R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

February 2017

THE WORLD ACCORDING TO GLENN…….

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When investors seek a better understanding of what has moved markets and how to value assets with regard to current expectations, they will often look back in order to analyse similar sets of circumstances from the past. I have tried doing this with regard to Brexit and the election of Donald Trump and also in light of central bankers' acknowledgement that the unorthodox monetary policy experiment we call QE has reached the limits of what can usefully be done. Well, I'll tell you how much value I got from looking back on these things to help guide what to do in the future; nowt, nada, zilch.

Now if that seems rather negative, it ain't necessarily so. The future is always uncertain, there is nothing that we will do differently starting from here and our focus, as always, will be on fundamental analysis and finding good relative value. It crossed my mind that if macro events from the recent past are of no use, why not look for guidance in unconventional areas. Surely if Bob Dylan has been recognised by the Nobel prize committee for his genius in writing song lyrics there must be something in his work to guide us. "Its all over now, baby blue" seems unequivocally downbeat, but then "Don't think twice its alright" is rather more positive, while "The times they are a changin'" is pure equivocation with no indication as to whether change is for good or ill. It would appear that Nobel prize winners, whether they be in literature like Bob Dylan or in economics like Eugene Fama (who won in 2013 jointly with Robert Shiller and Lars Peter Hansen) for work on empirical analysis of asset prices), just aren't going to be of much help in providing a useful guide to "Where are we now" (David Bowie) and "Where do we go from here?" (Martin Luther King – another Nobel laureate).

After giving up on trying to find an edge by getting inspiration from unusual sources I decided instead to stick to my day job and have held meetings with a number of well-respected fund managers (including several whose funds we do not have in client portfolios, such as Ian Lance from RWC and John Stopford from Investec). I've also consulted a few stock market economists, but that proved to be no use at all because for every three people I asked the same question I got five answers (which is one more than usual, but par for the course given the current political uncertainty). The synthesis of these discussions is, however, revealing and, while I don't claim to have discovered the equivalent of the philosopher's stone for investment, I do think I have had reinforced two investment insights which we have learned to put into practice through our many years of experience. These are; firstly, focus on fundamentals –

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- Our portfolios are managed on an 'individual client' basis, with direct access to the Investment Manager making the decisions
- Our minimum portfolio size is only £15,000
- We have a clean, transparent fee structure free from transaction & custody charges (starting from 0.625% for actively managed portfolios)
- We have our own money, and that of relatives, invested in the same strategies as our clients
- We have our own NISA, at no additional cost, and we can manage portfolios within SIPP, SSAS and Bond wrappers
- We are here to support the Adviser with THEIR clients, as we only provide discretionary portfolio management services

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they will help to identify relative value, and secondly, prices tend to change more quickly than underlying values – so use price volatility to increase the quality of your portfolio by selling high to buy low. Of course, in reality, life isn't quite that easy and after a storming run up to a new all-time high for the FTSE 100 at the yearend market multiples look pretty stretched, the dividend pay-out ratio is high, rising inflation is beginning to constrain household spending growth and expected lower than inflation wage rises cannot be offset by monetary stimulus, as that would just add fuel to the inflationary fire. So, what to do? As always, the devil is in the detail. Averages can be very misleading, and while it is true that average market multiples are stretched, many of the overvalued stocks are the so-called bond-proxies, which have been bid up to stratospheric multiples by investors desperate for yield. Most of these stocks are undoubtedly high quality businesses, but as investors we are buying shares and not the business. So, don't fall in love with your investments and if a share trades on too high a rating sell it and buy something cheaper. Also, when we look around we still find attractively valued stocks in hitherto unloved sectors, which will benefit from rising interest rates.

Having mentioned that the FTSE 100 ended the year at an all-time high I am not going to bore you by revisiting the well-worn arguments as to why it got to such a high level. You know full well that it was driven up by a fall in the currency relative to both the Euro and the US dollar. But what may be interesting is to consider what the outlook is for sterling. Currencies are traded to pay for goods and services bought from another country. This international trade is facilitated by banks and a few speculators providing liquidity to counterparties and currency movements reflect the growth in money supply and the balance of international trade. For many years currency trading has been a growing market, but now we are faced with widespread questioning of the value of globalisation to the ordinary working man and woman who have seen their real wages decline while the elite grow rich on asset price inflation. This backlash against global trade and the associated nascent protectionism is beginning to throw up some disturbing parallels with the first half of the twentieth century. Let's hope that collectively we have learned something from history so that we can avoid the beggar my neighbour policies that caused lasting harm in the past. Perhaps we need a new politics and a new economics and a new social contract.

