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Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

Have you heard the one about stock market pundits who said that markets were surely heading into meltdown but ... didn't?

You know, the 'Bear' punditry industry is big, and really pernicious.

I have watched markets for decades. I have also watched markets' commentators and so many of them are perpetually bearish.
Oh, Trump. Oh, China. Oh, Brexit. Oh, North Korea. Oh, Greece. Oh, Russia. Oh, Venezuela. Oh, Terrorism. Oh, Interest Rates. Oh, Mueller. Oh, we're 10 years since the last Recession. Oh, Austerity etc etc

These were just off the top of my head. All reasons why stocks are just about to peak, or have peaked, and we are entering a crash period.

Latterly, I have seen this since 2009, as we came out of deep Recession. We have been out of Recession since 2009. And the bears are STILL bearish.

Indeed, I had issues myself (and global stocks went nowhere for several years). But then, since early 2016, I saw green investing shoots.

The 'permabears' remain vociferous that there are no good investing opportunities and a crash is imminent.

To be 'perma' anything in investing is the route to disaster.

Yet, it's profitable for prominent permabears. They sell subscription newsletters, online TV services, tips services. They get appearances in the media, which helps sell their books, and so on.

Unfortunately, their followers (cult members?) lose out as the message remains, in effect, sell what is working and buy what isn't.

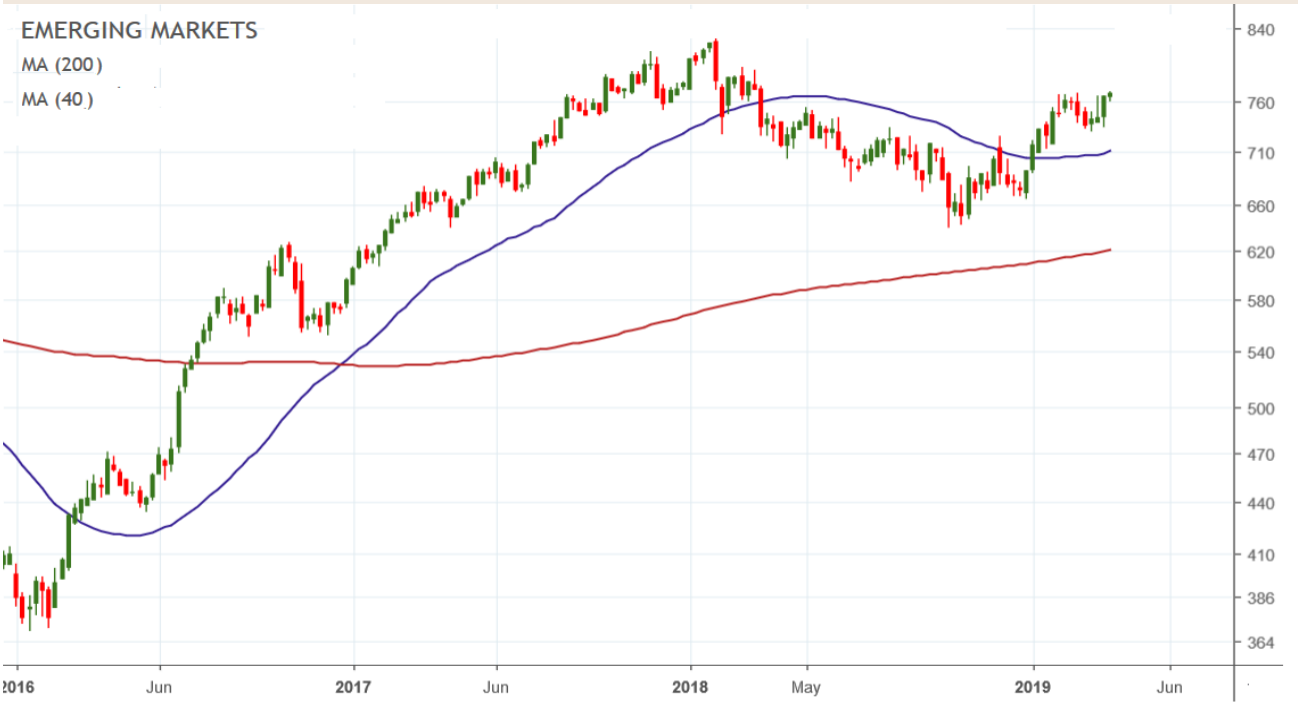
2018 was not a good investing year. (But 2016 and 2017 were.) By the end of 2018, I was hearing not just bearishness but EXTREME negativity. Indeed, 1930s level doom and gloom.

