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Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

To comment on any of the points raised here or to ask a query just click *here*. Please DO NOT click Reply

We publish these reports on Economics, Markets and Financial Planning several times a year. We produce detailed updates, for clients only, more frequently. If you wish to forward this to a friend click ***here***.

£ STERLING

I said time and time again BREXIT means little or nothing, in the near term, to markets and investing.

See Focus On... The £ Sterling for what's been happening to the £ and what is likely to happen.

If, as I say there, the US goes into Recession next year, this will take the global economy down.

Like Brexit having no real effect on markets and the economy (read the analysis!), a US Recession, next year, will have nothing at all to do with the US Presidential election. What will happen to markets and the economy next year is already all but baked in.

Of course, if something bad happens and Clinton wins it will be someone else's fault. If Trump wins it will be Trump's fault.

(If good, which is less likely, and Trump wins it will be 'despite Trump' just like 'despite Brexit'. If Clinton wins, it will be because of Clinton. This is our media folks.)

What IS likely to happen is we go from, a currently 0.25% Base Rate, to a ***NEGATIVE RATE*** in the next Recession.

The thing is, negative rates do not encourage spending or even borrowing. They encourage saving of cash 'under the mattress'. This is what people will see they need to do in a deflationary environment, as savings are crushed and the economy is tanking.

Negative rates will be negative for the economy, generally.

This is why the politicians are talking about banning cash. They don't want you to save. Also, they don't want you hoarding cash under your mattresses - as you will do if the deposit rate at the building society is -1%...

They want to take your money from your deposit accounts. They can't do that if you have cash, held outside the banking system.

They say Banning Cash is about the Mafia, Drug Running and Terrorism etc. Well, we've had all those 'for ever' but only now, as rates are heading negative have they raised the issue. It is NOTHING to do with the Mafia etc

They took depositors cash in Cyprus in 2013 and they have been honing the methodology since.

Still trust your government to look after you?

I trust the markets to look after our clients and me. In 0% inflation, this year, client portfolios are up c 25%. THAT is what looking after us means.

EQUITY/BOND PORTFOLIOS

Now, I want to discuss with you where the world is, investing-wise. Standard asset prices are high. Some would say extremely high. I would.

I would say also in the short term anything can happen - say the next few months. But further out, you **REALLY NEED TO READ THIS**.

The chart, below, is of the Henderson High Income Investment Trust, over the last 2 decades or so.

I have nothing for or against this fund, in particular. I am showing it for what it indicates how a 'normal' investment/pension portfolio - very roughly - has performed for you over the last c 17 years and what MAY lie ahead.

From the Henderson Trust's literature:

"Invests in a prudently diversified selection of both well known and smaller companies to provide investors with a high dividend income stream while also maintaining the prospect of capital growth."

Isn't that what your portfolio aims to do?

"Overview

Conservatively invested portfolio of well known and smaller UK companies. Uses appropriate gearing to enhance returns from a split portfolio of normally 80% equities and 20% bonds."

