Get Rich Slowly: A nightmare on Wall Street?

Our investment specialist reflects on the aftermath of her Liberation Day losses...

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In Wes Craven's cult horror classic, Freddy Krueger stalks his victims in their dreams to dish out his trademark slashing. We'll dodge casting the villain in this particular piece but plenty of investors will be hoping the recent slashing of global stock markets proves more of a passing bad dream than a full-blown financial nightmare.

Tariffs have understandably spooked markets (I'm avoiding getting yippie, queasy or any other Trumpisms...) and, at times, the run-up to the so-called Big Pause felt less like Getting Rich Slowly and more akin to Getting Poor Quickly. Frankly, it's bad enough seeing your portfolio turn red without having to write a post-mortem on where it went wrong.

But David and I did (semi) volunteer for a warts-and-all insight into our personal portfolios and there's arguably no better test of resilience than an acute bout of adversity. As we know, investing isn't just about basking in the highs, it's also about positioning for the lows, so here goes...

Assessing the damage

"Losses loom larger than gains" observed Kahneman and Tversky in 1979, which later evolved into loss aversion theory (aka investors feel losses more acutely than gains) which can lead to irrational decision-making.

Having clocked some painfully red daily numbers on my HL app since the ironically-named Liberation Day, I confess that I was bracing myself for the worst. If I'd put a ballpark figure on my losses for the first two weeks of April, I'd have guessed 15-20% but my fears proved overblown and it was a little over 5%.

Yes, Shell, Saga and an oil and gas related ETF had taken a hit of around 10-15% but others had remained largely above water. It was frustrating to give up recent gains but I'm still sitting on an 110%-odd profit for Shell and, thanks to a drop in fuel prices, this was partly offset by a gain in Jet2.

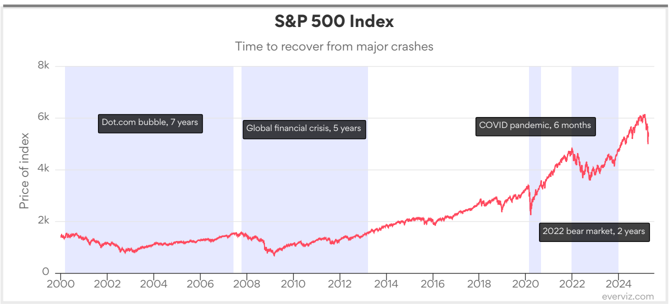
That said, I'm sure I wasn't the only investor tempted to retreat into the safety of cash and watch the tariffs wars play out from the sidelines. One of the key takeaways from behavioural theory is the risk of over-reacting to market downturns and had I hit the sell button, I would have crystallised my losses and missed the subsequent bounce (for now at least).

The Only Way Is (Not Always) Up

Ed Yardeni (of Yardeni Research) aptly summed up the latest market gyration as Liberation Day giving way to "Annihilation Days", with the S&P 500 briefly touching the 20%-plus bear market territory before Trump hit the pause button on tariffs.

That said, the quicker an index falls into a bear market, the faster the recovery has tended to be. The chart below shows how long the S&P 500 has taken to bounce back from bear markets over the last 25 years.

Fig.1: Stock Market Crashes Over The Last 25 Years



Source: Bloomberg (14/04/2025) & KTI analysis

It took seven (long) years for the S&P 500 to recover from the dot.com crash and five years post the global financial crisis. That said, recent bear markets have been shorter-lived, with the S&P 500 recovering in just six months from the pandemic-induced crash in 2020.

And what about the current driver of the latest stock market fall? I was interested to read John Authers' Bloomberg article on the 'bully and chicken' game theory on tariffs. He argued that nervy bond markets may have forced the first blink by Trump but China is likely to stage a public display of political strength ahead of the potential economic fall-out. It remains to be seen how the current stand-off will play out between the two global superpowers...

European concessions also look tricky to navigate given Trump's focus on reparations for perceived historic grievances rather than current terms. And (in all the mayhem) we shouldn't forget that tariffs on the UK haven't budged, though Americans should count their blessings to be spared from splurging $150k on a Range Rover destined to spend most of its life on the garage ramp.

