MARKET COMMENTARY NEWSLETTER

Autumn 2016

THE WORLD ACCORDING TO GLENN…….

MORE AWARDS FOR R C BROWN

In addition to our Defaqto 5 star award earlier in the year, we are delighted to have had further recognition of our portfolio management skills:

Best Discretionary Fund Management Company -UK 2016

Discretionary Fund Management Firm of the Year-UK 2016

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On the basis that confession is good for the soul I'm going to start by humbly admitting that recently we might have got some things wrong. I'm truly sorry for this and in an act of contrition I will attempt to emulate the acolytes of the god of "short term performance". To do this I will promise to purge myself of all concerns about risk and reward and valuation metrics and instead buy shedloads of gold with no yield, add in some low yield long dated bonds with massively inflated duration risk and high multiple equities with low dividend cover. But I will only do this if you tell me that what you want for your clients is massive volatility and a cavalier approach to protecting their capital. Otherwise we will stick to building well diversified portfolios that aim to deliver a long term return greater than inflation, lower than average volatility and a reasonable assessment of downside risk.

So before you all rush off to write to instruct me to take the high risk approach let's look at what worked well for clients. Firstly, it is worth pointing out that across all strategies client portfolios have grown by more than UK inflation but have lagged benchmarks. This lag is mainly because in the last year we remained invested when markets panicked over the slowdown in Chinese growth (something we had already identified) and, because equities are relatively attractive compared to bonds, we retained a high exposure to UK equities over the period around June's referendum.

Three months on from the referendum it is not surprising that Brexit (whatever that means) has dominated UK investor sentiment. We believe that we are now in the early stages of what are likely to be protracted negotiations on the terms of Britain leaving the EU following which there will be up to two years before we cast off and set sail alone. During this period there will undoubtedly be various crises of confidence and periods of market volatility, but we also believe that the fall in the value of sterling has conferred a very real advantage on the UK economy from which export led businesses will gain a lasting benefit. Our job will be to ensure that your clients benefit from this without taking inappropriate risks. On this point and with, at one stage recently, more than $14tn of government debt trading at a levels that guaranteed the holders a loss if the bonds are held to redemption it may be worthwhile considering what we mean by investment risk. There is a substantial body of academic research into the measurement and managing of risk, but this is not the place to indulge in a review of the literature on the topic so I will simply say that we define risk as being "the chance of suffering a permanent loss of capital". The phrase is quite simple and is seemingly read-

WHY ADVISERS & CLIENTS TRUST US

- 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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ily understandable but perhaps it may be useful to unpick some of the implications of what this means for the way we manage your money. As long term investors we accept that price volatility is normal, it may ebb and flow but it does not permanently destroy value. We try to make a friend of volatility by adding to investments that have performed relatively badly but where the fundamentals haven't changed. However, volatility may work against you if you need to raise cash in the short term. Because bonds have predictable returns they have traditionally been used to reduce volatility in a portfolio while earning an attractive fixed income. To many people this predictable return path makes bonds a lower risk asset class than equity type investments, where both the price and the income are variable. But in a world where central bank policy has pushed bond yields down to levels where investors are guaranteed to make a loss if they don't sell out to a greater fool, we think it is tosh to regard bonds as low risk. We have held this view for many years now but consideration of our definition of risk ensures that we will always prioritise the protection of capital over the long term and we will never be comfortable holding an asset that is guaranteed to make a loss. It is important to understand that this approach may lead to increased levels of volatility in client portfolio when interest rates around the world begin to normalise, we don't expect a major upward move in rates in the near future but there appears to be growing acceptance that QE has not delivered the levels of sustainable growth that had been hoped for and there may now be a shift to using fiscal policy to raise taxes to invest in infrastructure projects as a means of raising aggregate demand and productivity.

Our strategy of selling relative outperformers and adding to relative under performers has been maintained throughout the period of high market volatility. In this way we took additional profit from highly valued North American equities and reinvested by adding to equities in Europe, Japan, the Far East and global emerging markets. Having observed that the flow of new money into commercial property funds had diminished greatly we reduced exposure to property ahead of a number of funds being closed to redemptions in the summer. These funds are now being reopened to daily trading after their managers sold buildings to raise liquidity in their funds. On balance we now regard investment in commercial property as being more attractive once the frustrated sellers have been able to sell and we certainly regard the yield on property as being more attractive than that from short dated high duration bonds, where the sensitivity to an interest rate change appears massively high.
Relative to other asset classes equities continue to appear attractive but we are also very aware that in absolute terms valuation multiples are high, making individual stocks vulnerable to bad news. We believe that by maintaining a well diversified portfolio across geography, industry sectors and by company size this specific risk is greatly reduced, allowing portfolios to continue to benefit from upward market moves without taking increased levels of risk.

