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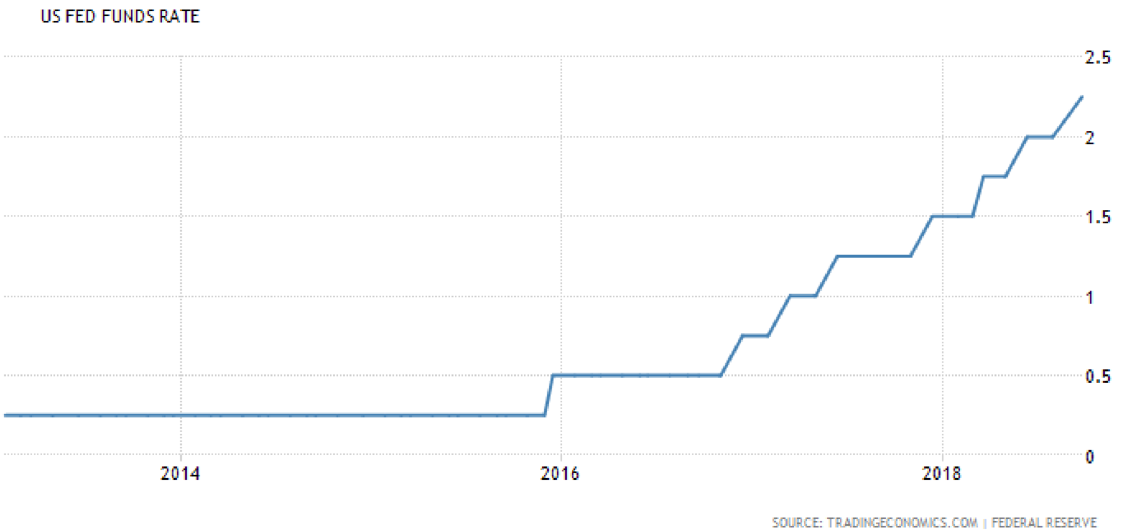
Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

Have you heard the one about US interest rates rising 8 TIMES, to 2%, yet The Bank of England is still only at 0.75%?



Well, that's where rates are now across the pond. Indeed, rates are rising, globally. Even the Bank of Japan and the European Central Bank are now emitting noises that they are likely to raise.

Rates are rising (except, it appears here in the UK) due to rising global inflation.

In the UK, CPI is now 2.7%. It still is low but remember, only in 2015, it was 0%. The so-called target maximum is 3%. Talk about pushing the envelope.

RPI is 3.5% and was sub-1% in 2015.

And yet our Base Rate is still nearly 3% below retail price inflation. That can only fuel inflation further, especially as crude oil remains in a bull market.

So, by delaying and delaying the inevitable, increasingly, Mark Carney, the Bank of England Governor, ensures a sharp rise in rates, over the next few years.

If not sharp then there will be sustained rate rises over the next few years. The US rate is expected to be 3-3.5% by 2020. We can expect the UK rate to be 1.5-2.5% by 2020.

Still low, by the standards of the last 40 years but a multiple of the rate from 2009 to now.

Depositors will, at last, actually see some interest payments again.

Mortgage rates will rise from some 1-2% to some 3-4%. That should put mortgage rates at the highest they will have been for a decade. It will be a rise of some <u>50 to 100%</u> compared to rates recently/currently.

I have written often of this issue, these last couple of years.

An oil tanker needs a huge circle to turn around.

I started contemplating eventually rising rates even as rates were being slashed from 5% to 0.5%, post the 2008 crash. I knew then that the 'emergency' rate would eventually end and rates would rise. I said so to many new and prospective clients at the time.

I did not, then, envisage a **decade** of an emergency... (Indeed there hasn't been one. However, the Bank of England retained the 'emergency' rate for years beyond its so-called need.)

All 'good' things come to an end. What goes down must go up. Etc.

There are many, during these last several years, who, remarkably, took financial decisions (for example, borrowed through the roof) on the basis that rates would ALWAYS be at the emergency rate. They will find themselves in great financial difficulty if :

- Higher rates bring down the prices of the assets they borrowed for
- They have to reset their debt at MUCH higher cost and their income has not, similarly, soared. (Whose income has soared 50-100%?)

Both of the above are to be expected, over the next few years. I have written often, this last year or two, that property prices cannot remain high (huge) in an ERA of rising interest rates.