If you go back to the last two Booms & Busts Reports, you will see that I remained medium to long-term bullish as, simply, I could not see why we should be bearish, medium to long-term, even though Q4 asset prices fell sharply.

Our portfolios sold not a penny of stock holdings. We have the highest percent exposure to global stocks (including Emerging Markets and Energy) that we have held for many years.

The idea of selling during short term falls is for traders, not investors. If a market is bullish, why sell?

Emerging Markets

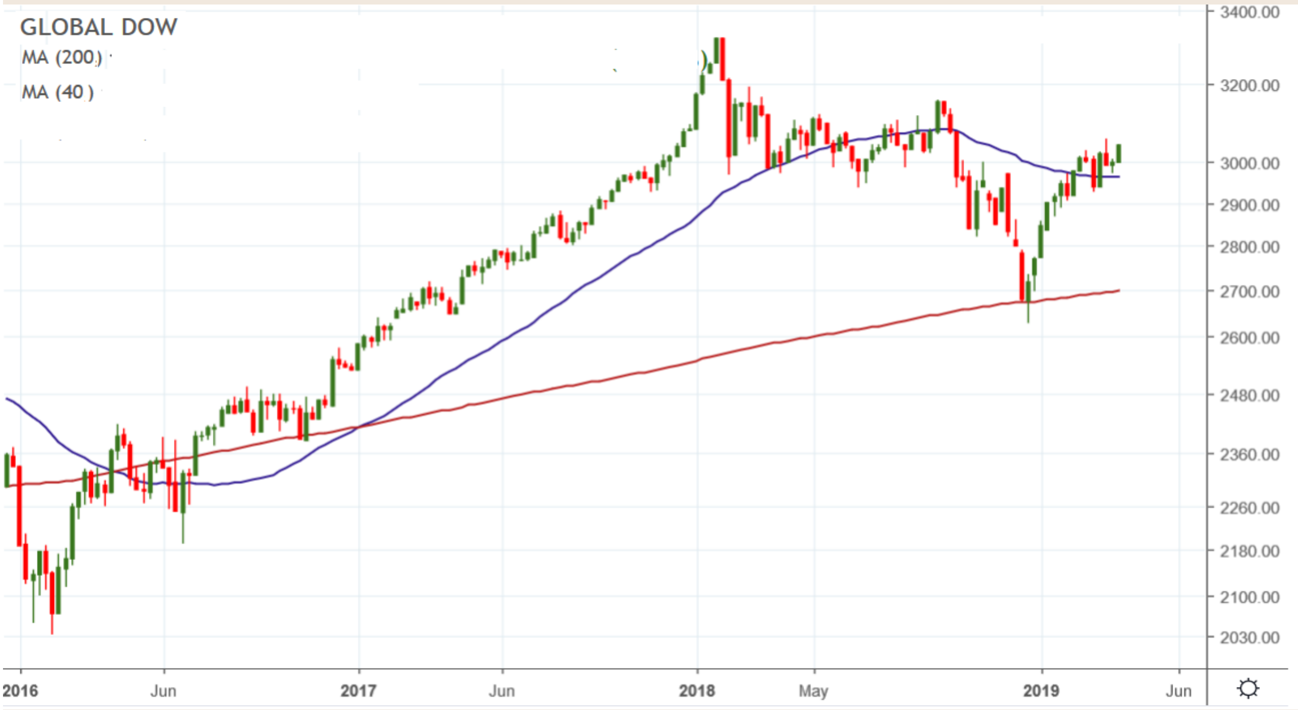


The fund that we use for Emerging Markets remains, as we see it, in major - and likely multi year - uptrend. In the falls of 2018, everyone and his dog was saying "That's it. Emerging Markets are back in MAJOR crash mode."

