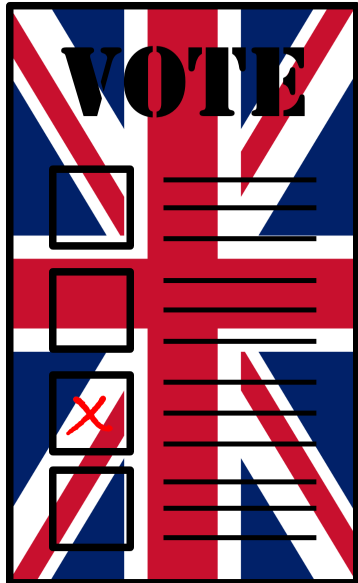


# Market briefing

6<sup>th</sup> June 2024

## Headlines



The UK government has officially announced that the next Westminster general election will be held on Thursday 4<sup>th</sup> July 2024. This announcement sets the stage for a critical electoral contest amidst significant national and international challenges.

Prime Minister Rishi Sunak, leading the Conservative Party, is seeking a renewed mandate amid ongoing debates over the government's handling of Brexit, the economy, and public services. The Conservatives will campaign on their record of governance and promises of economic stability and growth.

The Labour Party, under the leadership of Keir Starmer, positions itself as a viable alternative, criticising the current administration's policies and proposing comprehensive reforms in key areas such as healthcare, education, and climate action. Labour's campaign will likely focus on issues of social justice and public sector improvement.

In addition to the main UK parties, other significant players include the Liberal Democrats, the Scottish National Party (SNP), the Green Party, Plaid Cymru and Reform UK. Each of these parties will bring forward distinct agendas. Key Issues will include:

### Economic policy

The UK's economic strategy post-Brexit and in the aftermath of the COVID-19 pandemic will be a central issue. Parties will debate fiscal policies, taxation, and measures to address inflation and cost-of-living concerns.

### Public services

The state of the National Health Service (NHS), education, and social care will be major points of contention. Voters are keenly interested in how parties plan to fund and reform these essential services.

### Climate policy

Environmental sustainability and climate change policies will be pivotal, especially considering recent global climate agreements and domestic environmental challenges.

### Brexit and International Relations

The long-term impacts of Brexit continue to shape the political landscape. Parties will outline their visions for the UK's role on the international stage and its relationship with the European Union.

The campaign period is expected to be intense and competitive, with parties leveraging various media platforms to reach voters. Polling data and public sentiment will be crucial in shaping campaign strategies and predicting outcomes. Analysts will closely watch key constituencies and swing regions that could determine the overall result.

The 2024 UK general election represents a significant moment for the country, with critical issues at stake and a highly competitive political environment. As parties prepare for the campaign, the electorate will closely scrutinise their proposals and track records, making this election a pivotal event in shaping the future direction of the United Kingdom.

And how should investors feel about investing in this period of political change?

## Beware of investing emotionally

Psychological studies have investigated the connection between feelings and judgments. For example, when things are going well, it may feel that nothing can go wrong. And when things go badly, we often take drastic, and potentially harsh action.

When considering investing, emotions can be an enormous threat to an investor's long-term financial situation, so it's essential to be aware of them.

Being aware of these emotions can help investors in broadly knowing when to make good – and avoid making bad – investment decisions. In other words, helping to potentially mitigate the risks and maximising the opportunities.

