FosterDenovo Private Wealth

Market briefing

31st March 2024

Headlines

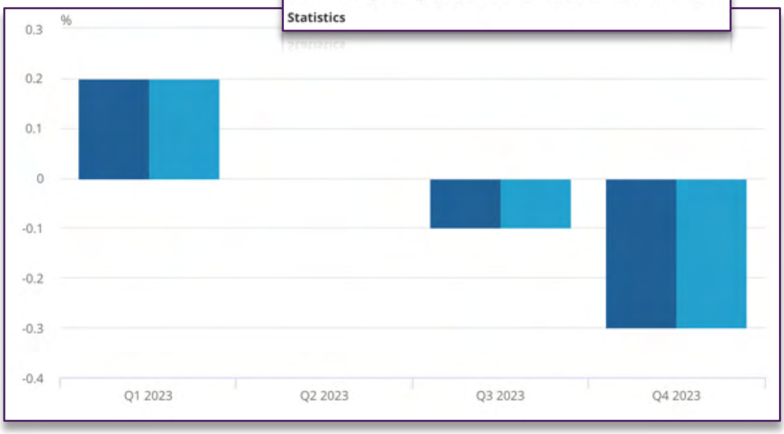
Recent months have seen key members of the Royal family diagnosed with cancer, creating serious pressures on them as individuals but also on the institution.

In his Easter speech, King Charles thanked whose who 'extend the hand of friendship' in times of need such as their double family cancer diagnosis.

March also saw the last diesel Volvo produced.

45 years after producing their first, the last diesel Volvo rolled off the production line in Torslanda, Sweden.

Source: GDP quarterly national accounts from the Office for National Statistics



As shown to the left, the Office for National Statistics (ONS) has confirmed that the UK economy went into recession at the end of 2023.

The ONS says that UK Gross Domestic Product (GDP) contracted by 0.30% in the last three months of the year.

Confirming a technical recession, that is two consecutive quarters of negative growth, it followed a shrinking of 0.10% in the third quarter of 2023.

In context with the rest of the Group of 7 leading economies (G7), and subject to Japan publishing data for quarter 4 from last year, the UK is the only country in recession (chart to the right).

Germany has dropped into negative territory after two neutral quarters; should they record a negative GDP in Q1 this year, then Germany would also be in recession. France escaped dropping into recession by recording 0.00% in 3 out of the 4 2023 quarters. All this pales into insignificance, as the US, still the world's largest economy, continues to grow its GDP.

Source: GDP quarterly national accounts from the Office for National Statistics

	Quarter on previous quarter (%)			
Country	**2023 Q1**	**2023 Q2**	**2023 Q3**	**2023 Q4**
Canada	0.6	0.3	-0.3	0.3
France	0.0	0.7	0.0	0.0
Germany	0.1	0.0	0.0	-0.3
Italy	0.6	-0.3	0.1	0.2
Japan	1.2	0.9	-0.7	
United Kingdom	0.2	0.0	-0.1	-0.3
United States	0.6	0.5	1.2	0.8

Albeit not great news economically for the UK, France, Germany etc., it is important to remember that GDP figures get subsequently revised, and often these revisions are positive. So although the UK is in a recession, the prefix 'technical' is not political spin in this case with forecasts likely to show a positive Q1.

Calculating doubling your money and why it's important

Will Rogers was an American cowboy, vaudeville performer, humourist, and actor born on 4th November 1879, in Oologah, present-day Oklahoma, USA. He rose to fame in the early 20th century for his wit, folksy humour, and insightful commentary on politics, society, and current events.

He honed his distinctive persona as a humorous and down-to-earth observer of American life finding success in radio broadcasting and newspaper columns. He also found fame as an actor, starring in films in the 1920s and 30s. His most famous films were 'A Connecticut Yankee in King Arthur's court" in 1931 and "Judge Priest" in 1934.

Known as the 'philosopher cowboy', Rogers was recognised for his insightful commentary on political and social issues. He was a keen observer of American politics and frequently commented on government policies, politicians, and current events through his newspaper columns, radio broadcasts, and public speeches. His humorous yet astute observations earned him a reputation as a trusted voice of reason during turbulent times in American history.

One of his most famous lines, if not *the* most famous, was **'the quickest way to double your money is to fold it in half and put it in your back pocket'**. Is that what we mean when we say to 'double your money'? Hardly!

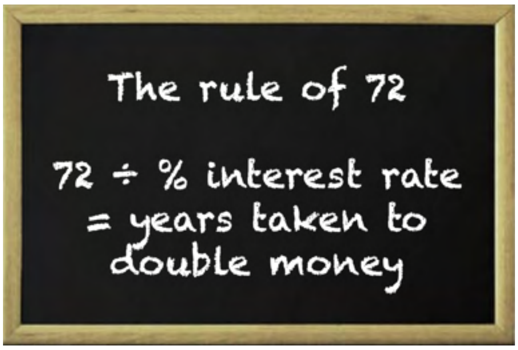
"The quickest way to double your money is to fold it in half and put it in your back pocket".

