JONATHAN DAVIS WM
Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

The Booms and Busts Report is a regular update on markets and material economic issues.
We also produce Client-Only reports, with portfolio-specific commentary.

Question

Do you accept that the stock market is a forecasting mechanism? It's what many market participants say. I do. I find, again and again, the price moves before the reason becomes clear.

For example, you may recall global stock markets peaked in late 2007. The recession was 2008.

Stock prices troughed early 2009. The economy picked up steam from 2010. Etc.

Have you heard the one about plummeting share prices of major estate agents?

You know, there was actually a time when I was not bearish on house prices (eg immediately after George Osborne, in March 2013, announced the launch of the ghastly and Communistic Help To Buy schemes. (The day after, I said that, after a year when house prices had not risen, and were looking fragile, prices would now rise, materially, until the 2015 General Election. In fact the impact of HTB lasted till 2016.)

In my last Booms and Busts Report (May 2018) I showed that, according to the most accurate analysis (that of The Land Registry), London prices were flat to down since early 2017. Anecdotally, we are seeing Asking Prices fall right across the board and this suggests sizeable falls in prices to come, over the next year.

What I had not fully appreciated, when I wrote that Report, was that the share prices of Countrywide plc and Foxtons Group plc had absolutely collapsed over the last 4 years.

Countrywide plc

From their website:

"With a network of over 850 branches, the ...Countrywide... Group has the largest estate agency and lettings network, is the largest independent mortgage broker, and the leading provider of surveying & conveyancing in the UK.

We operate across the UK residential and commercial property market and financial services sector to bring people and property together.

...We have a portfolio of 65 brands, ranging from local agencies to internationally recognised brands."

In other words, they trade as

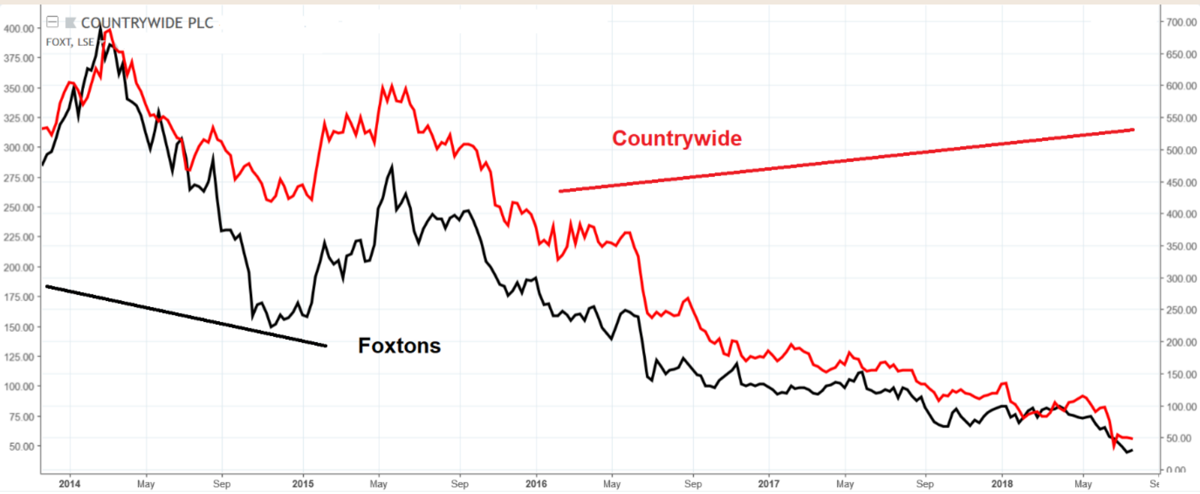
John D Wood
William H Brown
Hamptons
Bairstow Eves
Beresford Adams
Hetheringtons
Slater Hogg & Howison
And many other well-known chains

They also own Rightmove, the largest online portal of what is being marketed.

Foxtons Group plc

Not a national firm. It has 67 offices in London and Surrey. Most people would agree that it spans the London market well and whatever happens to Foxtons is probably happening to the London market.