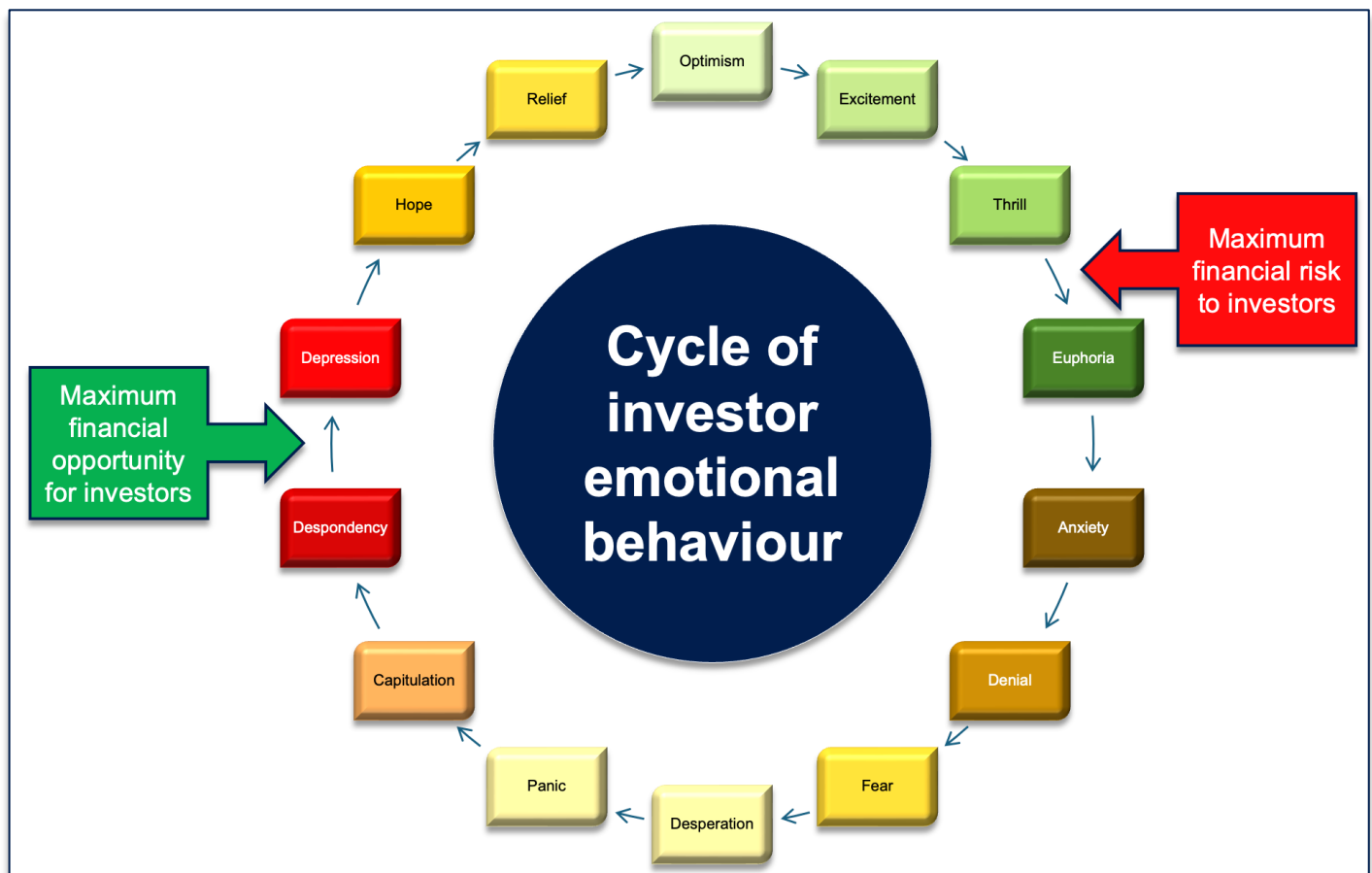
*“The more emotional the event is the less sensible people are.”*

*Dr Daniel Kahneman  
2002 Nobel Prize Winner  
for Economics*

### Investor emotional cycle

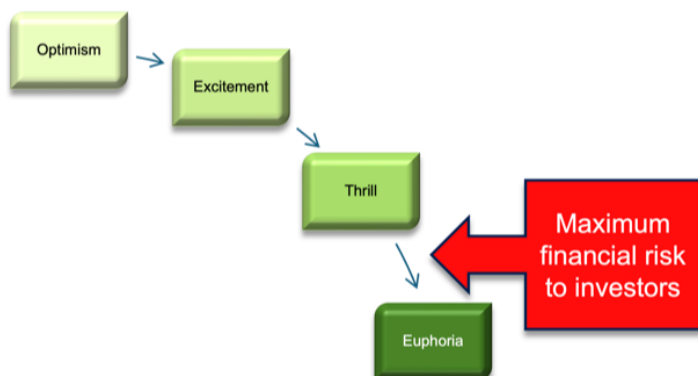
Investors get excited when their investments are performing well; and are disappointed when they are not. In general, investors' emotional responses change depending on the conditions of the stock markets and other asset returns. This can generate a wave of emotions that results in what is called the 'cycle of investor emotional behaviour'. This is composed of different emotional stages that go together with the rise and fall of their investments.

The chart below <sup>(1)</sup> illustrates the different emotional states typically experienced by most investors:



As you read through the below descriptions, it would be beneficial were you to identify where you believe you are currently in your own emotional cycle.

### Optimism to euphoria



#### Optimism

Everything starts with a positive outlook towards the future that leads to an initial investment.

#### Excitement

Markets start moving up towards an investor's expectation and a feeling of anticipation rises as they start to see investment success.

#### Thrill

Markets continue to go up, and as the investor is already seeing good returns, they start to feel very confident.

#### Euphoria

They start thinking that 'the only way is up' and everything they see is an investment opportunity. It feels like everyone wants to jump in as the market cannot go down; can it? It's at this point, that the financial risk is at its maximum.

*"...to be fearful when others are greedy and to be greedy only when others are fearful..."*