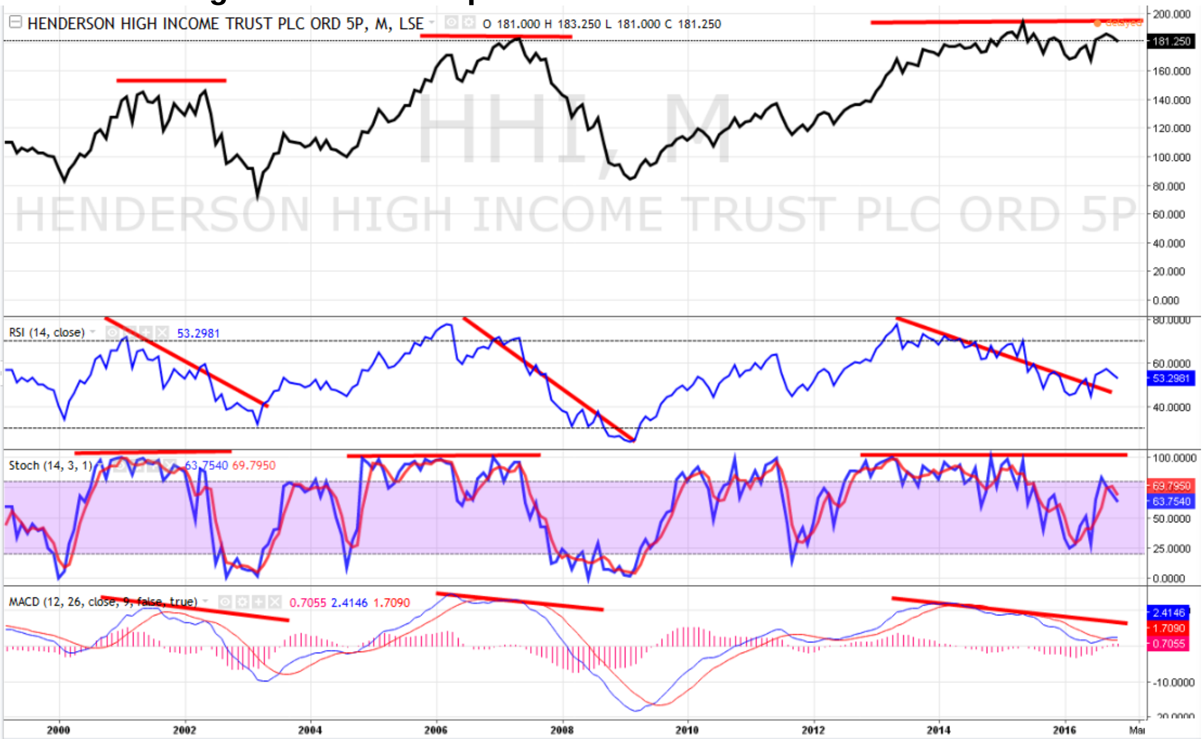
Again, is that not similar to your portfolio? I imagine it is because 80% equities and 20% bonds is the basis of the bulk of private client portfolios. If you are not sure what yours is, either look at the valuation statement and simply calculate the percentage of stocks, and the percentage of bonds. Or ask your wealth manager.

NB. To my mind, where you have Corporate Bonds, you should add these to the holdings of Shares as they tend to perform similarly.

So :

Shares and corporate bonds : total portfolio.
Government bonds: total portfolio.

Henderson High Income Trust performance 1999-2016



So you see the Trust - the black upper line chart (our proxy for Equity / Govt Bond portfolios) does well in reflationary periods (2003-2007 and 2009 to date) and does terribly in Recessions (2002 and 2008). Of course. It's largely shares as are standard portfolios.

You see it has tended to plateau before crashes. You see it has plateaued again.

You see the mathematical analysis indicators (bottom panels) tend to point downwards as the fund crashes. They are pointing downwards again folks.

You don't own Henderson? Immaterial.

This fund is a proxy for Equity / Bond portfolios. Likely, you have an equity / bond portfolio. (Cautious to Moderate Risk or Moderate Risk. Ring any bells?)

STRONGLY, I suggest you ask your wealth manager how your equity / bond portfolio performed in the 2001/02 Dot Com collapse and then in the 2008 Banking Collapse.

I can tell you most of them fell some 25-35% ie throwing away some 5 or 6 years of 5 or 6% pa gains.

