%, according to trade body Hedge Fund Research. But, by the end of February, they had lost 36.3% since the start of 2022.

Asset managers that aren't exposed to Russia have had to re-evaluate their portfolios and positions as well. BlackRock [BLK] dialled back its risk taking at the start of the year as it saw heightened uncertainty coming from "a confluence of unique events". With rate hikes becoming overly hawkish, the hedge fund had been prepared to take advantage of a sharp decline as a result of the confusion caused by the Fed's framework. However, it's now "holding off on making changes to our tactical views until the interplay dynamics become clearer".

BlackRock's lack of operational presence and investments in Russia allowed it to pivot swiftly. The asset manager doesn't have exposure to the country, although it does invest on behalf of clients in indices where the country is a component, such as an emerging market index, or an active strategy where the country plays an important role, such as natural resources.

In a letter published on 24 March 2022, BlackRock chairman Larry Fink warned that the war has put an end to globalisation. The supply chain crises of the past couple of years have highlighted the weaknesses in doing

business globally, with the conflict reinforcing the need for companies to localise production and keep supply chains as short as possible.

Chinese equities have also been brought into focus. Xi Jinping hasn't condemned Putin, and his refusal means China's economy and relationship with Russia shouldn't be impacted. Trade between the two nations rose 35.9% to a record $146.9bn in 2021. China's ties with Russia could end up being another headwind for stocks that are already battling Beijing's big tech crackdown and delisting concerns.

Commodities supply squeeze

Given Russia is the world's third-largest oil producer, sanctions against the country have disrupted the supply of gas. The backlash from soaring wholesale gas prices has led to delays and an increase in food prices.

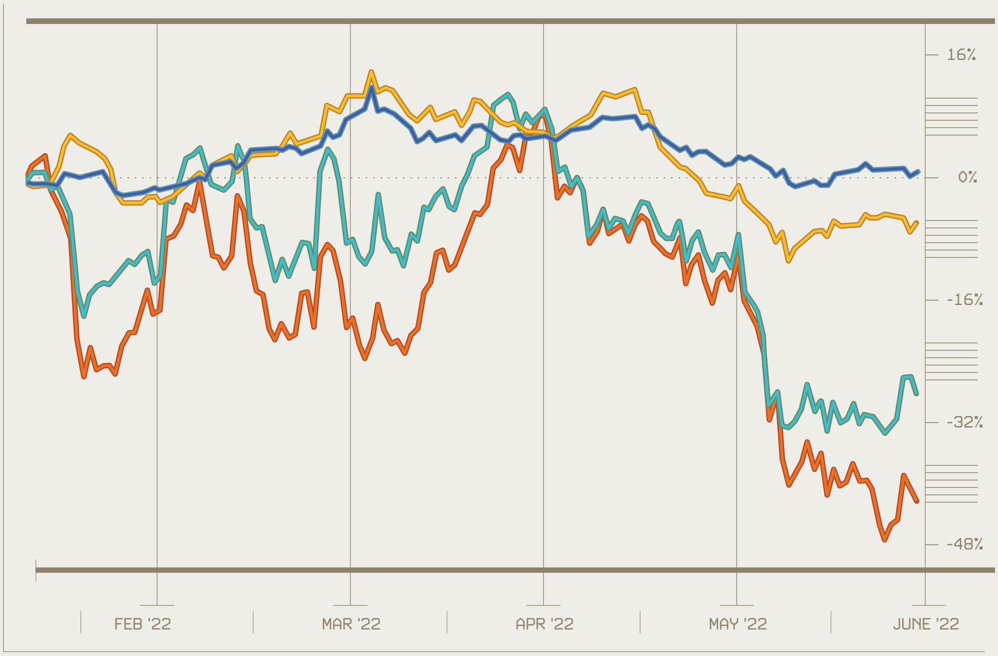
To compound matters, Russia and Ukraine are a breadbasket for the world. Both countries account for around 80% of sunflower oil production and supply one-quarter of global wheat exports. In an effort to safeguard reserves, Ukraine has banned the export of wheat to ensure the country has a sufficient supply of staples to feed its population in the event of prolonged conflict.