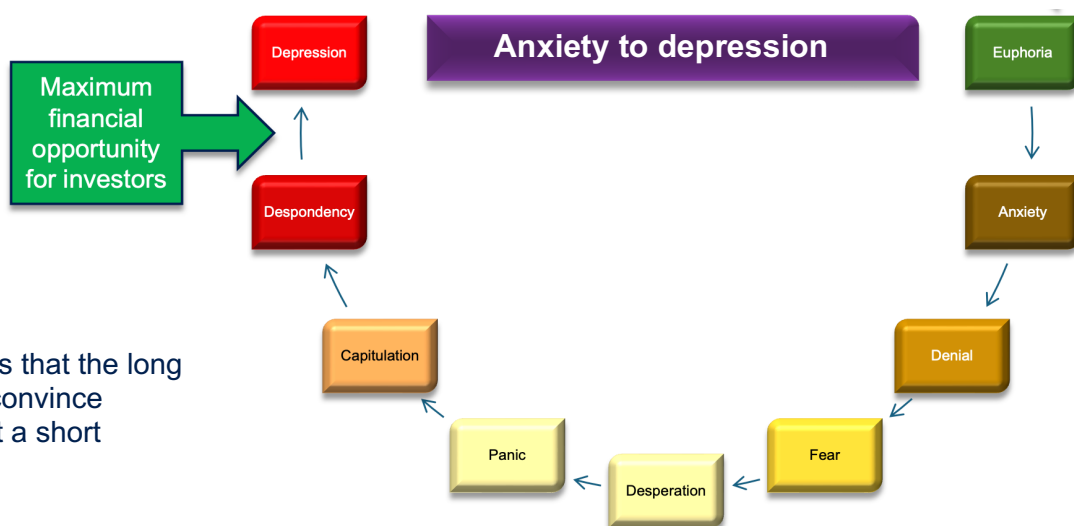
*Warren Buffett*

#### Maximum financial risk to investors

As cautioned by Warren Buffett, one of history's most successful investors, during this period of positivity, investors should 'be fearful when others are greedy' as markets will be priced at their highest. Investor behaviour often leads to investors increasing the amount invested, right at the time when investment values are at their highest, creating the maximum financial risk to them.

#### Anxiety

Things then start to turn around. Stock markets start showing the first signs of weakness.



#### Denial

Investors tell themselves that the long term is still bullish and convince themselves that it is just a short correction.

#### Fear

At some point investors must compare their perception with the reality. Investors start thinking they'd like to sell out taking a small profit - even a small loss - but they don't act because they don't know what to do.

#### Desperation

All chances of making a gain have now gone. Investors are now concerned about their investment and strongly hope for anything that will bring their holdings back.

#### Panic

This is the period with the most negative emotional impact, where they feel helpless and don't know what to do.

## Capitulation

They sell their investments at any price because they have reached their emotional breaking point. They are happy to get out of the stock market to avoid bigger losses.

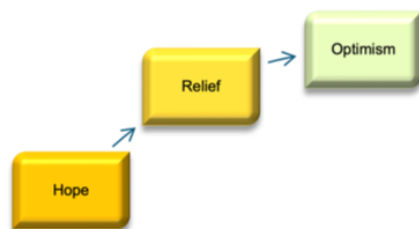
## Despondency

Because of the large loss on their investment, their expectations have been shattered. They feel they do not want to invest ever again. For those investors who are aware of what is going on - and are willing to be contrarians - this is the point of maximum financial opportunity.

## Depression

Investors start thinking about what has happened. The key point at this part in the cycle is that informed and rational investors start to look back to what has happened and analyse the events, and crucially learn from any mistakes.

## Hope to optimism



## Hope

Things start to gradually improve. The overall situation gets better, and investors realise that financial markets have cycles. They now have some experience and start to look around for new investment opportunities.

## Relief

Markets are turning positive once again. Investors regain positivity and decide they should invest again.

## Optimism

The cycle then starts all over again... i.e. Everything starts with a positive outlook towards the future that leads to an investment.

## What should this tell you?

As can be seen from the above, extreme emotions can turn logical investors into irrational people. It is essential to remember that markets move up and down over time and investments have a cycle. If you haven't already identified where you are emotionally on the above cycle, re-read the above and try and honestly appraise where you might be.

Not acknowledging that we are human, and are susceptible to the above cycle, can lead to well thought out diversified long-term financial plans being placed in jeopardy when investors are confronted by uncertain events. As far as possible, decisions should not be guided by emotions. This is where the role of the financial adviser is of utmost importance. Your Foster Denovo Partner can help you separate your emotions from reality and endeavour to keep you on the path of rational investing.

## Sources

- 1) Illustration based on the Cycle of Market Emotions chart created by Westcore Funds/Denver Investment Advisors LLC, US which draws inspiration from the Kubler Ross change curve.
- 2) <https://www.onthisday.com>

## On this day ... (2)

31 <sup>st</sup> May 1911	RMS Titanic launched in Belfast, Ireland
1 <sup>st</sup> June 1944	Allied generals Bernard Montgomery, George S. Patton, Omar Bradley, Miles Dempsey and Harry Crerar meet in Portsmouth, England just prior to D-Day
2 <sup>nd</sup> June 1953	Coronation of Queen Elizabeth II in Westminster Abbey, London, England
3 <sup>rd</sup> June 1989	Beginning of the Tiananmen Square Massacre as Chinese troops open fire on pro-democracy supporters in Beijing, China
4 <sup>th</sup> June 1944	General Eisenhower cancels planned D-Day invasion on June 5 <sup>th</sup> after receiving unfavourable weather reports
5 <sup>th</sup> June 1944	After receiving favourable weather reports, General Eisenhower decides to proceed with the D-Day invasion on June 6 <sup>th</sup>
6 <sup>th</sup> June 1944	Operation Overlord: D-Day begins as the 156,000-strong Allied Expeditionary Force lands in Normandy, France, during Second World War

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