

What Hit Me?

Following the sharp declines in equity markets globally I thought I would reflect on how one should react. The fact is, you should have sold on July 15 and gone on holiday.

A beach far from the financial centres would have been the ideal spot. To be safe, you ought also to have covered all short positions. So uncertain is the outlook that bailouts and unilateral restructurings can be very damaging to short positions as well.

What to do in the short term depends so much on the long term view. There are some who believe that any part of a long term strategy must or should be optimal in the short term as well. I tend to agree, although not entirely.

Investing, apart from intelligence and fundamentals, is also to a large extent about psychology, emotion and sentiment. In many ways, "no memory" investing can be quite effective. It requires the investor to re-buy their portfolio regularly looking only at current valuations and the future expected environment taken at the current time. Unfortunately this does not lead to any magic advice for dealing with the current acute weakness in risk assets. It all depends on the investor or trader themselves.

This one, having cleared all out July 15 is not going to take big bets long or short. Discretion is the better part of valor. For those with substantial risk on coming into the rout, the question is, is this reflective of longer term problems, or a technical correction. If the latter, then you may procrastinate. It's a bad idea to procrastinate, but you can almost justify to the wife why the vacation money is toast. If the former, then you would like to unload in the most unceremonious fashion. Do not. The market always gives the trader a second chance, to unload in more elegant fashion. Its called a snap-back rally. But unload one must, if one's

view is that recession and distress lie ahead. Just wait a few days and do it mid or end next week.

The longer term outlook, as followers of this blog will know, is poor. Only time can heal the wounds where unfortunately the only band-aid is another country's skin.