BELOW
Ukraine President Volodymyr Zelenskyy visits the Kharkiv region for the first time since Russia started the attacks against his country

> "EQUITIES ARE THE PLACE TO BE IN THE LONG RUN BECAUSE OF THEIR PROVEN ABILITY TO INCREASE THE PURCHASING POWER OF CAPITAL"
>
> —BARTON BIGGS, FORMER INVESTMENT STRATEGIST

Safe haven assets

Cryptocurrencies like bitcoin and ethereum skyrocketed between 2020 and 2021 but have since pulled pack amid the market downturn in early 2022, while gold and silver prices hold steady



Source: TradingView

The squeeze on supplies means further disruption for global shipping supply chains, which have already been hurt by the pandemic. With Ukrainian farmers unable to produce their usual output and demand continuing to outstrip supply, food shortages are not out of the question either, President Joe Biden warned at the end of March.

The combination of the need to increase production and rising crop and fertiliser prices will be good news for agriculture companies in North America that produce crop inputs such as phosphate, nitrogen and potash, including Mosaic [MOS] and Nutrien [NTR]. In the month from 24 February, the Mosaic share price climbed 50% and the Nutrien share price rose 36%.

A number of ETFs can give broad exposure to the fertiliser and food processing sectors. These include the VanEck Vectors Agribusiness ETF [VEFA] and the iShares Global Agriculture Index [COW].

All that's gold doesn't necessarily glitter

The jump in commodity prices has resulted in a dash for precious metals, which have consequently seen their prices rocket as well. In early April, gold was testing the $2,000 benchmark, which it previously passed for the first time back in August 2020, buoyed by the US and G7 countries bringing sanctions against Putin's gold pile and fears that the conflict could constrain supplies. Though it dropped back to around $1,800 in June as risk sentiment eased slightly, the commodity still has safe haven appeal amid rising inflation and interest rates.

"Historical analysis suggests that gold has reacted positively to tail events linked to geopolitics and, despite price volatility, tended to keep those gains in the months following the initial event," Adam Perlaky, senior analyst at World Gold Council, tells *Opto*.

"A swift resolution to the conflict may see some tactical positions in gold unwind, but much like in 2020, we believe strategic positions will remain," he adds.

While gold is renowned as a store of value, its price appreciates based entirely on what others think it's worth. There isn't interest like with bonds and there are no dividend payouts like there are with stocks, Johnson points out. "There's no cash flow from gold, which makes holding it speculative. Even if its value rises, there are no growth opportunities," he says.

Fink also believes that "the war will prompt countries to re-evaluate their currency dependencies" and accelerate the adoption of digital currencies. Digital assets have been on the rise as some nervous investors in the UK and US search for an alternative investment bolt hole to gold. The Ukrainian government has been accepting cryptocurrency donations, which have been used to purchase supplies to aid the war effort.

Johnson's view echoes that of Biggs, who wrote in *Wealth, War and Wisdom*: "The history of Europe during World War II indicates gold and jewellery work fairly well to protect a small amount of a wealth. Think of them as your 'mad money'."

"Equities are the place to be in the long run because of their proven ability to increase the purchasing power of capital," Biggs added.

The wartime investing playbook

Uncertainties about how the conflict will progress mean the majority of industries will remain volatile for the foreseeable future. However, one sector has been — and will continue to be — a key component of the wartime investing playbook.

The defence industry is an obvious beneficiary of conflict as countries become increasingly concerned about national security and look to strengthen their borders, protect their citizens and flex their military muscles. Major defence stocks tend to have a broad portfolio of products and services across multiple divisions, such as weapons and ammunition manufacturing, information security, technology, aircraft, drones and tanks, as well as other combat vehicles. From naval and ground forces to aerospace and aviation, defence companies cover various sub-themes within the sector.

From 12 September 2001 through to 23 February 2022, the day before Russia invaded Ukraine, Lockheed Martin [LMT] returned 985.7% compared with the S&P 500's 368.5%, the Dividend Channel's DRIP calculator showed. Two other major defence players, Northrop Grumman [NOC] and General Dynamics [GD], returned 918.4% and 528.7%, respectively.