Well, not us. EMs have more than doubled since early 2016.
EMs are up some 20% since October. With a LOT more to come.

The 2018 fall, it seems to us, was merely a normal correction in a major bull market - as we expected as we were going through Q4. Early 2018 saw All Time High prices in EMs. We expect that ATH to be breached and EM stocks to continue flying, for quite a while.

Global Shares



Global Shares are primarily Developed Markets, as well as EMs.
Global shares, too, have been soaring since early 2016. Up around 50% over 3 years. (Hence, we have specific high exposure to the stronger growing sector of Global Shares, namely, Emerging Markets.)

H2 2018 was bad - down around 15%. But it seemed to us that it was merely a correction in a multi year uptrend. Given Q1 2019's performance (the best quarter since Q3 2010), it does indeed appear that 2018 was just a normal correction in a MAJOR MULTI-YEAR UPTREND .

Up around 15% since Christmas.

We know that most equity investors i.e. portfolio managers, sold quite a bit in the falls. Problematically, they took their time to invest back in. So, they missed the rocket ship.

What did YOUR portfolio manager do?

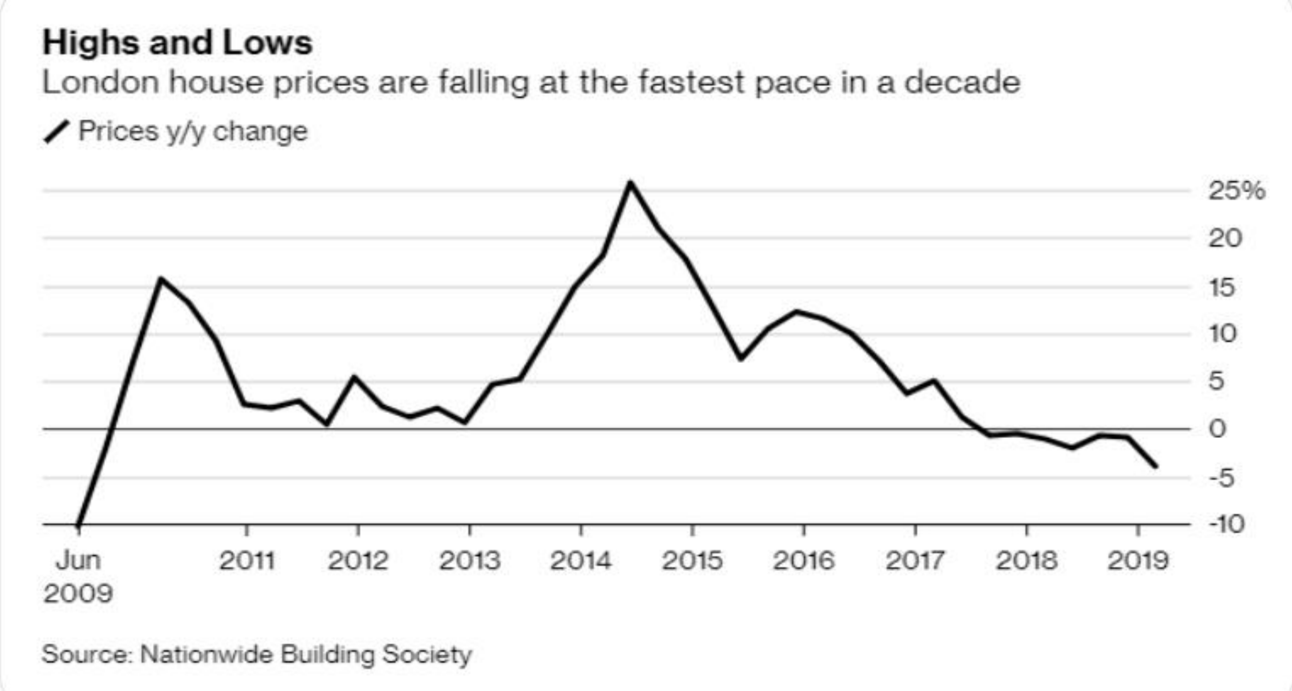
House prices

You may recall my forecast for a 17% fall in LONDON house prices.
I have been bearish for the last couple of years.

