MARKET COMMENTARY NEWSLETTER

Q1 2018

R.C. BROWN
Investment Management Plc

THE WORLD ACCORDING TO GLENN……….

CONTENTS

P1 – The World According to Glenn

P2 – How have we performed?

P3 - GDPR

P4 – Product Provider Partners

Glenn Meyer
Head of Managed Funds
glenn.meyer@rcbim.co.uk

In the run up to producing this newsletter I confess that I have been somewhat pre-occupied by the greatest fear of Harold MacMillan ("Events dear boy, events"). Trying to make sense of the events of the last few weeks has been a useful exercise and I feel it would be remiss of me to let the recent volatility in global stock markets pass without comment. So here goes.

After an extended period of low volatility, a combination of greed and stupidity conspired to allow innovative investment bankers to produce highly geared derivative products that allowed "investors" to profit by trading very small movements in the CBOE Volatility Index (VIX). Although these were notionally designed as risk management tools, for some time good money was to be made by betting volatility would fall further from the already low levels. The gearing of some of these now notorious exchange traded notes allowed a few speculators the promise of obscene wealth to be earned from tiny movements in the index and lured some greedy fools into making bets they couldn't afford to lose.

Then, just days prior to Jerome Powell taking over as chair of the Federal Reserve, the US released data that showed salaries were growing faster than inflation and ahead of expectations. In some quarters I imagine there was great rejoicing; after all American workers hadn't seen real wage growth for yonks and rising incomes would sustain consumer spending and help drive up corporate profits. However, not all was well with those who had used ETNs to bet on low market volatility continuing, because as market volatility rose in response to increased expectations of an early rise in US interest rates to offset the inflationary effects of higher wages, they were forced to scramble out of positions at big losses. In a classic tale of the tail wagging the dog, the increase in volatility caused the dragon that is algorithmic trading to awake and burn us all with its fiery breath. Algo the dragon sold big time and kept selling anything that moved until it looked like the desolation of Smaug was being acted out on stock markets around the world. In truth it wasn't long before rational market forces took over and buyers picked up stocks where the price had fallen sharply but the intrinsic value hadn't, but the threat to market stability from Algos is real and we just felt the heat.

Although stability was soon re-established, markets remain twitchy and are watching the Fed with hawk like intensity. Jerome Powell supposedly has similar views to Janet Yellen on the need to be gradual in reducing the size of the Fed's balance sheet and raising interest rates, however only a day or so into his new job he was untested when markets cracked and some pundits feared that he may be spooked into raising short term rates in an attempt to stamp on a nascent inflationary threat. A second test came when US inflation figures for January failed to fall back from 2.1%.

Any rise in short term rates that cause the US yield curve to slope downwards

R.C. BROWN
investment management plc

Private Client portfolio past performance data
As at end December 2017
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	5 Years
Cautious	**Managed Funds**	**3.17%**	**9.60%**	**23.80%**	**50.57%**
	Direct	**2.36%**	**7.93%**	**22.77%**	**48.74%**
	**FTSE Private Investor Conservative*	2.98%	6.45%	22.55%	41.00%
Cautious Balanced	**Managed Funds**	**3.82%**	**11.97%**	**29.02%**	**62.04%**
	Direct	**3.07%**	**10.78%**	**30.05%**	**61.52%**
	FTSE Private Investor Income	3.56%	8.50%	27.37%	50.93%
Balanced	**Managed Funds**	**4.22%**	**13.47%**	**34.60%**	**66.67%**
	Direct	**3.44%**	**12.38%**	**35.88%**	**70.91%**
	**FTSE Private Investor Balanced*	3.86%	9.65%	31.93%	61.44%
Balanced Growth	**Managed Funds**	**4.52%**	**14.69%**	**37.56%**	**74.66%**
	Direct	**3.57%**	**12.82%**	**36.34%**	**71.00%**
	**FTSE Private Investor Balanced*	3.86%	9.65%	31.93%	61.44%
Growth	**Managed Funds**	**4.74%**	**15.62%**	**40.83%**	**76.95%**
	Direct	**3.70%**	**13.29%**	**37.54%**	**72.89%**
	**FTSE Private Investor Growth*	4.35%	11.38%	36.70%	70.29%
Market data					
ARC £ Balanced		2.66%	7.87%	21.67%	41.57%
ARC £ Steady Growth		3.67%	10.91%	28.96%	54.77%
ARC £ Equity Risk		4.48%	13.26%	33.99%	65.00%

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 FTSE Private Investor Total Return)

This document is for general information only and is a representative sample of our client base, across all risk profiles as defined by RCBIM. It does not take into account the specific objectives, circumstances or needs of any individual. It is not a personal recommendation and should not be regarded as a solicitation or an offer to buy or sell any of the investments or services referred to. The views expressed are opinions only and are subject to change without notice. RCBIM cannot guarantee the accuracy or completeness of any information on which its opinions are based. Past performance is not a reliable guide to the future. The value of investments and the income from them can go down as well as up and investors may not get back the amounts originally invested.