Defence stocks outpaced the S&P 500 in the first month following the outbreak of the conflict. While the index returned 3.94% from 24 February to 23 March, defence contractor General Dynamics, aerospace defence group Lockheed Martin and military technology provider Northrop Grumman saw respective gains of 9.7%, 13.2% and 13.4%. With defence spending ramping up, the iShares US Aerospace and Defense ETF [ITA] has rallied as well, outpacing the market.

Companies that help defence manufacturers to secure their systems using big data, analytics and the internet of things have also taken flight. Outside the US, France's Thales Group [HO.PA] was up 37% in the month from 24 February, while Italy's Leonardo [LDO.MI] rose roughly 45% in the same period.

The main manufacturer of anti-tank javelin missiles is Raytheon [RTX]. On its fourth-quarter earnings call in January, the company's CEO Gregory Hayes commented that conflicts could be good for business. This drew some criticism in light of the start of the war in Ukraine, but Hayes told the *Harvard Business Review* that the company wouldn't apologise for making weapons.

"The fact is, they are incredibly effective in deterring and dealing with the threat that the Ukrainians are seeing today," Hayes said. ●

> **"THERE'S A GREAT DEAL OF VALUE TIED TO THE FUTURE CASH FLOW OF ANY COMPANY"**
>
> —DARIN TUTTLE, CIO, TUTTLE VENTURES

> "WHILE THERE IS TYPICALLY AN INITIAL KNEE-JERK REACTION
>
> THIS GIVES WAY AS THE MARKETS BEGIN TO DIGEST THE REALITY OF A CONFLICT"
>
> —MARK ARMBRUSTER, ARMBRUSTER CAPITAL MANAGEMENT

Conflict: A catalyst for change

IT MIGHT SOUND crude, but conflicts are often catalysts for change. While the destruction of geopolitical conflicts is tragic and undeniable, wars can bring about social and environmental progress in the long run.

Take World War II. The need to treat thousands of civilians injured by bombings was a significant challenge for doctors and nurses. It was also the first time people had access to free healthcare. Prior to the war, access to medical treatment often depended on the ability to pay and the hospitals that offered free treatment were run by charities and churches. A shift in public opinion towards the benefits and importance of access to free healthcare led to the creation of the NHS in July 1948.

The war in Ukraine has highlighted the world's reliance on Russia for its gas supply. With Putin threatening to cut off gas supplies if countries don't make ruble payments, energy independence has become an international security issue.

Neither the UK nor the US rely heavily on Russian gas, with the former sourcing just 4% of its annual supply from the country in 2021. However, 41% of the European Union's supply is imported from Russia. Lithuania was the first EU member to put a stop to imports in early April, which has since encouraged others to do the same, with the EU planning a total ban.

Europe will have to pay a high price if it wants to wean itself off Russian gas. The situation has crystalised the need for alternative energy supplies and led to calls to accelerate the adoption of cleaner energy.

Up until now, the narrative around clean energy stocks has centred around climate change and cutting carbon emissions. The conflict has brought the theme into sharper focus, though. Back in March, the European Commission outlined a plan to support Europe to shift away from Russian gas by 2030 and turn to green and sustainable energy. According to Frans Timmermans, executive vice president for the European Green Deal, the region needs to "rapidly become more independent in our energy choices".

The case for clean energy stocks has been made more attractive by rising gas and oil prices and the headwinds the fossil fuel industry could face from a supply crunch. Investors have been returning to clean energy stocks, having previously sold out following a red-hot run at the height of the pandemic.

While the short-term tactical play is rising commodity prices due to the supply squeeze, the longer-term play is renewable energy-exposed assets. These include Iberdrola [IBE.BME], Ørsted [ORSTED.CPH] and Vestas Wind Systems [VWS.CPH]. The majority of these companies are growth-oriented and poised to deliver profits for investors in the years ahead. However, an increased inflow of money means clean energy stocks are likely to be volatile in the near term.