The Nationwide Building Society, last week, published their regular survey. According to their records, London house prices have been falling since July 2017, in line with our analysis. See chart, below.

Indeed, their own headline is that London prices are now falling at the fastest rate since the 2008/09 crash. Of course, it's not big falls. London has fallen 5-10% over the last two years, with the majority of the aggregate fall in (the exclusive) Inner London.

London house price falls



As I have written, there are so many headwinds for London and national house prices.

- Rising global inflation, likely for years, should lead to higher interest rates, for years. Certainly, the tailwind, of the era of ever falling borrowing rates, appears over.
- Property, globally, has been falling in price over the last year or two. Australia, China, London, California, Manhattan, Canada. The idea that Brexit is the issue is laughable.
- Much, much higher tax rates on rental income for high earning landlords is pushing many to sell, never mind merely not buy.
- Since 2018, the first Help To Buy borrowers are paying interest on the HTB element of their mortgages, after 5 years of paying nothing.
- Etc

The first point, above, as I see it, is the most important. Actually, we do not have confirmation that sustained rising inflation is here. However, the indications are that it is likely.

When you consider

- The Living Wage rose some 4-5% yesterday, above general inflation
- Many costs of living and taxes rose too
- The Public Sector Pay Cap has ended
- Oil and other commodities are soaring

it is not difficult to see inflation rising, and therefore interest rates.

I have written, previously, it is simple arithmetic. If interest rates rise, sustainably, and I expect them to do so, then expect falling house prices, sustainably.