In the meantime, maybe we should take comfort from the Supreme Court ruling that Parliament, not government, is sovereign and that we will be taken out of Europe by an Act of Parliament and not by the exercise of residual prerogative powers. After all we do have a precedent for England being moving away from Europe by the exercise of royal prerogative. And history suggests that the Reformation was not entirely a happy time for the whole of Europe. While all this is happening, from some perspectives, Europe seems intent on self-destruction from the rise of populist parties and in the US President Trump is ruling by executive order, because he hasn't yet got around to appointing a cabinet. So far, among other things, he has pulled out of the Trans Pacific Partnership (possibly opening the door to China to join instead, so beware of unintended consequences), stopped healthcare insurance introduced by Obama, said torture is OK with him and started work on a wall the size of which Pink Floyd could not have imagined back in 1980. His stance on banning refugees has also set the cat amongst the pigeons

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both domestically and abroad. Trump is certainly introducing a different approach to the role of President, one where personality and the force of will, rather than diplomacy, is to the fore and hence I now fully expect Washington to be renamed Trumpton and for cabinet appointments to be made for Pugh,Pugh, Barney McGrew, Cuthbert Dibble and Grubb.

By comparison with politics, investment is simple and while politics and macro factors influence markets of more importance is whether corporate earnings forecasts are rising. Stock picking rather than the return on the market as a whole is likely to be a key driver of returns for both our directly invested UK equity portfolios and for those invested through third party funds (where we are favouring managers with a good long term record in stock picking). With reflationary policies to the fore in many major economies we are reasonably upbeat on the outlook for long term investment returns. There may well be periods of volatility, but we will aim to use these to our clients' advantage. Last year we protected capital in the face of uncertainty and heightened market volatility and delivered good real returns for clients across all our strategies. 2016 was a tough year and 2017 will, no doubt, throw up some unexpected curve balls for us to deal with. As always, we will endeavour to keep things simple, not be swayed by all the geopolitical and macroeconomic developments (which make for great topics of conversation over a beer after work) and just focus on delivering reasonable levels of real return with lower than average volatility.

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Private Client portfolio past performance data
As at end December 2016
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	5 Years
Cautious	**Managed Funds**	**2.02%**	**7.50%**	**19.46%**	**51.59%**
	Direct	**2.72%**	**11.38%**	**22.25%**	**54.00%**
	**WMA Conservative*	*0.67%*	*12.93%*	*26.01%*	*39.70%*
Cautious Balanced	**Managed Funds**	**3.21%**	**9.10%**	**21.37%**	**61.50%**
	Direct	**3.56%**	**14.84%**	**23.89%**	**62.14%**
	**WMA Income*	*1.82%*	*14.87%*	*26.44%*	*49.95%*
Balanced	**Managed Funds**	**3.96%**	**12.05%**	**22.95%**	**64.69%**
	Direct	**4.82%**	**16.72%**	**26.66%**	**68.69%**
	**WMA Balanced*	*3.01%*	*17.15%*	*29.01%*	*60.64%*
Balanced Growth	**Managed Funds**	**4.45%**	**12.27%**	**24.15%**	**70.97%**
	Direct	**4.69%**	**16.78%**	**25.52%**	**74.50%**
	**WMA Balanced*	*3.01%*	*17.15%*	*29.01%*	*60.64%*
Growth	**Managed Funds**	**4.71%**	**12.07%**	**23.53%**	**72.83%**
	Direct	**4.93%**	**18.15%**	**25.11%**	**69.92%**
	**WMA Growth*	*4.07%*	*19.19%*	*30.68%*	*68.15%*

Market data	3mths	12mths	3 Years	5 Years
ARC £ Balanced	*1.94%*	*9.63%*	*18.97%*	*42.69%*
ARC £ Steady Growth	*2.96%*	*13.09%*	*23.37%*	*53.99%*
ARC £ Equity Risk	*4.06%*	*15.90%*	*25.47%*	*63.51%*

ARC (Asset Risk Consultants) are an industry provider of research and peer group portfolio performance reporting. ARC returns have been adjusted to a "before fees" basis

(After all underlying fund charges, but before RCBIM fees, * the benchmark is the relevant corresponding WMA Total Return)

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WELCOME TO NEIL WHELAN

We have recently expanded our Investment Team by recruiting Neil Whelan. Neil, a longstanding friend and former colleague of Alan Beaney, has 15 years' experience having previously worked as an Investment Director for both Ashcourt Rowan and Principal Investment Management.

When asked what attracted him to R C Brown, Neil replied *"We place a strong emphasis on providing an excellent investment service to our clients. Our investment in technology is a key element of this, enabling us to constantly monitor client portfolios to ensure they are ideally positioned based on our current investment outlook and quickly implement any changes in approach which we feel may be beneficial."*

Outside of work Neil is a keen cyclist and can often be seen on the canal towpaths between Bristol & Bath with his young family.