The iShares Global Clean Energy ETF [INRG] and Global X Hydrogen ETF [HYCN] are just a couple of funds that have gained in recent weeks as investors bet on the thematic as pressure on European governments grows.

Past performance is not a reliable indicator of future results

“THE TUG OF WAR BETWEEN GROWTH AND VALUE HAS HIGHLIGHTED THAT THERE ARE QUALITY NAMES THAT ARE LAGGING BEHIND HIGH-FLYING COMPANIES”

—JOE FATH, T. ROWE PRICE

4

INVESTING IN THE FACE OF CONFLICT

WITH RUSSIA'S ASSUALT on Ukraine set to be one of the biggest conflicts in Europe in decades, the question for investors is likely to be whether the current state of markets presents a buying opportunity. And, if so, whether their focus should be on growth or value.

Growth stocks have taken a beating in the first half of 2022. Having soared during 2020 and 2021 and crushed earnings expectations, the pandemic boom is now over and plenty of big tech stocks have been crushed.

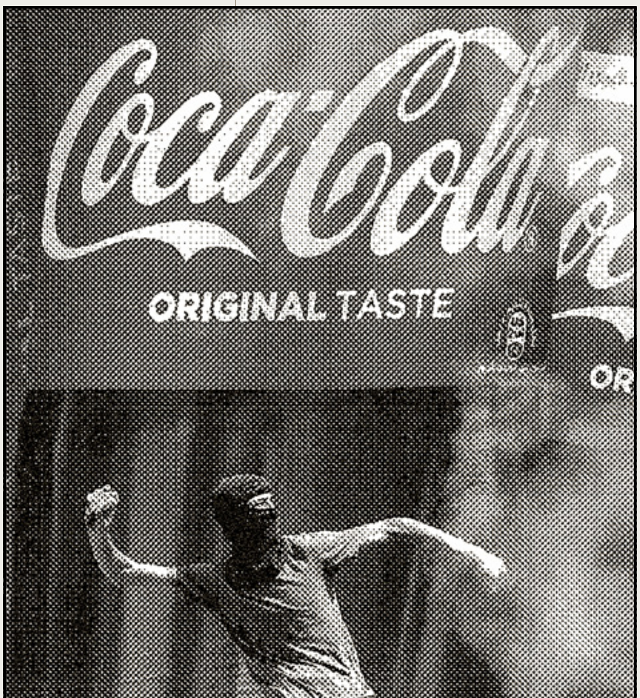
“There's a flight to quality,” says Johnson. Troubled companies with poor balance sheets benefitted from stimulus during the pandemic, but it's high-quality stocks with strong balance sheets that are the better investment as economic conditions weaken and investor sentiment wanes.

There is a caveat. The rotation out of growth stocks into value has been driven in part by inflation and rising interest rates. The longer the conflict drags on, there is the possibility that further interest rate hikes may be delayed. In the short term, this means some investors may rotate back into growth. However, it's the steady growers that offer stronger and longer value that are likely to win out, Johnson argues.

For capital appreciation-hungry investors, the market rotation is an opportunity to snap up fairly priced growth companies that have long-term potential to make a comeback. The investment strategy, which is a combination of both value and growth investing, is known as growth at a reasonable price — or GARP for short.

Can growth survive and thrive?

The acronym GARP was popularised by Peter Lynch, who retired from his position as manager of the Fidelity Magellan Fund at the age of just 46. During his 13 years at the helm, the fund returned an annualised rate of 29.2%.



What was the key to Lynch's success? His philosophy, outlined in *One Up on Wall Street*, is to buy growth stocks at a reasonable price and hold on to them. Lynch explains that a fairly priced price-to-earnings (P/E) ratio can be used to determine a company's growth rate.

"If the P/E of Coca-Cola [KO] is 15, you'd expect the company to be growing at about 15% a year, etc. But if the P/E ratio is less than the growth rate, you may have found yourself a bargain," Lynch wrote.

"A company, say, with a growth rate of 12% a year… and a P/E ratio of six is a very attractive prospect. On the other hand, a company with a growth rate of 6% a year and a P/E ratio of 12 is an unattractive prospect and headed for a comedown… In general, a P/E ratio that's half the growth rate is very positive, and one that's twice the growth rate is very negative."