Actually, we cannot yet know if, indeed, we are now in an era of rising rates. However, the probability rises that we are, especially, after nearly 3 years of rate rises in the US.

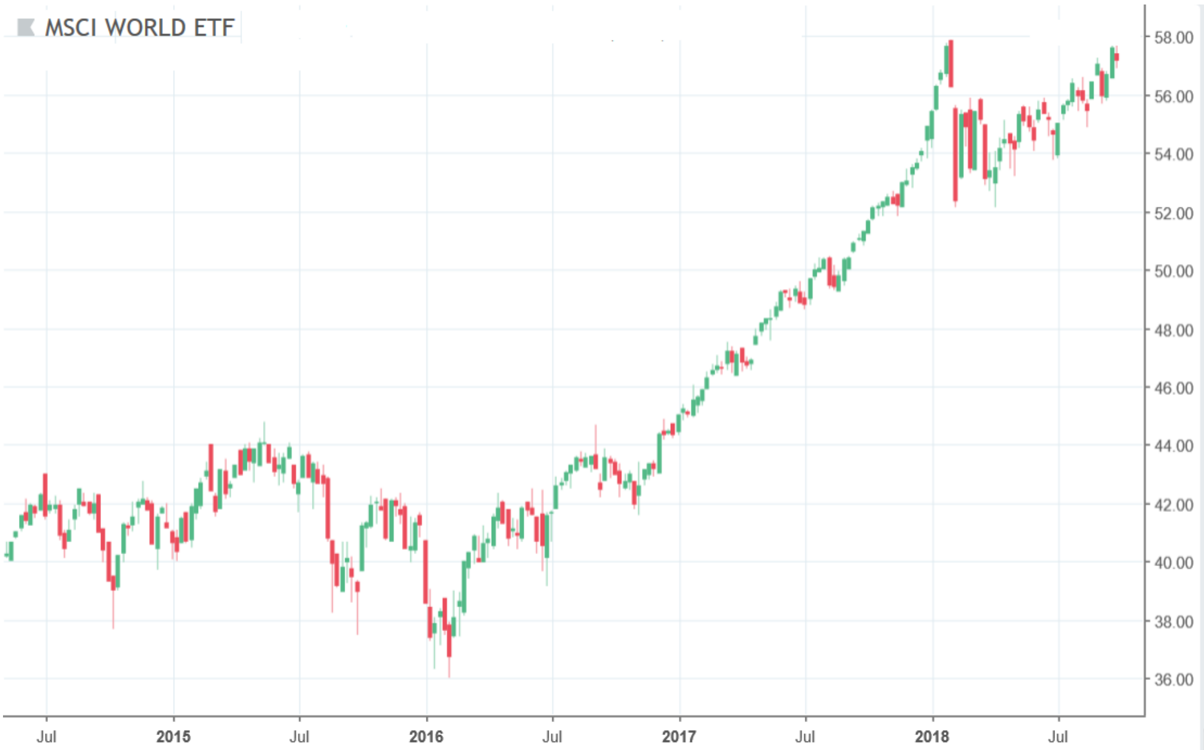
So, rising rates has an effect on property prices.

What about company shares, commodities, bonds - which make up the bulk of investing portfolios?
Well, ULTIMATELY, higher and higher rates will be strongly negative for share prices. However (and I read daily that the stock market is just about to smash to smithereens), rising rates, at these levels, have rarely had a short term negative effect on share prices.

I have read for several years that the stock market is 'just about to' collapse / do a 2008 / have a dotcom scenario etc. Indeed, in 2013 I thought it myself. I was wrong. We did, largely, stay away from stocks in 2014 and 2015 and we were right. Stocks had a bear market into early 2016.

In 2016, we turned bullish on stocks. We are now super bullish stocks. Why? Well, when you see them doing the following, let them get on with it and ask the question later:

Global Stocks



So, global stocks are in a multi year bull market, as we see it. This multi year bull started in early 2016. It is only some 2 and a half years old.