Looking forward is always difficult but inevitably there are things on the horizon that may cause investors to run scared and to upset markets. However, while it is rational to fear the unknown cold hard logic should help us to weigh up the risks and potential rewards of any course of action. In the coming months Britain will begin in earnest to negotiate the terms on which we leave the EU, America is to vote for a new president, the US fed may increase interest rates again,

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the Chinese economy may suffer a hard landing, Italy is to revise its constitution, a number of EU countries have elections, the refugee crisis will get worse, state sponsored cyber attacks look likely to increase and the proxy war between the US and it's allies and Russia, which is being played out in Syria may flare up into further ground skirmishes. All of this looks negative or downright frightening but it doesn't mean that we should all head for the hills and hide in a cave. Any one of these events may result in increased market volatility but given what I wrote earlier about risk being the chance of suffering a permanent loss of capital there is little in this list that should cause real fear for a long term investor. The one concern that would impact long term capital values would be a rapid return to a "normal" interest environment. This would hit bond markets first and hardest, but as we already have the minimum bond exposure we can take the impact on our portfolios would be mitigated. A rapid rise in interest rates would also hit equity markets, but on any objective measures that we can apply we do not see interest rates rising other than in a slow and very measured way (particularly outside of the US), because the hit to expectations for economic growth would be too great. We can envisage a shift from monetary policy to fiscal policy as governments preferred lever for stimulating economies around the world, but such a shift into infrastructure spending for example may deliver a reasonably well targeted boost to areas of the economy which would benefit most from the consequent efficiency gains. Whether or not such a policy shift happens soon we remain firm in our belief that dividend growth is likely to be the most important driver of investment returns in the near future. Sterling is expected to remain weak relative to the US$ and so, although US equities are expensive by historical standards, we are likely to maintain a reasonable exposure to the US market. In selecting funds, we are favouring those managers that are reducing exposure to highly rated bond proxies and who are adding to relatively attractively valued domestic plays with good earnings growth potential and a progressive dividend policy. Commercial property also may look more attractive if funds can be bought at good rental yields on the underlying portfolios and where the risk of sentiment driven redemptions has passed.

R.C. BROWN
investment management plc

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

Risk category		3mths	12mths	3 Years	4 Years	5 Years
Cautious	Managed Funds	6.17%	8.42%	21.87%	37.86%	55.81%
	Direct	5.78%	10.45%	22.33%	38.13%	55.15%
	*WMA Conservative	4.35%	13.54%	26.83%	32.64%	46.05%
Cautious Balanced	Managed Funds	6.91%	9.86%	23.28%	43.90%	63.90%
	Direct	7.18%	14.42%	24.38%	44.89%	63.99%
	*WMA Income	5.34%	15.60%	27.44%	38.98%	56.49%
Balanced	Managed Funds	8.07%	12.89%	24.41%	45.30%	66.56%
	Direct	7.90%	16.02%	26.46%	49.53%	68.45%
	*WMA Balanced	6.07%	18.01%	29.80%	46.04%	65.98%
Balanced Growth	Managed Funds	8.94%	13.13%	25.54%	49.97%	71.79%
	Direct	8.53%	16.15%	25.85%	50.25%	75.41%
	*WMA Balanced	6.07%	18.01%	29.80%	46.04%	65.98%
Growth	Managed Funds	8.66%	12.99%	25.03%	51.07%	73.35%
	Direct	8.83%	17.70%	25.11%	50.11%	69.58%
	*WMA Growth	6.87%	19.98%	31.06%	50.59%	72.53%
Market data						
	ARC £ Balanced	5.10%	10.95%	20.00%	30.90%	44.60%
	ARC £ Steady Growth	6.54%	14.48%	24.05%	38.73%	55.75%
	ARC £ Equity Risk	7.67%	17.21%	26.31%	45.39%	66.18%

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)

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.

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IT'S OUR EXPERIENCE THAT COUNTS.

R C Brown Investment Management is a multi award winning firm, owned and managed by an experienced team of successful City fund managers who, having managed large funds for financial institutions to good effect, have built a business that opens up the potential for individuals, charities and pension funds to have their long term investments run in a rigorous, well diversified and risk aware manner.

Our skills in asset allocation, stock selection, and portfolio construction are focused on building well diversified portfolios where a careful watch is always kept on managing the downside risk, and have been recognised with several industry awards. We are supported by a high quality administration team and everyone takes pride in ensuring all our clients get the high levels of client service we would expect to receive from a professional investment manager.

We have been told that people come to us because we are approachable, with no hard sell and no jargon. Clients appreciate the ability to speak directly to their named investment manager whenever they wish and they like our transparent fee scales, which have no hidden charges for things such as dealing, custody, compliance or reporting. When people become clients they appreciate the friendly personal service and a good number of clients have been sufficiently pleased by the service they receive and the good performance of their investment funds that they have recommended us to friends and family.

When you join R C Brown you know that we will care for your money as well as we care for our own, as each of our investment managers and a high proportion of other members of the team have portfolios run alongside our clients' investments.

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