Lynch came up with the metric price/earnings-to-growth ratio, believing it to be a better alternative to the P/E ratio. Price/earnings-to-growth is calculated by dividing a company's price-to-earnings ratio by its earnings growth rate.

Above
A Palestinian protester hurls stones towards Israeli security forces in front of a Coca-Cola sign. The company is a noncyclical stock, making it an attractive bet during economic slowdowns

He then went further and suggested that any dividend yield should be taken into account when available to help determine whether a stock is undervalued. The dividend adjusted price/earnings-to-growth ratio can be calculated by taking the price-to-earnings ratio and dividing it by the earnings growth combined with the dividend yield.

Long-term growth opportunities

The investment case for GARP has already been strengthened by the pandemic-induced bear market, coupled with a run in momentum stocks that has led to overvaluations.

"The tug of war between growth and value has highlighted that there are quality names that can offer steady growth that are lagging behind high-flying companies whose revenues have been growing at robust rates," Joe Fath, portfolio manager for the US growth stock strategy at T Rowe Price, tells *Opto*. "This has created opportunities for growth investors with a longer-term horizon."

GARP stocks are often characterised by having reasonable valuations and being well positioned to grow and sustain earnings and free cash flow at a steady rate.

Fath and his team have identified healthcare as a theme with GARP potential. Insurance companies Cigna [CI] and Humana [HUM], which are held by the T Rowe Price Growth Stock Fund [PRGFX], could see a surge in people seeking medical care and treatment that they may have deferred due to Covid-19 worries, Fath explained. Medical device companies that the fund holds, such as Stryker [SYK], are likely to benefit from future rapid innovation and product cycles, he added.

Navigating the consequences of conflict

Under a GARP strategy, investors will typically look for growth rates of between 10% and 20%. So, if two companies have a P/E ratio of 15 but one has a growth rate of 9% and the other 15%, then it's the latter that would be considered a better investment opportunity. Those that boast a strong return on equity and cash flow should take precedent.

"There's a great deal of value tied to the future cash flow of any company," Darin Tuttle, founder and chief investment officer of the eponymous investment management firm Tuttle Ventures, tells *Opto*. He has over a decade's experience of markets, including a stint at Goldman Sachs as an analyst.

Tuttle tends to favour value investing over GARP investing, because "we're still at an elevated P/E ratio from the 20-year average", but adds that whether GARP is the right strategy depends on an individual's goal and plan. They need to do their research, first and foremost.

It's important that investors stress test the companies in their portfolio, Tuttle adds. They need to be asking themselves how a company is coping with external pressures, like the current conflict — crisis management has moved from the war room to the boardroom. Investors need to look at how management teams have navigated past crises and how they managed to constrain any damage.

It pays to keep up to date with the latest events that might move markets. Tuttle does this by trying to spot the next catalyst using expert geopolitical forecasts to guide his firm's investment strategy. One tool he uses is the Good Judgement Open, a public prediction market where anyone can hone their forecasting skills and weigh in on questions alongside superforecasters.

No forecasting tool will provide investors with a crystal ball, obviously, so they need to firmly believe in their strategy in order to ride out any volatility without being overcome by a wave of panic-selling.

This holds up for Johnson, who says that the best way to do this is to develop an investment policy statement "in a calm market to guide them through changing market conditions".