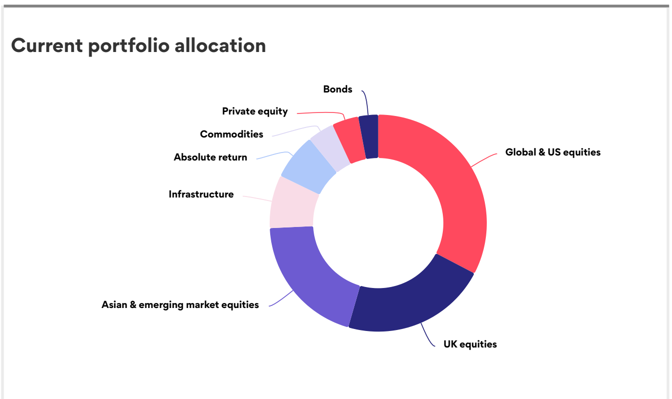
Markets may have bounced on Trump's announcement but it remains to be seen whether it's a lasting détente or merely a temporary stay of execution: perhaps the only certainty is that uncertainty looks set to continue.

Battening down the hatches

It may have been far too tempting to ignore concentration risk if you've been riding the gravy train of the Magnificent Seven but there were already signs that US exceptionalism was starting to fade. Valuations were looking frothy in places, macro headwinds were building and patience was wearing thin with the billions funnelled into AI with (as yet) little to show for it.

But it's not just about concentration risk, it's about overall balance and I'm mindful of Warren Buffett's famous quote: "Rule number one is never lose money. Rule number two is never forget rule number one." It may have taken the wake-up call of a sea of red but this seems an opportune reminder to revisit my asset mix.

Fig.2: Is It Time To Scale Back Equities...?



Source: Hargreaves Lansdown

I've made a conscious effort to diversify beyond the Magnificent Seven in the last couple of years, though I have some exposure via global funds such as **Sanlam Global Artificial Intelligence**, **Fidelity Global Technology** and **Scottish Mortgage (SMT)**.

I've also recently upped my allocation to biotech, US smaller companies and Asia as the next growth stories but I'll save that rationale for calmer waters (though it could be a long wait...).

That said, my sub-5% bond allocation looks a bit undercooked even for a more adventurous portfolio. I've never been a huge fan of bonds (not helped by the 2022 global rout) but my **Artemis Corporate Bond** and **Royal London International Government Bond** funds would have done a better job of offsetting recent equity losses had I opted for a more conservative 10-20% allocation to bonds.

Alternatives: The Good, the Bad and the Ugly

I may be underweight bonds but a quarter of my portfolio sits in alternatives. It was some relief that my infrastructure funds held up reasonably well, though the actively-managed **FTF ClearBridge Global Infrastructure** fund proved a better hedge against falling equity markets than the **iShares Global Infrastructure ETF**. But I'm hopeful that infrastructure funds should benefit from falling interest rates and long-term demand for net-zero infrastructure over the next few years.

A recent buy, **VT Argonaut Absolute Return**, has also largely done what it says on the tin and I'm toying with adding a hedge fund, partly for absolute returns but also to capitalise on the higher volatility.

On the flipside, my other alternatives suffered from their correlation to mainstream equities, with the **iShares Listed Private Equity ETF** and **NB Private Equity Partners (NBPE)** falling by more than 10% at one point.

It was a bit of a bloodbath on the commodities front too, with my **iShares S&P Commodity Producers Oil & Gas ETF** taking the dubious honours of the top faller (at 16%), though the **Pictet Clean Energy Transition** fund was relatively unscathed. Lesson learnt to pick my commodity exposure more wisely and the merits of less correlated assets such as gold.

Final thoughts

The speed of the recent market downturn has felt somewhat nightmarish on occasions but it's part and parcel of investing. That said, I'm going to take the reality check on the chin and dial down the adventure element given the vagaries of Trump 2.0.

I've always favoured active over passive strategies but I think a steady hand on the tiller is even more important in skittish markets, so I'm going to keep the faith in my active funds, trim my ETFs and increase my allocation to bonds and absolute return strategies. It may be boring but it might just be worth it to keep Freddy away from my dreams and my portfolio...

Register for our event at 12pm on 30th April with Pacific Assets Trust

Register for our event at 11am on 13th May with JPMorgan Asia Growth & Income

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