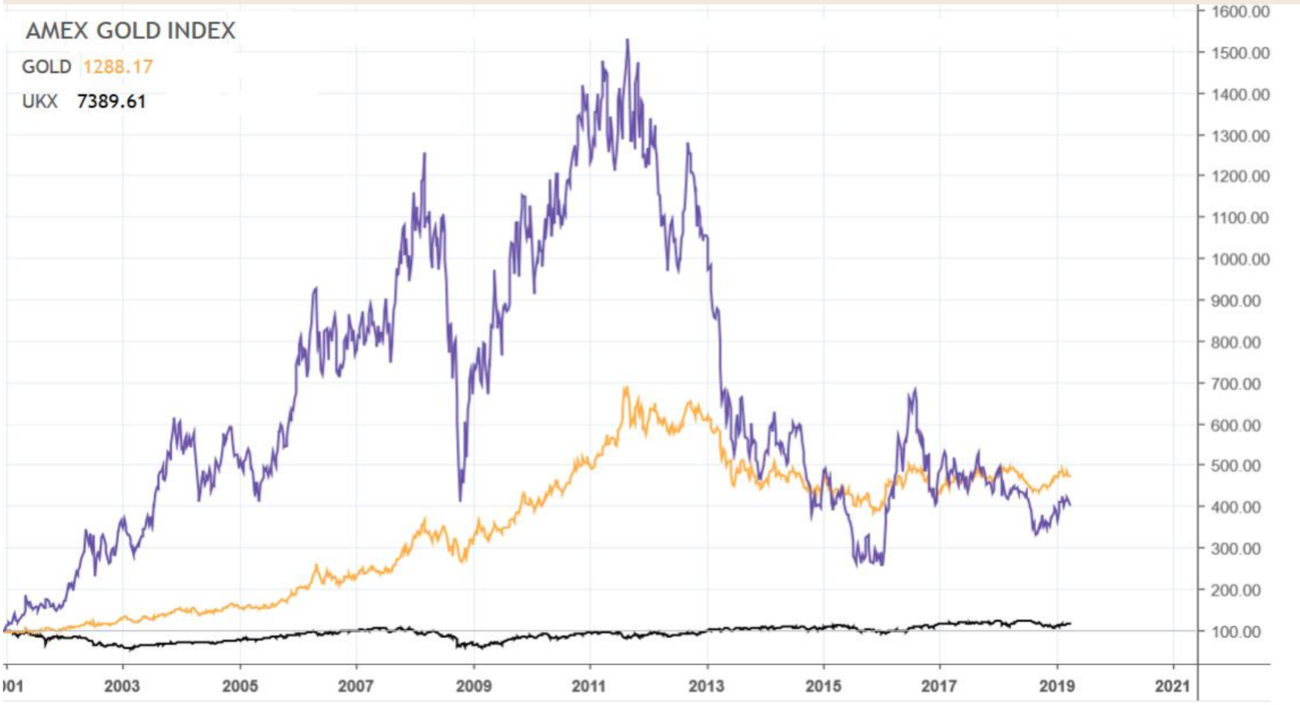
Special Opportunities

In January, I explored the superb opportunity in front of us of the uranium mining market.

In this Report, I focus on Gold and Gold/Silver Miners.

First, the long term chart.

Gold miners, Gold, FTSE 100



I have drawn Gold miners, Gold and the UK FTSE to show what happened across two different asset classes (UK shares Vs gold and gold shares).

Gold, in the colour gold, bottomed out, in 2001, after a some 20 year bear market. Over the next decade, it soared 6 times.

Gold shares (in purple) rose an enormous 14 times, in the same period.

The FTSE entered into a long term bear market, as gold entered a bull market.

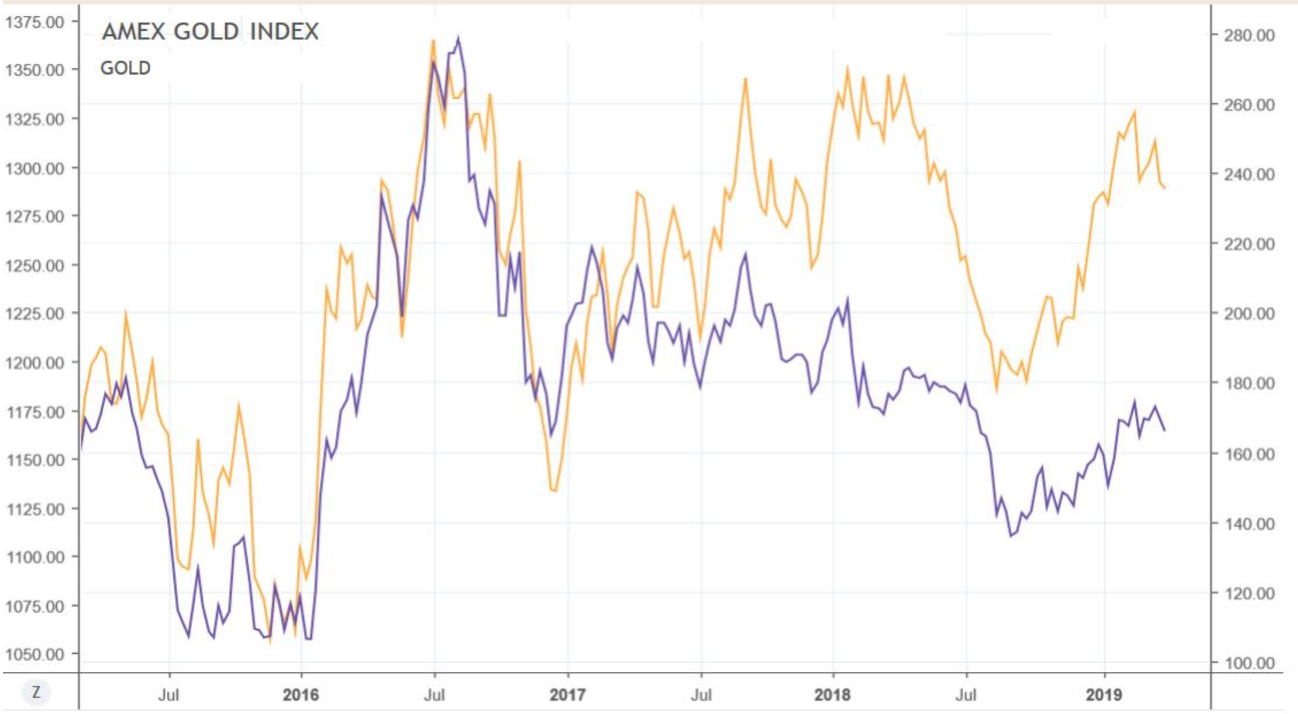
From 2011 to end 2015/early 2016, gold and miners then pulled back, after such a decade-long rise.