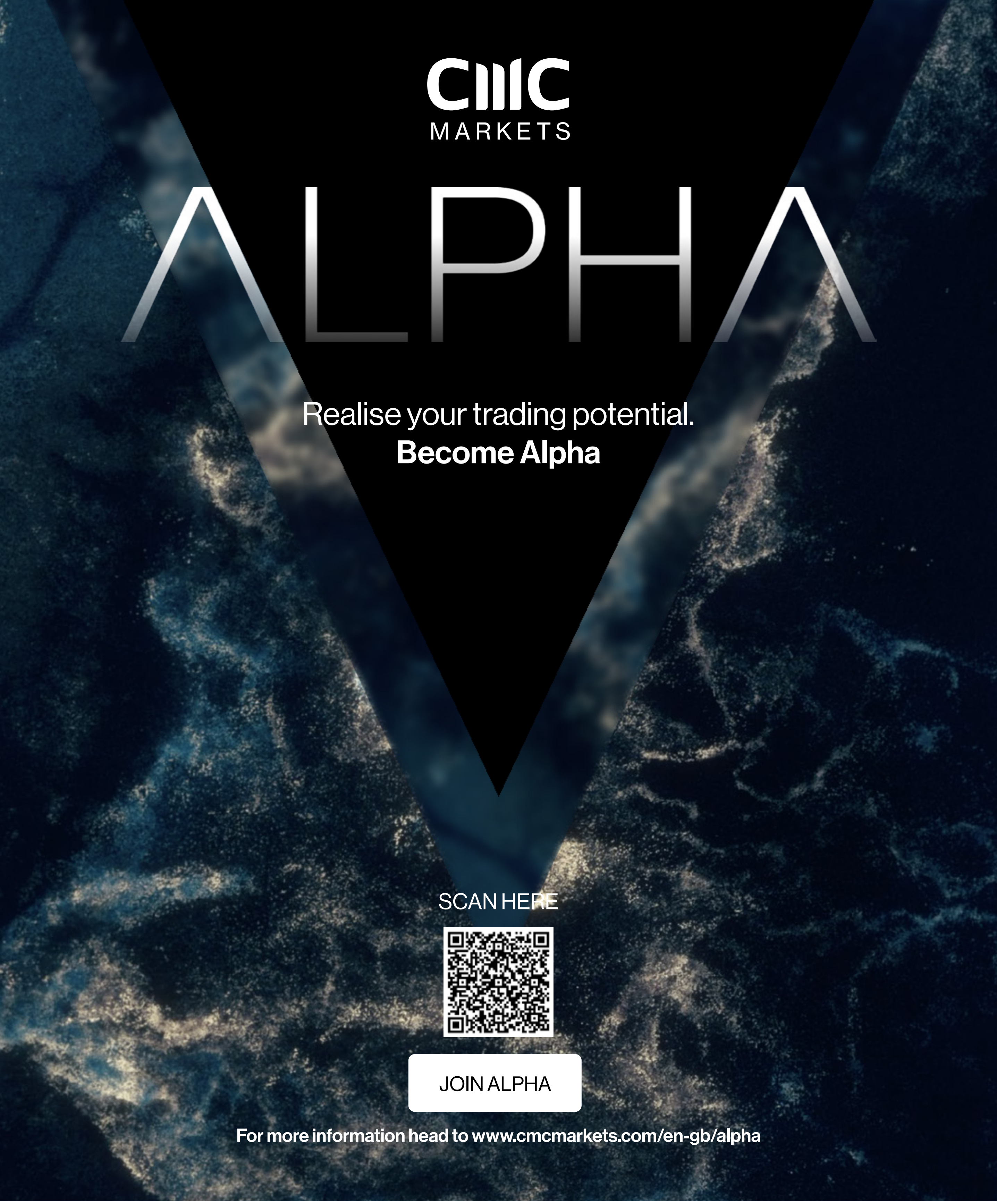
"Investing without a plan is akin to driving without GPS or a roadmap," Johnson concludes. "If an investor has clearly set out their return objectives and risk tolerance, then they shouldn't need to concern themselves with the latest crisis du jour." ●

"INVESTING WITHOUT A PLAN IS AKIN TO DRIVING WITHOUT GPS OR A ROADMAP"

—ROBERT JOHNSON,
ECONOMIC INDEX ASSOCIATES

A two-pronged approach

As markets undergo a major shift, investors could look to find opportunities using the growth at a reasonable price investment strategy, also known as GARP. Those with a long-term horizon could see a market environment swept under a crisis as a time to find discounted growth stocks


CMC MARKETS
ALPHA
Realise your trading potential.
Become Alpha
SCAN HERE
JOIN ALPHA
For more information head to www.cmcmarkets.com/en-gb/alpha