GLOBAL VIEWS

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Chartered

ADVICE & INTERNATIONAL FINANCIAL SOLUTIONS

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What a Dreadful Start to 2016

Well from a male investors perspective it was about as bad as it could be. On the one hand The UK issued new advice on how much we should drink per week and the news was bad. Put simply we should not drink, it's bad for us and will lead to an early and painful death. However, if we do have to drink we should only have a teaspoon a day and we should have several dry days a week if we are to avoid contracting life-threatening ailments.

Then, to further our miserable start to the year, the markets went mad. The UK stock market lost approaching £100 billion within the first week or so. Blame the Chinese this time.

What it all boils down to is that the world is where it always is, in turmoil and that is reflected in the markets. These are knee jerk reactions to particular events. Long gone is the break-up of the Eurozone, the demise of Greece, the Banking Crisis, so we need new issues in order to provide headline news. It seems that in the first quarter of 2016 that will need to be provided by border controls, Chinese slowdown, weak or strong currencies, the refugee crisis or terrorist attacks.

Still, on the bright side, we do know the markets will come back as they always do. The big concern is will the prophets of doom increase the suggested alcohol levels to allow us to at least have an odd pint or glass of wine?

It's a Lottery

It really is, at the time of writing the draw had been made and two lucky winners have captured £60 million from the UK National Lottery. With a record number of rollovers where the big prize had not been claimed the rules were altered to ensure that there would be big winners and it seems there was.

So what would you do with £60 million? Perhaps buy a terraced house in Belgravia London, on at a paltry £57.8 million. At least it would give you a bit left to enjoy yourself. How about a classic 1957 Ferrari, a snitch at £25 million. Guess this just shows the cost of living, even with £60 million you cannot buy a house and a car. What is the world coming to?

Perhaps the biggest tragedy of all is the fact that when the National Lottery started Richard Branson offered to run it and send all the profits to the NHS. Sadly the government of the day decided that it would be much better handled by a private company, thus Camelot operate the scheme and take the profits. All makes sense to me I think now.

Where is the Hot Spot for 2016?

Well whilst it seems odd to be suggesting a sector whilst the markets leap around like a gazelle, plus whilst there would rarely be a consensus, one sector that appears a "bookies favorite" for 2016 is Europe.

Europe has been suggested recently as a potential winner, however, given the market jitters we have yet to see the returns. However, pushing aside short-term jitters, fundamentals appear to lead to Eurozone.

In recent times we saw the threat of a breakup of the Eurozone, with a Greek departure. We obviously also see the threat of a Brit exit, however that would be in an ordered fashion. The regions big attractions right now are very stock market friendly ultra-light monetary policy, benign interest rates, a huge QE programme, which is likely to be ramped up in 2016. We see a relative weak Euro, excellent for the big exporters, company earnings forecast is excellent and GDP rising, albeit slowly. There remain issues, not least polarizing politics, equally both France and Germany will hold General Elections in 2016 and both Hollande and Merkel seek new terms.

From a simplistic viewpoint, the QE has yet to create a huge impact. However, if we look at countries that employed QE recently, The UK, The US and Japan, all those stock markets have moved forward, UK and US to new highs, Japan to its highest levels since its crash in 1987!

Just How Much?

The question revolves around a Financial Advisors head like a halo. Just how much is enough? What is the magic amount I need in my pot to ensure a decent pension which will see me to my grave?

Of course the question just has too many variables. Not how much do I need in income? You can answer that, at least for the first few years. However, as the years roll on in order to provide an accurate number we would need to know how long you may live? What will be the rate of inflation? What would be the return on capital?

In the UK, apart from the lucky few who are in a final salary pension fund (mostly government employees), the average pension pot is a miserly £50,000. Plus of course those who have been resident in UK will be entitled to the new state pension maximum amount, before any future indexation, set at £155.00 per week.

The rule of thumb which used to be employed is that most people would need a pension of about two thirds of their income. However, many now suggest that your income level will be dictated by lifestyle. Some people would live happily on £10,000 per annum, in a modest property, perhaps an old car, perhaps relying on local buses. It depends upon what you want. Perhaps the best option would be choice, a choice as to whether you change your car every few years, or you choose to take a bus, using a bus pass. Or whether you have to take a bus because a car is just too expensive.

There is an old saying:

"What is the difference between an old man, and a retired gent?" Answer, "Money."

We have probably seen old people shuffling along a high street, shopping in the discount stores, checking the discounted shelves. All fine if that is what they want to do, not so good if that is what they have to do!