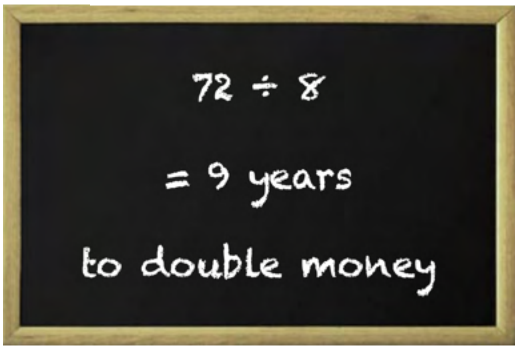
What we mean is exactly what it sounds like, i.e., calculating how to double your money, and, importantly, how being able to incorporate this calculation into your investment planning will help you manage your expectations and emotions as you aim to achieve your financial planning objectives on time.

The rule of 72

The Rule of 72 is a straightforward and widely used mathematical shortcut for estimating the time it takes for an investment to double in value, based on a fixed annual rate of return.

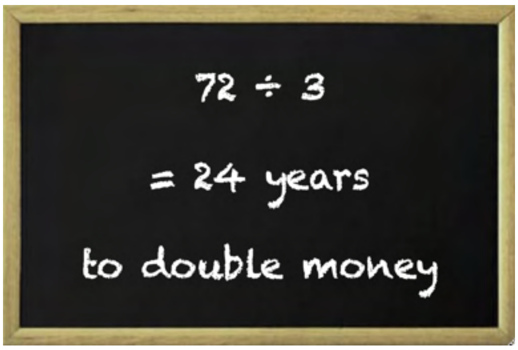
It's calculated by dividing the number 72 by the annual rate of return, resulting in the approximate number of years required for the investment to double.





For example, if an investment is expected to generate a consistent annual return of 8%, applying the rule of 72 would suggest that it would take approximately 9 years (72 divided by 8) for the investment to double in value.

On the other hand, if an investment is expected to generate a consistent annual return of 3%, applying the rule of 72 would suggest that it would take approximately 24 years for the investment to double in value.



Although the exact origin and attribution of the rule remain uncertain, the origins of the rule of 72 can be traced back to the early days of mathematics and finance.

Although there is limited historical documentation to support this, one idea suggests that the rule of 72 dates back to ancient times when it was used by mathematicians and traders for quick mental calculations related to interest rates, investments, and exponential growth.

The rule of 72 – origin story

'So what?' you may ask. Knowing how to use the rule of 72 is important for several reasons which we will consider later. First though, let's consider its illustrious history.

Fibonacci

Another theory attributes the rule of 72 to the Italian mathematician Leonardo of Pisa, more commonly known as Fibonacci (who introduced the concept of the Fibonacci sequence and its applications in mathematics and finance during the 13th century).

While Fibonacci did not explicitly formulate the Rule of 72, some historians speculate that the rule may have been derived from his work on exponential growth and mathematical patterns.

Moving on in time, the Rule of 72 has been advocated by numerous financial experts, educators, and authors over the years due to its simplicity and practical utility in estimating investment growth. These include:

Albert Einstein

Although he is primarily known for his ground-breaking contributions to theoretical physics, he is often credited with endorsing the Rule of 72. While there's no direct evidence that Einstein formulated or explicitly endorsed the rule, it's widely believed that he appreciated its simplicity and effectiveness in illustrating the concept of compound interest.

Benjamin Graham

Known as the "father of value investing," he was a renowned economist, investor, and author of the classic investment book "The Intelligent Investor." While Graham's work focused more on fundamental analysis and value investing principles, he recognised the importance of compound interest and may have referenced the Rule of 72 in his writings as a heuristic - mental shortcuts that help solve problems and make judgments quickly – for estimating investment growth.

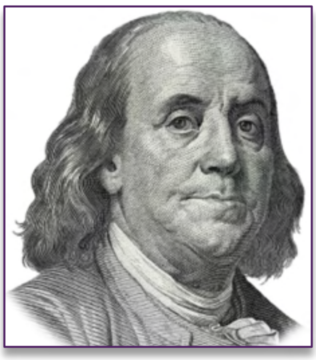
Peter Lynch

The former manager of the Fidelity Magellan Fund and author of "One Up on Wall Street" and "Beating the Street," was another prominent advocate of the Rule of 72. Known for his simple and practical approach to investing, he often used the Rule of 72 to illustrate the power of long-term investing and the impact of compounding on investment returns.

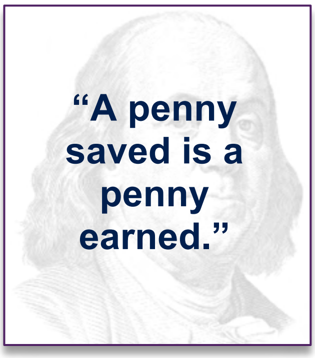
John Bogle

The founder of The Vanguard Group and pioneer of index investing, he emphasized the importance of long-term investing and the benefits of compound interest for individual investors. While he may not have explicitly endorsed the Rule of 72, his advocacy for low-cost, diversified investing strategies aligns with the principles underlying the rule.