Their share price chart:



The share price of Countrywide, the national firm, has collapsed from 700p to 50p, since early 2014.

Similarly, the share price of Foxtons, the London firm, has collapsed from 400p to 46p, since 2014.

Of course, there can be a myriad of reasons why these have collapsed, being some 90% down on the highs.

However, anyone trying to convince me it has nothing to do with the housing market gets extremely short-shrift from me.

We HAVE to wonder what do stock market participants see, and what are they telling us about their expectations for the housing market and house prices? To me, it suggests, strongly, they see extreme weakness in both the market and, therefore, prices.

Does this tell us anything about our client pension, ISA etc portfolios? Not in the slightest.

What I suggest to you, dear reader, is to consider whether or not you are over-exposed to property. If you decide you are then you need to make changes to your overall investment / retirement-planning / estate-to-leave portfolio.

Then we consider, again, this:

What do we want? Deflation. When do we want it? Now!

Many will be shocked by that. Yet, only in DEflation do we have higher living standards. Stuff costs less!

Yet, governments hate deflation. Why? Because INflation 'inflates away' their (er, I mean our) debts. They can then say debt is less of a problem and they can borrow more and spend more (buying our votes with... our money).

[What's that you're saying? The UK government, just this week, announced the public sector pay squeeze (as they called it) is ending and salaries will rise at about the general inflation rates, going forward. This is, of course, inflationary - and attractive to voters, given the Conservative government is, currently, less popular than it had been.]

So, in the UK, inflation was around 0.0% in 2015. It is now around 2.5%. Still very low, by the standards of the last generation or 2.
But it is on a rising trend. And announcements like that on public sector pay can only stoke it higher.
I have an excellent chart to show how things are in the US (and we tend to follow):

US CPI and long run average

US CPI is now at 2.9%, the highest since 2012, and up to the long run average level, having been below for almost all the time since 2008.

When I look at that chart, what I see is a rising trend in inflation, since the beginning of 2016.

It seems to me the uptrend is in place, irrespective of short term movements. Thus, it can continue into next year and perhaps 2020.

Although the price of oil, on world markets, has pulled back from the mid $70s a barrel to the high $60s, I see a continued uptrend in the oil price. Here's the chart of **crude oil**:

The direction of the oil price has a strong correlation to inflation.

We have discussed this previously. **What else rises with inflation?**

Borrowing rates.

So, after a 50% fall in the estate agents' share prices, what were investors seeing?

It seems to me they were seeing, not only, worsening finances of the companies (why?) but also a worsening outlook for inflation (rising) and interest rates (rising). Hardly positive for house prices, and, therefore, their business.

After a fall of 50%, the share prices then fell a further c 75% or 85% (eg 700p to 350p. Then 350p to 50p!).

If you are heavily exposed to property, I would suggest you consider if you know more about property than The City and the many thousands of financial markets' participants who invest and divest in companies for a living.

The fact is some 98% of British folk cannot imagine sustained UK house prices falls. ANYONE who understands markets will know that when a consensus is so strong to one side, all too often, the other side takes hold.

Yes, you may say, but housing isn't a normal market, like stocks.
I would agree to that as there is even more intervention in house prices than stock prices.

Such as :

- Keeping interest / mortgage rates lower for longer, given general economy requirements
- Large net immigration to the UK
- Help to Buy (government lending directly to house buyers as the normal lenders more or less stopped lending above 75%)
- Supporting investing Buy-To-Letters to buy and rent out.

1. Rates have (in effect) bottomed for now and MAYBE for the long term
2. It seems likely net immigration will fall
3. Help To Buy #1 has already been discontinued. #2 still continues
4. BTLers are getting out as a) it is increasingly unprofitable and b) taxes are soaring.

If you own excess property, are the risks still in your favour as, of course, they have been for 40-50 years?

I would argue not.

Am I saying, for sure, interest rates are now going to rise for the long term? No, I'm not. But they are rising and they will rise for the medium term - say, at least 2 years.