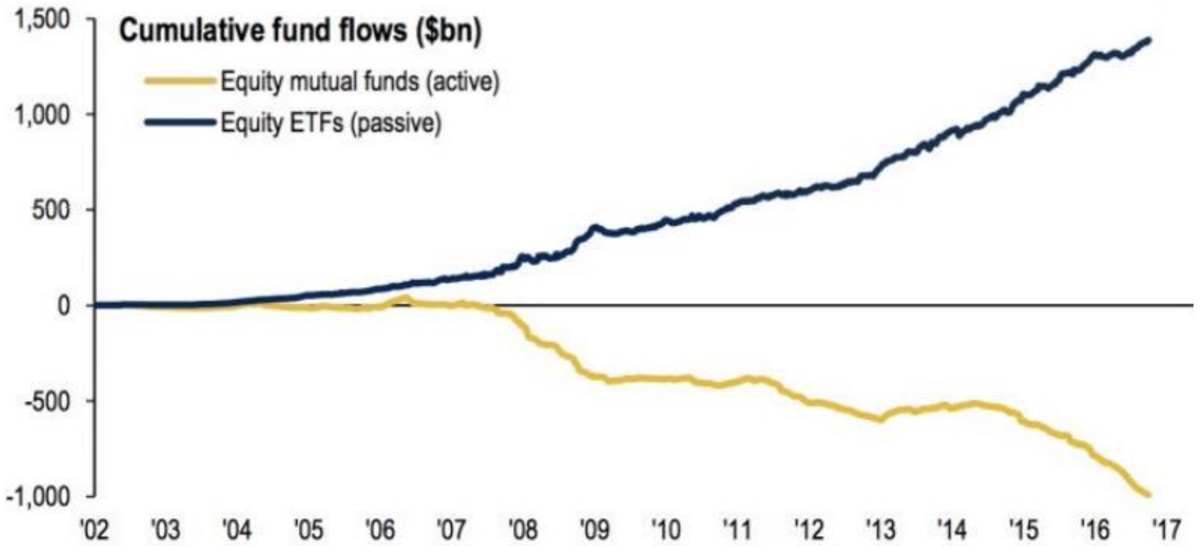
THIS is the risk many (or the bulk) hold in an Equity / Bond portfolio and at this late point in the Economic Cycle. The cycle is long in the tooth. It started in 2009.

Everything is OK? I'm just scaring? Yes, they said that in 1999 and 2007 too.

If you believe, too, that your Passive investing (if that is what you have) will save you, I have news for you - it will kill you, financially.

Passive investing just does what the market does. It makes zero judgements. If the market falls - Sayanora!

And it seems whenever the market rises everyone gets into Passive, at exactly the wrong times.



Investors have been leaving Active funds in droves and moving to Passive. THIS is one of the reasons why the stock market has not yet crashed. **Look after yourself.**

You want more evidence of the risks. ***Read The Big Picture.***

Next for reading: Millions have less than £100 of savings. ***Read here.***

Lessons on retirement from retirees. ***Read here.***

And finally, the next generation's need for planning may be even greater than our own. ***Read here.***

What should YOU do to secure your wealth?
Speak to me before something happens, that nobody (else) advised you could happen, and which detrimentally and materially affects your wealth and financial security.

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

Can you benefit potentially from our advice?
We work for wealthy families (from £500k of financial assets) and/or high earners.
We work for clients all over the UK and indeed on three continents.

Our most important and most often repeated philosophy is (as seen widely on our website):
"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 (and pass them on if you wish):

I believe most folk do not realise, in big picture, **the sheer gravity** of our economics and markets (major stock markets, corporate bonds and property).

They will.

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

They will.

Click ***to forward to a friend***.

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling or emailing me by clicking ***I have a query***. Please **DO NOT** click Reply.

On Twitter I'm **@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 Manager
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Focus On... The £ Sterling

The UK has long had the LARGEST TWIN DEFICITS IN THE DEVELOPED WORLD. These are hugely negative for a currency.
Inflation should rise from 0%, earlier this year, to 3-4% by next year.

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The Big Picture

In The Big Picture I show what is really going on and what informs our thinking.

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Millions have less than £100 of savings

Over 16 million people in the UK have less than £100 of savings.

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Lessons on retirement from retirees

Here are a few key lessons learned by those enjoying retirement already.

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Next generation's need for planning may be even greater than our own

The study has found that people born during the 1980s are now half as wealthy as those born in the 1970s were at the same stage in their lives.

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