Benjamin Franklin



Was a polymath who made significant contributions to various fields, including science, politics, diplomacy, and economics. He was known for his pragmatic approach to life and his emphasis on thrift, frugality, and sound financial management. Franklin authored numerous writings on personal finance, investing, and wealth creation, including his famous "Poor Richard's Almanack," which contained many aphorisms and maxims related to money and business.



While Franklin may not have explicitly formulated the Rule of 72, his writings and teachings reflect a deep understanding of the power of compound interest and the benefits of long-term investing, including one of his famous sayings, "a penny saved is a penny earned." His emphasis on thrift, prudence, and disciplined saving aligns with the fundamental principles underlying the Rule of 72, which illustrates the exponential growth potential of investments over time.

His broad contributions to financial literacy and practical wisdom have undoubtedly influenced the popularisation and adoption of concepts related to compound interest, investment growth, and long-term financial planning. As a result, Franklin is often associated with the Rule of 72 and regarded as a key figure in the history of personal finance and wealth creation.

The rule of 72 has gained wider recognition and popularity in the modern era through its association with the development of compound interest formulas and the emergence of financial mathematics as a distinct field of study. It has become a useful tool for investors, financial analysts, and educators seeking a quick and practical method to estimate investment growth and assess the impact of compounding over time.

The rule of 72 – why important

Straightforward

The Rule of 72 provides a quick and easy-to-use method – i.e. heuristic or rule of thumb – for estimating investment growth without the need for complex calculations or financial models.

It's accessible to individuals with varying levels of mathematical proficiency and can be applied in a wide range of investment scenarios.

Intuitive understanding of compound interest

Compound interest is a powerful force that allows investments to grow exponentially over time. The Rule of 72 helps investors intuitively grasp the impact of compounding by quantifying the time it takes for investments to double at different rates of return.

This understanding is crucial for making informed investment decisions and setting realistic long-term financial goals.

Risk assessment and comparison of investment options

By applying the Rule of 72 to different investment scenarios, investors can compare the growth potential of various investment options and assess their risk-return trade-offs. For example, comparing the doubling time of investments with different rates of return can help investors evaluate the relative riskiness and potential rewards of different asset classes or investment strategies.

Financial planning and goal setting

The Rule of 72 is a valuable tool for financial planning, cashflow modelling and goal setting, allowing individuals to estimate the time horizon required to achieve specific investment objectives. Whether saving for retirement, funding education expenses, or accumulating wealth for other purposes, the Rule of 72 can help investors align their investment strategies with their financial goals. By demystifying complex financial concepts, the Rule of 72 empowers individuals to take control of their financial futures and make informed decisions about their investments.

The rule of 72 – what this should tell you

Overall, the Rule of 72 is a valuable heuristic or rule of thumb that provides a simple yet effective way to estimate potential investment growth and understand the power of compounding returns over time. While it may not provide precise results in all situations, its accessibility and intuitive appeal make it an indispensable tool for investors and financial educators alike.

It is a potent mix when the Rule of 72 is combined with measuring the actual returns from investments, especially when these returns are contextualised against how they have performed against a suitable, understandable, and fair benchmark.

It is also important to remember that often investors have a long-term investment time horizon. So when the Rule of 72 is allied with investing ‘smartly’, i.e. investing across different asset types, such as bonds as well as equities, different geographical jurisdictions, across investment styles, such as active management and index/passive investing, and across different investment philosophies such as growth and value, it likely increases the chance of investors achieving their financial objectives and life goals on time.

As we have said many times before, we will continue to monitor the current financial situation and keep you notified of any significant changes that are made. Please contact your Foster Denovo Partner if you wish to discuss your financial situation further.

At times like these, it is even more important that you are taking advice on your finances by a qualified and experienced financial planner. If you think any of your friends, family or colleagues would benefit from speaking to us, especially in the current situation, then please introduce them to your Foster Denovo Partner who would be happy to help.

On this day … [1]

31st March 1889	Eiffel Tower officially opens in Paris. Designed by Gustave Eiffel and built for the Exposition Universelle, at 300m high it retains the record for the tallest man-made structure for 41 years.
1st April 1971	United Kingdom lifts all restrictions on gold ownership.
2nd April 2013	Eurozone unemployment reaches a high of 12%.
3rd April 1721	Robert Walpole becomes Britain's 1st Lord of the Treasury – effectively the Prime Minister, although that term was never officially used (indeed, it was considered an insult) until much later.
4th April 1968	US civil rights activist Martin Luther King Jr. is assassinated by James Earl Ray at the Lorraine Hotel in Memphis, Tennessee USA.
5th April 1764	Parliament passes the Sugar Tax on the American colonies, introduced by Prime Minister George Grenville.
6th April 1931	"A Connecticut Yankee" film based on novel by Mark Twain, directed by David Butler, starring Will Rogers (mentioned above) is released.
7th April 1795	France adopts the metre as the basic measure of length.
8th April 1904	Entente Cordiale between Britain and France
10th April 2003	Baghdad falls to U.S. forces, ending the invasion of Iraq, but resulting in widespread looting.

Sources

1) https://www.onthisday.com

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