After that? Well, when we have more data we will report back to you. For the initiated, I am looking at 10-year US yields rising above 3.3%. They are at around 2.9% now. They were 1.4% 2 years ago...

If US 10-year rates rise above 3.3% I may well say rates will rise for an ERA. But we are not there yet.

Does any of that inform our investing? It certainly does.

As inflation rises we invest in assets which, normally, rise with inflation. Going into 2016, we were some 60% of portfolios invested in Fixed Interest Government Bonds. Now, just 10-12%. We have moved from 'deflationary' assets to Emerging Markets shares, Global Energy shares, as well as other commodities and Index-Linked Government Bonds.

So, on the one hand we love DEflation - lower prices of goods and services and higher standards of living. We do not invest according to what we love.

We invest according to what we see is happening in markets.

What do we see, for example, in stock markets?

We see bull markets, practically everywhere in the world. Of course, there has been a pull back in the first half of this year. But, for example, what do you expect after Emerging Markets had soared about 100% from early 2016 to January 2018. Of course, they needed a breather.

And look at Developed Markets, at the US S&P 500 for example:

If I asked you which full decade, stretching all the way back to 1900-1909, had the worst inflation-adjusted 10 years' performance, which would you say?

Maybe you would say 1920-1929? 1970-1979?

Well, the worst full decade's performance was ... THE LAST FULL DECADE, namely, 2000-2009.

Here are the figures, in performance order:

Best to Worst decades of US Large Stocks' Real Performance (annual average change)

Real Returns for U.S. Large Stocks 1900-2009, sorted by best to worst return

Decade	Real Average Annual Compound Return Large Stocks (1)
1950-1959	16.78%
1990-1999	14.84%
1920-1929	14.37%
1980-1989	11.85%
1900-1909	9.32%
1960-1969	5.15%
1940-1949	3.57%
1930-1939	2.04%
1970-1979	-1.41%
1910-1919	-2.46%
2000-2009	-3.39%

(1) For the period 1900-1930 we use the Dimson-Marsh-StauntonGlobal Returns Data.
For 1930-2009 we use the Ibbotson Large Stocks Data.
© "What Works on Wall Street, 4th Edition."

Just look at the table, after each decade of negative real returns, there followed massive real positive returns: the 1910s followed by the 1920s and the 1970s followed by the 1980s.

This is another reason I remain bullish global stocks, as this decade still has a year and a half to go, and the last decade was the worst in 11 decades!

More relevantly, we are constantly bombarded with bearish commentary, stopping private investors from investing to make money.

Yet, markets continue not to care (for more than a 'nanosecond') about

- Brexit
- Trump
- Tariffs
- Interest rate increases
- Italy
- Russia
- Add ______________ whatever headline writers try to scare you about.

The - financial - markets are in a bull market, whatever else is going on.

Please note, the bulk of wealth advisers and portfolio managers has NEVER managed money in an era of rising interest rates.

They have only known falling rates, 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, all together, amounts to at least £500k, why not arrange a no-obligation discussion about your plans and objectives and our wealth advice thinking?
I am opening up to new clients and I have space for 5 new clients.

We work for wealthy families (many with Pension, ISA etc portfolios in 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 (interest rates, government bonds and property).

They will.

I think most folk also do not realise, in big picture, the amazing opportunities in our markets (global stocks, commodities, inflation-directed assets).

They will. But will they benefit?

Click ***to forward to a friend*** if you think they could benefit from reading this.

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***.

On Twitter, follow me ***@J0nathanDavis*** where I frequently comment and link to important commentaries on markets and economics.

Kind Regards

Jonathan Davis **BA MBA FCII FPFS**
Economist and Wealth Adviser
Chartered Financial Planner
Presenter of The Booms and Busts Show on ***itunes*** and ***audioboom***.
See ***@boomsbustsshow***

0345 862 2919
jonathandaviswm.com
The Mill, Vicarage Lane, Waterford, Hertford SG14 2PZ