R.C. BROWN
investment management plc

AUTUMN 2014 NEWSLETTER

(For Professional Advisers only)

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Back row: Glenn Meyer, Robert Clark, Oliver Brown
Front row: Cathy King, Bob Brown, Wendy Stone, Alan Beaney

Welcome to a new look R C Brown Investment Management PLC. After a number of years, we decided it was time for a bit of a facelift (unfortunately only for the business), and have refreshed our branding and website, we hope you like it. We have also reduced our minimum portfolio size to £15,000 (the equivalent to a single new ISA).

What hasn't changed is our commitment to providing great service to Financial Advisers and their clients, and I am very pleased to report that we have grown our Adviser Introducer base by nearly 40% this year, with more firms and clients in the pipeline. One of the key reasons these Advisers have entrusted their client investment management to us is our flexibility in tailoring the portfolio to the individual, as well as our unique access to wholesale markets for new issues, IPOs and discounted sales for Private Clients.

If we can be of assistance to you or your clients, we would be happy to discuss your particular requirements.

Bob Brown (Chairman)

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Market Commentary

Glenn Meyer
Head of Managed Funds

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When I first started drafting my thoughts (about 10 days ago), the world and stock markets looked and felt dramatically different to today. With that in mind I am providing you with both versions, as there is some common ground.

<u>As at beginning of October 2014</u>
The Scottish referendum on independence turned out to be not such a close run event as had been thought but we are only now beginning to assess the long term costs to the UK of the price of retained unity, which appears to be greater devolution to Edinburgh and increased calls for more power for the Northern Irish and Welsh assemblies and creating regional assemblies in England. The investment implications of the referendum result will take some time to be fully understood, but the initial relief rally in the UK equity market was welcome on a dull and damp Friday morning.

In the last six months little has changed with regard to macroeconomics and geopolitics, but while the US is progressively winding down its programme of asset purchases, Janet Yellen, chair of the Federal Reserve, has calmed markets by emphasising that after QE ends this month there will be “a considerable time” before US interest rates rise. However, although the S&P 500 index rose on Yellen’s comments, expectations are now that when US interest rates rise they will do so faster than previously expected through 2015/16 to reach around 3%. While rising rates reflect a strengthening economy, the start of US monetary tightening may adversely affect short term market sentiment (particularly in emerging markets), which may create some investment opportunities. In geopolitics, although there have not been many new developments the stakes seem to have got bigger and political risks have been rising, with Putin showing himself to be a dangerous and aggressive adversary who is lauded as a strong leader at home. Meanwhile the rise of ISIS and the filmed beheading of hostages makes a chilling propaganda weapon which reminds us that the threat of international terrorism makes the world a dangerous place where the price of security has to be borne by us all and acts as another drag on global growth which, despite the well flagged slowdown in China, the threat of deflation in Europe and all the other woes beloved of the media, we still as most likely to be slow and steady.

Government bonds performed better than expected over the period because uncertainty drove marginal investors to take refuge in perceived safe havens. With inflationary expectations falling we sold our holding of the index linked gilt ETF and more recently switched our 2¼% Treasury 2023 stock into 4¼% Treasury 2039 that enabled us to lock in a healthy real yield.

Our view remains that future returns are likely to be more modest than those earned from equities over the past few years and that the returns on all asset classes will return to more normal levels. With this in mind we expect gradually to reduce the equity exposure in client portfolios and build up property and bonds when interest rates start to rise or when there is a good probability of earning a real return to the maturity of the bond. Although we have no current intention of investing in total return funds, we believe that in most market cycles there is a short window of opportunity to benefit from the downside protection afforded by total return investing. At present we believe the opportunity cost of such funds still outweighs the benefits, but we are prepared to add this strategy if appropriate. The forecast decline in growth of the global economy suggests that capacity utilisation in extractive industries is unlikely to be stretched in the near future and most commodity investment remains unattractive.

<u>As of 16th October 2014</u>
Since the beginning of this month equity markets have tumbled. Recent news has not been positive but nothing in our opinion to account for the recent setback seen in global equity markets.

Recent economic figures have been a little dissappointing but compared to three years ago the world economy if not in rude health is no longer in the emergency room. Government bond yields around the world, with few exceptions, are close to all time lows, the financial sector has been recapitalised and the euro is no longer considered to be in danger of imminent collapse.

