

The Cape of Good Hope

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Using the Cape of Good Hope as a metaphor, Colin Moore explains why being forced to navigate volatility can lead to opportunities ahead.

The Cape of Good Hope is a rocky headland near the southern end of Africa, and in 1488, a Portuguese navigator named Bartolomeu Dias led the first European expedition around the Cape's coastline. It's been said that Dias originally named it Cape of Storms, but King John II of Portugal changed it to Cape of Good Hope, because discovering it improved trade routes from Europe to India and Asia.

The Cape is located where the warm Agulhas current from the Indian Ocean meets the colder waters of the Benguela current from the Antarctic. It was unpleasant and even dangerous to navigate. But the opportunity to prosper from trade with India and Asia made the risk worthwhile to Western European countries that were deterred from using the Mediterranean due to the dominance of the Ottoman Empire and Venetian navy.

The confluence of warm and cool waters causing the Cape's rough seas can be compared to the clashing of investment currents roiling markets today. Two regimes have collided: the one from the last few years where we saw smooth upward momentum — low patchy economic growth supported by massive monetary stimulus, declining interest rates and yields, and significant cost reengineering by corporations. And then there's the new regime of higher global synchronized growth, which is resulting in diminished monetary stimulus, rising interest rates and yields, and higher revenues and wages.

As these regimes collide, it results in higher volatility. And navigating these "waters" requires skill and nerve. Just as sailors rounding the Cape need to rely on their experience, the strength of their ship and the reliability of their navigation charts, investors need to focus on economic fundamentals, assess the stability of their investments and stick to their financial plan.



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King John II rejected the name Cape of Storms because it focused on its turbulence rather than its potential. Cape of Good Hope is an example of how sailing through volatility can lead to an opportunity ahead. I mentioned that the passage through the Mediterranean Sea was effectively blocked, which encouraged European nations to seek out a different trade route through treacherous waters. And while being invested in equities forces you to navigate volatility, other asset classes such as government bonds are effectively limited as an option because their expected returns are unattractive. So to achieve long-term goals, investors must occasionally navigate stormy waters. Here's to looking ahead.

Sources:

Cape of Good Hope, New World Encyclopedia

Ocean currents and tides: The treacherous Agulhas, Rice University



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