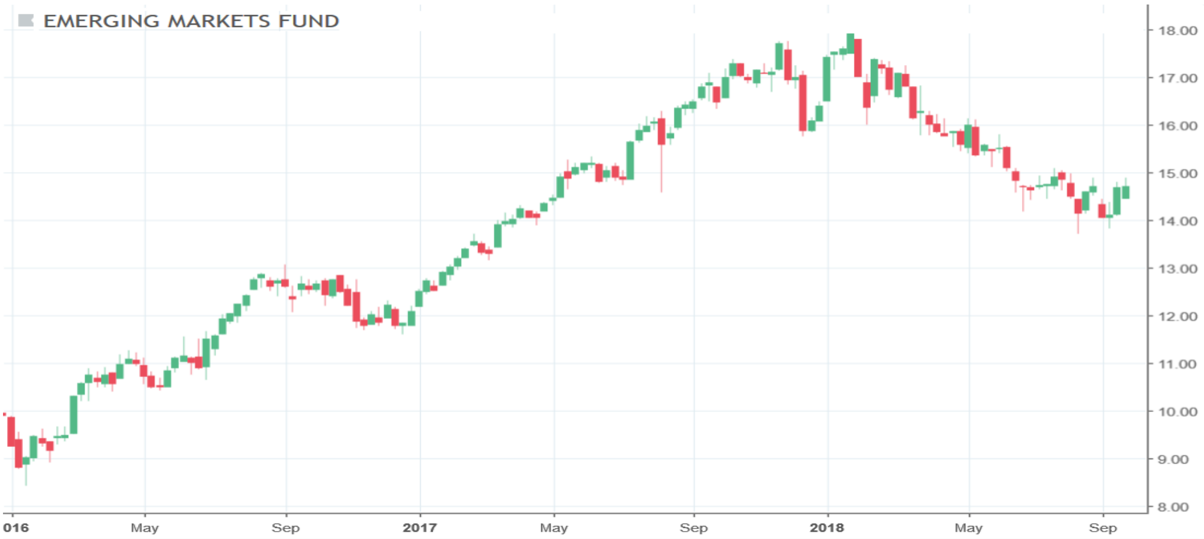
I read also - daily, too, it seems - that the share prices of Emerging Markets' companies are about to absolutely collapse. I find this very strange.

From early 2016, over 2 years, they doubled in price, and started a multi year bull market.

This year, they had a sizeable correction. It happens (especially after a 100% rally). It seems to me they are building to re-establish the bull market. Others say it had its day in the sun and now it's going down for years.

It seems to me Emerging Markets' shares will produce double-digit per annum returns for the next couple of years at least, as they have done the last near 3 years.

Emerging Markets



As an investor in Emerging Markets we want to know, what happened, previously, when EMs fell 20%. And here are the answers:

When Emerging Markets Are Down 20%

Buy	Five Years
Feb 1995	24.29%
Nov 1997	-24.45%
July 1998	13.25%
June 2000	44.85%
Sept 2002	318.57%
June 2004	105.54%
July 2006	74.29%
Feb 2008	12.31%
Dec 2008	121.47%
April 2009	99.65%
Oct 2011	18.15%
Sept 2015*	43.69%

* 5 year numbers for Sept 2015 are incomplete (thru July 2018)

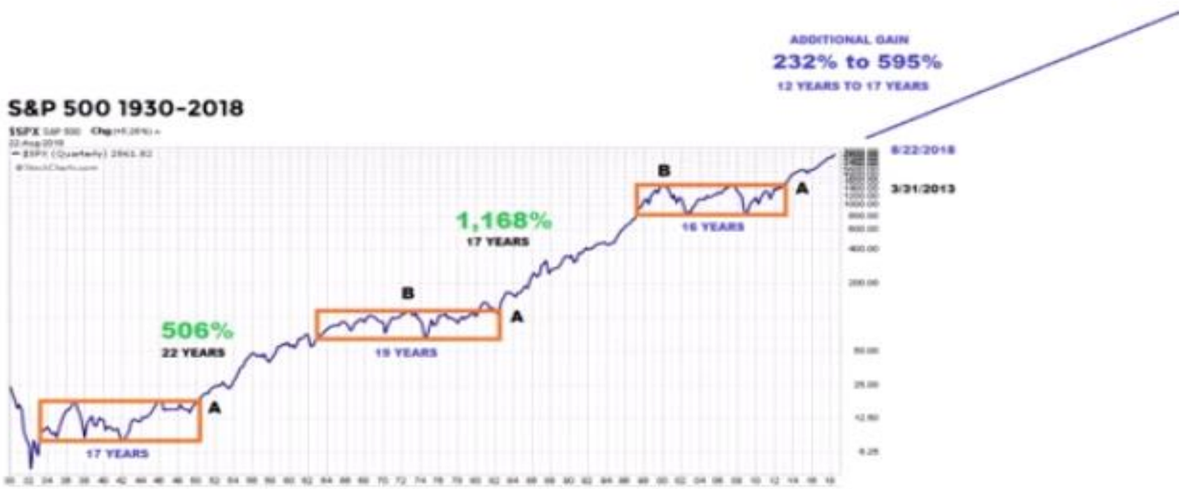
In all but one instance of Emerging Markets' stocks having fallen 20%, over the last 20 years, 5 years later the market was up. And look how much, in many cases.