So here are some figures to consider. The question is, are you on track? Are you even close? Will you do something about it, or bury your head in the sand for another year?

If you had a retirement fund of £750,000, and assuming a 5% rate or net return per annum, you would generate £4,350 per month, assuming you were taking that income on a flexible drawdown.

A recent headline sums it all up.

"The majority of us are walking off a cliff into a world of depravation and poverty out of kilter with how we have lived our working lives"

Dollar Based Investors Feel the Pain

The New Year provides an opportunity to look back at the estimations provided by various institutions as to the performance of the markets over the previous year. Each year the great and the good give their pronouncements as to what we may expect, and each year most get it wrong. Yet we feel compelled to go through the same process again and again.

The start of 2015 saw most observers suggesting we see some more some robust growth, low inflation, and most were negative on Government Bonds. The OECD latest estimate for 2015 shows GDP growth well below the average at 2.9%. The average over the past 30 years around 3.6%. Now back to the poor dollar investors, well they have seen 2015 provide them with a loss of -1.14% against the total return of shares in the Developed World.

What about Emerging Markets and or Commodities? Emerging Markets a negative 17%, with a disastrous drop of over 30% from Latin America. Commodities, well we have all noted the plummet of oil prices from over $100.00 per barrel to around $30.00, with many suggesting $10.00 a barrel very soon as Iran is allowed back in the market and seeking to raise some serious cash.

Europe and Japan provided some solace with modest growth, but once again not if you were in dollars.

2016 is looking set to be a difficult year for all investors, in whatever currency. However, opportunities will be there, as always. Diversification remains a strong option, but one or two markets look to offer better prospects than others. Plus even with possible rises in interest rates, cash on deposit offers a strong possibility that you will be losing against inflation, albeit inflation remains flat.

Should we Panic?

Hopefully by the time you read this the world will be heading back to normality, and what many observers suggest is a massive over reaction to international events which created huge losses on the market will have faded to memory. However, let us state this here and now, these movements always create buying opportunities.

It has certainly been the FTSE worst start to the year since 1984. The events of the first two weeks of the year may make equity investors wonder why they should stay invested. Couple that with a pretty disappointing 2015, the question becomes even more salient. Thus let us illustrate to all you readers why equity investment needs to form the cornerstone of your strategy.

Firstly cash on deposit is not really an option, unless its short term money. You may ague would I be better with 0.5% per annum on my money as opposed to losing 6 or 7% in the first couple of weeks. The critical message is that it is not timing the market, buying low and selling high, but as always time in the market. We have seen these gyrations numerous times, and we will see them again. If you had put £1000 in the FTSE 100 30 years ago it would now be worth £14,734. If you had missed the best 10 days your investment would only be worth £7000. The message is even more pointed if you missed the best 20, 30, or 40 days over the last 30 years. Missing the best 40 days your £1000 is now only worth £2450.

So if you had chosen to leave the market at every bump in the road you would have bought and sold too many time to count, and you would almost certainly not bought back in at the right time.

Should we listen to the prophets of doom? Well one well known sage who has been very vocal about selling everything and going to cash, also made the same prediction about the S&P in 2012, the year it made 40% return. Perhaps it's the logic of if I say it often enough then one day I may be right. Or maybe he is right, we don't know, and neither does he.

A Positive Note

It would be nice to end this first Newsletter of 2015 with a positive note. I see that at only 10.25 am in the UK this morning the FTSE is up well over 1%. Long may that continue.

Some funds for your consideration:

Guinness Equity Income Fund

Income funds frequently provide some stability in times of falling markets. The overall yield on the FTSE now is approaching 4%, so perhaps a fund to consider providing some diversification. Modest growth, but significantly over cash at an average of 8.2% pa

Guinness Global Innovations Fund

A slightly aggressive stance, as just within the technology sector, and the returns and risk reflect such a stance and average return over 10 years 10.4% pa, but over 3 years 19.5% pa.

10 of 7 European Equity Fund

A passive fund reliant upon a proven strategy. Invests in large caps across seven major Euro equity markets. Very transparent, highly liquid returns over 10 years in excess of the markets with lower risk. Obviously a couple of difficult years within Eurozone over the past few years, but if the smart money is right a good time to get into Euro equities. Performance last year a modest 2.9%, however, that's certainly better than cash euros at a minus return in many countries

For more information on any of the above, or to arrange an informal meeting to conduct a review please contact us without delay