Gold fell 45%.
Miners collapsed to not a great deal more than where they had started the multi year/decade bull market, 15 years before.

As far as I can tell, early 2016 saw the recommencement of the multi-decade bull market in gold and miners. We saw a tremendous rise in miners for some 7 months, while gold rose less spectacularly.

Then we had two years, to Summer 2018, of, essentially, flat gold and, again, a sizeable pullback in miners.

Gold and miners, closer in



Over the last some four years, we see gold bottoming, in late 2015, after the 5 year bear market (gold line, left axis). Miners bottomed in early 2016 (in purple, right axis).

In 2016, gold rose 30%. Miners soared 145%. In 7 months.

After such a meteoric rise, over the next two years, while gold was essentially flat, miners fell back hard, by 50%.

As you can see, $1350/oz has been difficult, so far, for gold to breach.

It is my contention that, this year, gold will rise above $1350 and, indeed, above $1400. $1500 by early 2020. Remember, it peaked at over $1900 in 2011.

I expect gold to breach the All Time High, of $1900, within a couple of years. Miners will soar in this situation.

Miners may have crashed again between 2016 and 2018 but given
a) gold is around $1300/oz and trending up, and
b) it costs an average of $1100/oz to mine gold,
the profit potential for miners is immense.

Note, also, miners stand at only 50% higher than the prices of 2011 - when gold was under $300/oz.

Why gold bullish?

Gold does not - as many will have you believe - rise with inflation. Nor does it fall with deflation. Admittedly, there is SOME correlation to inflation and deflation but it is not significant.

What gold moves with is REAL INTEREST RATES ie interest rates relative to inflation.

So, whatever inflation is doing, if rates rise faster then this tends to be gold negative.

Thus, if rates rise more slowly than inflation, this tends to be gold positive.

In 2016, after some years of deflation in the system (eg oil crashed from $110 to $26), inflation started rising again. Interest rates were very low. Gold and miners soared.

Over the next two years, inflation ticked up and interest rates (globally, especially in the US) rose faster. Thus, gold could not continue the 2016 impetus.

In January 2019, the US Federal Reserve announced a huge reversal in its expectations for interest rates. For 2 years, they had told us they will raise rates, quarterly. Thus, right up to December 2018, we expected FOUR rises this year. In January, they as much as told us to expect ONE OR NONE in 2019.

Clearly, this had the potential to alter the relationship of rates to inflation. From stronger rates (than inflation) to weaker (than inflation).

Weak rates is positive for gold.

We are fully invested in gold mining stocks.

Are you?

If your wealth manager is not talking to you about gold miners, ask yourself why not?

The bulk of wealth advisers and portfolio managers has NEVER managed money in an era of rising inflation.

They have only known falling inflation, throughout their careers. Just like you.
What is your adviser / manager saying and doing?

What should YOU do to secure and grow your wealth and purchasing power?

Don't put it off till it's self-evidently too late.

If your portfolio, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion with me about your plans and objectives?

We work for wealthy families (some with portfolios in significant 7 figures) and/or high earners, whose portfolios will get there.
We work for clients all over the UK and indeed on 3 continents.

We also have an association with an excellent financial planning firm who can advise interested parties with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is:
"We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note carefully the following important messages:

I believe most folk do not realise, in big picture, the changes happening right now in our economy and markets.

They will.

I think most folk also do not realise, in big picture, the excellent opportunities in our markets.

They will. But will they benefit?

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me at **jdavis@jonathandaviswm.com**.

Follow me **@j0nathandavis** where I frequently comment and link to material commentaries on markets and economics.

See **Jonathan Davis youtube** channel.

Kind Regards

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