The space left here is to give me the opportunity to lick my lips in anticipation.

I just don't see what the bears see.

The following chart of US stocks (similar to global stocks) is particularly interesting.

S & P 500 (last 88 years)



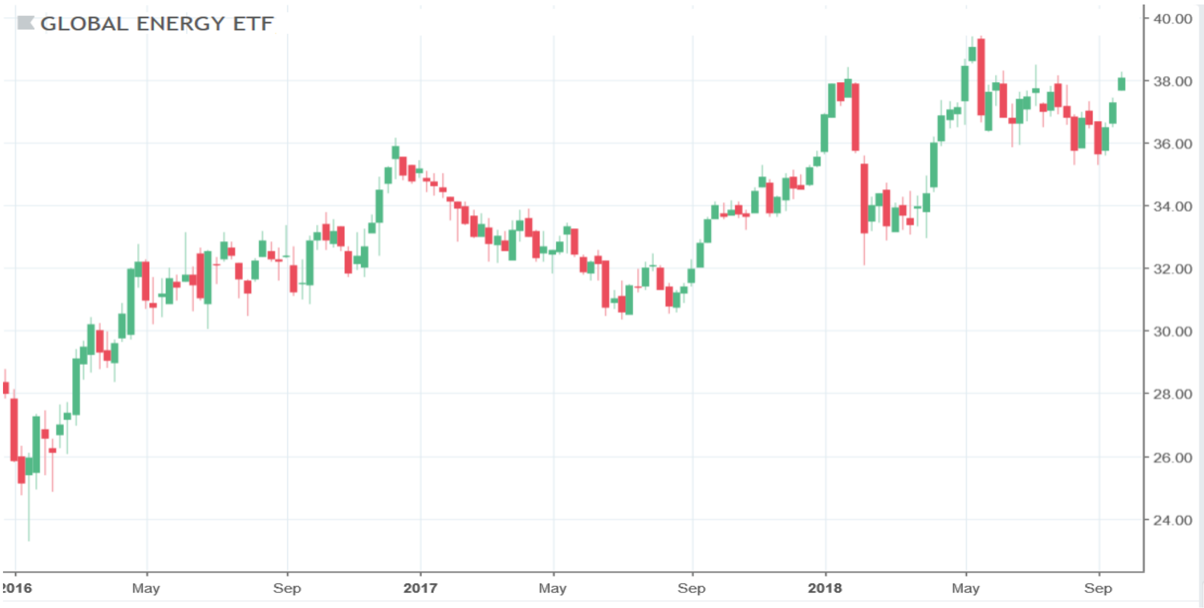
The fact is stocks have just had a decade and a half, very similar to the 30s and 40s, and to the 60s and 70s.
On that basis, it is at least possible we may have entered another golden era for share prices' like the 1950s and the 1980s and 90s. If we do, how will you feel if you miss out?

As I said above, crude oil is in a huge bull market. (The price per barrel is up 180% since February 2016. How can anyone say we are re-entering deflation? And yet they do.)

Thus, within stocks' indices, the sector we have liked for years is Global Energy stocks eg BP, Shell etc. Thus, we are heavily invested in these. The chart is strongly bullish.

There is everything to suggest that oil continues to trend up. Indeed, from $26 a barrel, in Feb 2016, and now $73, I can see triple-digit oil by next year. The increase to oil companies' bottom lines will be fantastic.