The geopolitical situation remains unsettled but less so than in the middle of summer and there are the worries surrounding the spread of Ebola. There is no doubt that this is a very scary disease with no known cure and mortality rates for those who catch it high, the only consolation for those with it are that these are markedly lower than in previous outbreaks. However the facts don’t suggest there is going to be a global pandemic. The developed world has at long last awoken to the dangers and significant resources are now been mobilised to contain the spread of the disease at its source. The benfits of this will take time to flow through and the number of deaths is likely to increase in the short term. However, we need to put this in context, to date the number of deaths in Western Africa has been conservatively estimated at a little under 5,000 and the number of people in the developed world who have either contracted the disease or died from it a little more than a handful. When one compares this to a global population of 7.2 trillion, and the 165,000 people who died from AIDS last year, this is a nasty but not a major problem.

Whilst the markets have been fixated on these issues they have totally ignored what has been happening to the oil price. Since the middle of June this has fallen by over 25%, with the rate of decline increasing in recent weeks. The economic benefits of this are huge and far outshadow the modest fall in economic growth expectations we have witnesses recently. It is estimated for every $10 fall in the oil price world growth rises by 0.5%. The impact is easy to see as it will put money into everyones pockets but the markets have completely ignored this

Given the above the equity market falls seen in recent weeks, in our opinion, looks vastly overdone and at some stage we expect their to be just as dramatic a recovery. We expect volatility to persist in the short term but with dividend yields comfortably in excess of cash returns investors are being paid handsomely to see through this period of uncertainty.For the brave it is time to invest, for those less so it is not a time to panic.

What have we been doing with our portfolios? In short, very little as experience has shown us that to make precipitate decisions at times like this is often counterproductive. However, we have not being totally inactive, we recently realised profits on the long dated gilt we bought at the beginning of September whose price has spiked up by almost as much as the equity market has fallen.

Our services – why do Financial Advisers & clients use us?

- Our portfolios are managed on an 'individual client' basis, and our minimum is only £15,000
- Our team has a depth of experience and expertise derived from working in some of the City of London's leading investment houses.
- Each Adviser and client has direct access to the Investment Manager who makes the decisions on how the portfolio is managed.
- We have an innovative and highly competitive 'all inclusive' clean fee structure, with a performance linked option. We do not levy additional transaction, compliance or custody charges.
- We have our own ISA, at no additional costs, and we can also manage portfolios within SIPP, SSAS & Bond wrappers (see below)

Online Valuations access

Alan Beaney
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In addition to a new main website, we have also further developed our online valuation system. It now provides a greater level of information on the component parts of portfolios, which can be displayed in a grid, bar and/or pie chart.

Future developments will include a secure messaging service and electronic reporting, and we hope to launch these in early 2015. The former will enable Advisers and clients to send us instructions to withdraw or transfer money and amend standing data, without the need for a written confirmation. The latter will enable us to post half yearly reports as a pdf to this secure site.

We have set up a sample site for you to take a look at these upgrades. Please go to our new website www.rcbim.co.uk and click on the "Online Valuation" tab half way down the Home page for access. You will need to use the following details:

User Name: **modelrcb**
Password: **ModelRCB1**

Product partners list

Robert Clark
Sales & Marketing Director

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Over the past few months we have developed connections with a number of additional SIPP, SSAS and Bond providers, the up to date list is shown below. For those of you who use Offshore Bonds, we can now manage money within the Dublin based Offshore Bonds for both AXA and Canada Life, which has the added client benefit of our fees being VAT exempt.

SIPP / SSAS

- Cabot Trustees
- Curtis Banks
- DA Phillips & Co
- Dentons Pensions
- DP Pensions
- Hartley SAS
- Hornbuckle Mitchell
- Intelligent Money
- IPM SIPP
- IPS Pension Trustees
- James Hay
- Lifetime SIPP Company
- London & Colonial
- LV=
- Pointon York
- Sanlam Investment & Pensions
- SippCentre
- Suffolk Life
- Talbot Muir
- The Company SSAS Ltd
- Tower Pension Trustees
- Xafinity

OFFSHORE BOND

- AXA (IoM & Dublin)
- Canada Life (IoM & Dublin)
- Friends Provident International
- Sanlam Investment & Pensions

ONSHORE BOND

- Sanlam Investment & Pensions

If you use any product providers not listed above, we are happy to establish a link to them.

CONTACT US

- **For more information, or to discuss how we might assist you, please contact:**

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