THE WORLD ACCORDING TO GLENN CONTINUED………

will be taken as a signal for a forthcoming recession. But, in our view this isn't likely to happen any time soon. There is a fairly strong synchronised global economic recovery underway, but instead of tightening monetary policy to contain inflationary pressure the US has just started a major pro-cyclical spending plan, which sort of rules out a US recession in the short term. Also, to have monetary and fiscal policy working against each other at the same time would be, to use a technical term, bonkers. If Powell wants to trump Trump and put a squeeze on inflation, he is going to have to be prepared to raise US interest rates a long, long way. And we just don't see that happening. The Bank for International Settlements says that cheap money has led to a boom in borrowing such that the debt/GDP ratio is up 40% on a decade ago. The increase is mostly in government debt, but corporates have also borrowed heavily so, in our view, upward pressure on the dollar would make US exports very uncompetitive and high interest rates would make debt servicing costs uncomfortable for the government and unsustainable for many US corporates. All eyes are on America to give a lead on how to (or not to) create a policy solution to deal with increasing inflation without squeezing the life out of economic growth.

On the face of it this analysis doesn't make a compelling case for equity investment and while I agree that market valuations are high, on a relative basis good value can still be found in carefully selected stocks. Importantly, only equities can give the protection against inflation that long term investors need (in our opinion index linked gilts still do not offer good value to most investors, but remain a great tool for those who have to indulge in the art of liability matching). If rates rise, as indeed at some time they inevitably will, from the perspective of a UK investor there are still some bright spots on the horizon. Regulatory action following the global financial crisis ten years ago has left our banks and financial institutions much stronger than they were and, although there remain some uncertainties around Brexit, bottom up stock picking still turns up some pockets of good value. And while the Bank of England is still talking of future interest rate rises, we think these will be modest in relation to previous cycles. In the UK CPI inflation remained constant at 3% in January and, although it didn't fall back as expected from December's high, inflation is likely to fall later in the year as the anniversary of energy and raw materials price rises pass.

For now, we continue to favour equities over bonds and expect some style rotation in markets to favour relative value and GARP (growth at a reasonable price) type stocks over bond proxies. If a rise in interest rates means that money ceases to be what

defaqto 2017 DFM Bespoke

defaqto 2017 DFM MPS Direct

MARKET COMMENTARY NEWSLETTER

Q1 2018

THE WORLD ACCORDING TO GLENN CONTINUED……..

is essentially a free good, we will look carefully at the dynamic relationship between asset classes. If the risk free rate (the yield on short dated gilts) should once again allow us to consider using the equity risk premium as a means of assessing expected equity returns relative to bonds, we will consider beginning a gradual increase in our capital allocation to gilts and fixed income when we believe that clients will be paid a sufficiently high interest yield relative to equities. In other words, we will return to doing things the way we used to before QE turned the world of investment topsy-turvy, but we will only start doing this when conditions support such a move. For the record, we don't believe this change is imminent, but ongoing uncertainty over the interdependence of economic growth, inflation and interest rates we take as a constant and will continue to steer a path that provides the reasonable hope of earning an acceptable return for the amount of risk taken.

It would appear from recent trading that markets may be entering a period of constant change brought about by fears of rising volatility, increased inflation and higher interest rates. But, should I ever be inclined to panic by this state of flux I will remind myself that change can bring opportunity by reciting out loud the mantra of the guy who once tried to teach me to water ski. When the towrope yet again slipped through my cold wet hands, in the knowledge that change would come and one day I would be able to ski, he would sagely intone, "For flux sake, get a grip!"

GDPR – what does it mean for you?

The internet is awash with comment and reminders about the General Data Protection Regulation (GDPR) that comes into force on 25th May 2018. We have found the DMA (Direct Marketing Association) website to contain helpful advice.
https://dma.org.uk/gdpr

We take privacy seriously; any email addresses that we hold are stored securely and will only be used to send you R C Brown news and research, which is free of charge. We do not pass on your contact information to any third parties.

We'd like to take this opportunity to remind you that you can request to be removed from future updates, at any time. You have received this newsletter in your capacity as a regulated financial professional.

About the DMA

The DMA provides guidance and support to help its members put their customers at the heart of their one-to-one communications to give them the rich benefits of a much more relevant, welcomed and effective relationship with each individual customer.

The DMA aspires to facilitate its members' marketing evolution with the opportunities, advice, support, networks and tools to be able to reach the sensitivity and sophistication of marketing to build their future prosperity – along with the success of the industry as a whole.

https://dma.org.uk/research/customer-engagement-how-to-win-trust-and-loyalty

www.dma.org.uk

Contact Details:

RC Brown Investment Management PLC

HEAD OFFICE:
(All correspondence)
1 The Square
Temple Quay
Bristol
BS1 6DG

T: 0117 925 6073
E: enquiries@rcbim.co.uk
W: www.rcbim.co.uk

SOUTH EAST OFFICE:
(Meetings by appointment only)
The Officers' Mess
Coldstream Road
Caterham
CR3 5QX

Product Provider Partners

We regularly get asked which ISA / SIPP / Bond providers we can manage portfolios with, so here is the current list:

ISA - we operate our own ISA (at no extra cost to the client) and can auto-ISA each year, with the client's permission

SIPP/SSAS - we have agreements in place with the following firms, if you use someone else, then we are happy to discuss setting up an agreement with them also:

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

Bonds - we have agreements in place with the following firms, if you use someone else, then we are happy to discuss setting up an agreement with them also:

AXA (IoM & Dublin)	Sanlam Investment & Pensions
Canada Life (IoM & Dublin)	