Edison Wealth Management

What happens next?

14th November 2023

It's often said that history never repeats itself, but it often rhymes.

Take these headlines:

"UK rates rise to 5.25%" or

"Recession fears hit stock markets" or

"Oil surge sparks inflation fears"

Source: Financial Times, BBC

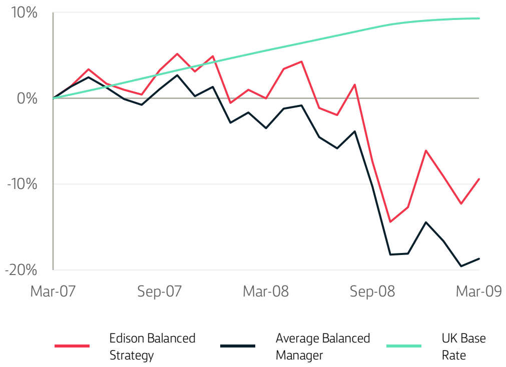
Sound familiar?

All are from 2007 to 2008 amidst the global financial crisis, but none would look out of place on the front pages today.

We launched Edison in 2007 and the first two years in business felt very much like the most recent two. The poor performance in the stock markets meant that our balanced strategy was down around 5% per annum and interest rates of over 5% were starting to look attractive.

The chart below shows the performance of Edison's balanced strategy (red line), the average balanced manager (blue line, as measured by the Morningstar GBP Allocation 40-60% Equity benchmark) and the UK base rate (green line).

Figure 1 – April 2007 to March 2009



Source: Edison Wealth Management, Morningstar

22a St James's Square, London, SW1Y 4JH, United Kingdom
+44 (0)20 7287 2225 hello@edisonwm.com edisonwm.com

Insight: What happens next?

By 2009, some investors were starting to ask themselves:

"Should I sell, go to cash and wait for the recovery, or remain invested and wait for the recovery?"

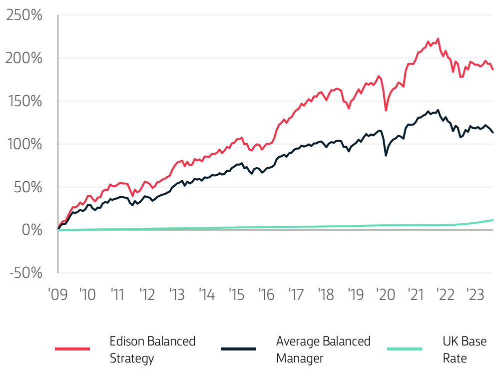
The risk of going to cash is that you miss the recovery because you're too slow to get back in and the risk of remaining invested is markets fall further before they recover.

We know, historically speaking, staying invested is more likely to generate higher long-term returns, but there are times when it can test an investor's patience.

So, let's take a look at what happened after those first two years: Interest rates fell quickly, markets began to recover and Edison's investment strategies posted strong returns.

From April 2009 to October 2023, Edison's balanced strategy returned 187%. The average balanced manager returned 113%. Meanwhile, leaving your money on deposit earning interest at the UK base rate would have returned 11%. It is worth noting that for most of this period it was near impossible to find a savings account paying the base rate.

Figure 2 – April 2009 to October 2023



Source: Edison Wealth Management, Morningstar

In cash terms, the difference in outcomes is stark. Taking a starting value of £1 million in April 2009, the ending value by October 2023 would be as follows:

Edison Balanced Strategy:	£2.9m
Average Balanced Manager:	£2.1m
UK Base Rate:	£1.1m

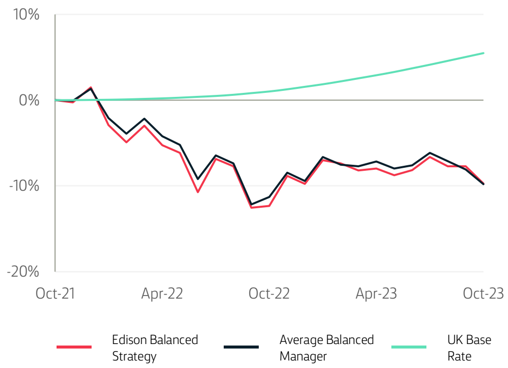
In hindsight, the best choice for the Balanced investor was clear. Staying invested paid off, as did accepting that the cost of earning superior long-term returns is dealing with short-term drawdowns.

Those that panic and sell to cash risk missing out on the recovery, locking-in losses at the bottom of the market.

Rebounds happen, sometimes quickly and sometimes more slowly. They are compensation for the volatility that investors endure. If you are not invested when they happen, you will never earn those returns.

Back to 2023 and the chart below shows that investors today are faced with a similar decision as investors faced back in 2009.

Figure 3 – November 2021 to October 2023



Source: Edison Wealth Management, Morningstar

There have been clear reasons for the current market downturn. A hangover from Covid, Russia invading Ukraine, spiralling inflation and rising interest rates.

But our message has not changed: investors earn more in the good years than they lose in the bad years. Better times are coming for those that have the patience to stick it out.

If you have any questions on the above or to find out more about our investment service, please call 020 7287 2225 or email hello@edisonwm.com.

You can read more about us by visiting our website www.edisonwm.com.

Important Information

Important information

This document does not constitute advice.

The value of investments and the income arising from them can go down as well as up and is not guaranteed, which means that you may not get back what you invested. Past performance is not necessarily a guide to the future.

Insight piece Figure 1, Figure 2 and Figure 3 source: Morningstar. Investment returns calculated from Morningstar in GBP. Edison Balanced Strategy: Edison Core Balanced Strategy; Average Balanced Manager: EAA Fund GBP Allocation 40-60% Equity; UK Base Rate. Figure 1 shows investment returns between 01/04/2007 – 31/03/2009. Figure 2 shows investment returns between 01/04/2009 – 31/10/2023. Figure 3 shows investment returns between 01/11/2021 – 31/10/2023.

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22a St James's Square, London, SW1Y 4JH, United Kingdom
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