Star fund manager Terry Smith falls to earth as markets wobble

S
tar City fund manager Terry Smith issued a mea culpa today, as he admitted his stock picking skills have been found wanting.

In his 13th annual letter to investors in the £22.5 billion Fundsmith Equity Fund he noted that the fund is up 299% since it began in November 2010.

But it fell 13.8% in the year to December 2022, a sign of just how rocky markets were.

That fall is worse than the 7.8% fall in the MSCI World Index and far worse than the FTSE 100 over the same period. The main index ended up 1% over the last year.

Smith writes: "Whilst a period of underperformance against the index is never welcome it is nonetheless inevitable. We have consistently warned that no investment strategy will outperform in every reporting period and every type of market condition. So, as much as we may not like it, we can expect some periods of underperformance."

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He added: "Underperforming the MSCI World Index is one issue, registering a fall in value is another. In 2022 unless you restricted your equity investments to the energy sector you were almost certain to have experienced a drop in value."

Smith is far from the only big City stock picker to have found life difficult lately.

His rival Nick Train of Lindsell Train has also suffered a prolonged period of underperformance.

Smith's personal wealth is put at £300 million by the Sunday Times Rich List. He was paid £36 million last year.

He is a big investor in the fund, £250 million worth, and is sometimes referred to as the UK's Warren Buffett due to similar investment styles and an equally pithy way with words.

Smith says: "Our Fund's performance in 2022 will give credence to those who suffer from triskaidekaphobia."

That's a Greek word for those with fear of the number 13. The fund has been going for 13 years.

It also underperformed markets last year, but far less dramatically.

Smith's own woes did not stop him from attacking governments and central banks.

The bankers were "aiming at the wrong targets" by ignoring asset price inflation or adopting employment targets that "should not be part of their remit".

He added: "Attempts to suppress volatility will only exacerbate it in the long term. If you count the current events, we have now had three economic and financial crises this century and it is still in its first quarter. This would seem to illustrate that attempts to expunge volatility from the financial system are actually producing the opposite of the desired effect. They breach the rule for what you should do if you find yourself in a hole."

Smith is based in Mauritius.

His stock picking style is to choose very large companies that have been around for many decades.

Last year he closed his £320 million Emerging Equities Trust due to poor performance.