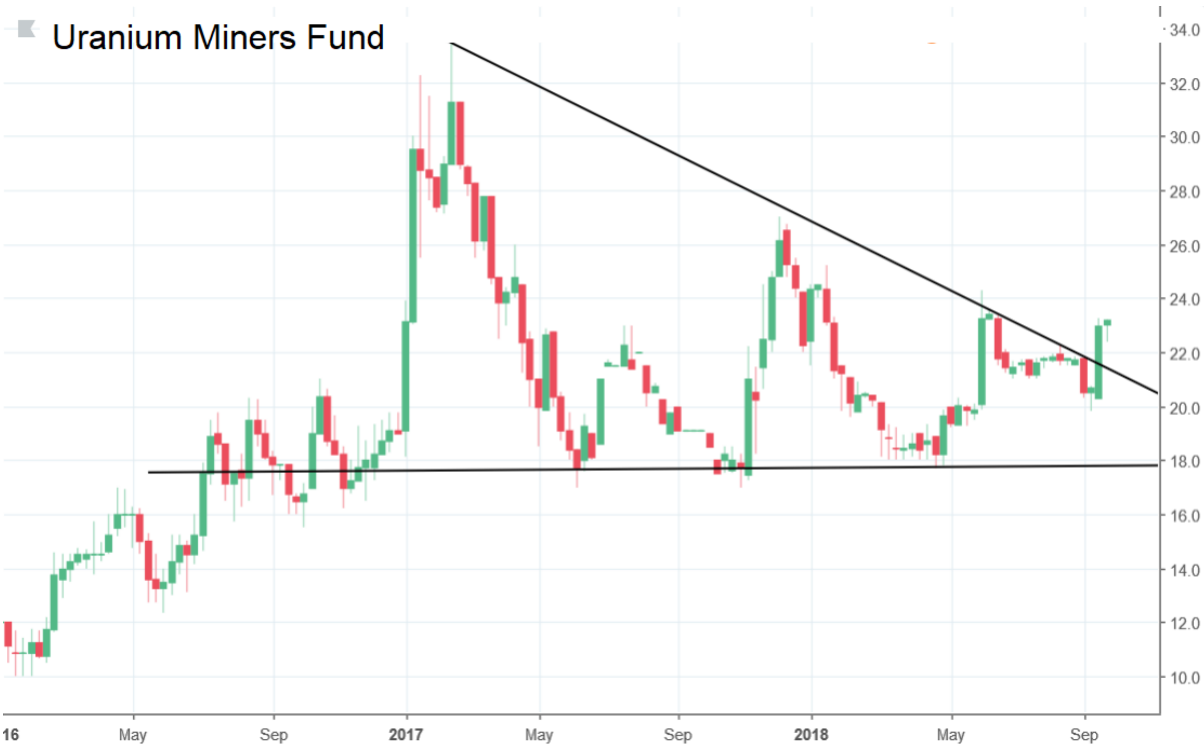
Global Energy shares



We are looking forward also to the resurgence of the huge multi year bull market in uranium mining shares. The bull market started in early 2016 after a massive collapse, over the several prior years.

As you can see the (fund of uranium) shares **tripled** in 2016 and has been consolidating that gain for the last year and a half. The price of uranium mining shares has now risen above the falling downtrend. It is ready to go up the next leg, as we see it. This appears to have years of huge growth ahead of it.

Uranium Miners



Some will say "But I couldn't invest in such an esoteric Wild West market."

Not so esoteric when you know that, for example, 18% of USA energy is nuclear.

And what about all the millions of electric vehicles that we will be using by just a few years from now. You know, in China, in 2016, 1.2% of new cars sold were electric. Last year it was 2.5%. This year it is over 4%.

Where will the electric vehicles obtain their power from? Nuclear power.

Commodities would normally perform handsomely in an era of rising interest rates, at least for the first few years.

As for bonds? Naturally, if you receive a FIXED interest for your bond investment, you can expect the price of the bond to fall, long term. If, however, your bond interest is inflation or index-linked your income, at least, will rise with the rising inflation. That should support the prices of index-linked bonds.

As investors, we are excited about the opportunities for portfolios. I have given some of the many reasons why, above.

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, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion about your plans and objectives and our wealth advice thinking?

I have space for 3 new clients.

We work for wealthy families (many with 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**.

Follow me **@J0nathanDavis** where I frequently comment and link to important commentaries on markets and economics.

Kind Regards

Jonathan Davis **BA MBA FCII FPFS**
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