MARKET COMMENTARY NEWSLETTER

Autumn 2017

THE WORLD ACCORDING TO GLENN……….

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Over the course of the summer, two things happened that influenced the way I look at the world. The first was a realisation that economists are struggling more than I had previously thought to properly explain the world as it is. This insight came from reading a collection of essays written by academic economists on the economic effects of growing global inequality. Much of this was fairly dry technical stuff. And the irony wasn't lost on me that when I was reading this erudite tome on my sun lounger, overlooking the blue waters of the Ionian Sea, if I needed a reward for wrestling with the algebra used by someone such as Branko Milanovic to model the impact of growing inequality on long term economic growth, all I needed to do was wave my hand and a man in a white jacket would bring me another beer to cool my overheated brain.

Eventually it struck me that, in much the same way as the law has not kept up with the development of the internet and is essentially attempting to decide twenty-first century disputes with twentieth century legislation, that economists are attempting to explain globalisation by reference to an eighteenth century mercantilist model (albeit one that was radically altered by Smith, Marx and Keynes and later the Chicago School) and so I think we are in need of a new paradigm. Until politicians are able to apply the lessons of such new economics monopolistic sellers and monopsonistic buyers are likely to take an ever-greater share of a declining market (which means that stock markets can still rise and the piercing of the asset price bubble may be deferred, so it's all right then for those of us with capital, for now).

The other thing, I put down to either too much beer when sorting out inequality, or altitude sickness when climbing Mount Etna the hard way. Like the incomplete plot of a draft dystopian novel, the idea is to capture elements of the comedy of "Catch 22", the bleak political landscape of "1984" and the satire of "Dr Strangelove or: how I learned to stop worrying and love the bomb". It tells the tale of three fair haired ambitious politicians, one American, one British and one Russian, who individually are desperate to make a power grab and find they have overextended themselves by having to fight real or metaphorical battles on many fronts.

Their nemesis is a brunette, who as a kid was bullied at school because of a bad hair do and turned into an uncontrollable megalomaniac with a desire to fight back. But wait, that's not satire, it's basically a description of where we are now; which is, SNAFU (to borrow a phrase from the US military). It's a fine state of things when reality is more off the wall than my wildest imaginings and, as I'm not (yet) ready to enhance my writing by adopting the opioid amended reality of both Samuel Taylor Coleridge and much of

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R.C. BROWN
investment management plc

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

Risk category		3mths	12mths	3 Years	5 Years
Cautious	**Managed Funds**	**1.08%**	**8.37%**	**24.01%**	**49.40%**
	Direct	**0.81%**	**7.96%**	**23.35%**	**49.12%**
	**FTSE Private Investor Conservative*	*0.70%*	*4.06%*	*23.68%*	*40.74%*
Cautious Balanced	**Managed Funds**	**1.44%**	**11.32%**	**27.93%**	**60.19%**
	Direct	**1.39%**	**11.31%**	**29.29%**	**61.27%**
	FTSE Private Investor Income	*1.13%*	*6.67%*	*26.99%*	*48.26%*
Balanced	**Managed Funds**	**1.74%**	**13.18%**	**32.47%**	**64.44%**
	Direct	**1.61%**	**13.88%**	**34.29%**	**70.29%**
	**FTSE Private Investor Balanced*	*1.34%*	*8.76%*	*30.77%*	*58.82%*
Balanced Growth	**Managed Funds**	**1.94%**	**14.62%**	**34.42%**	**71.89%**
	Direct	**1.63%**	**13.96%**	**33.91%**	**71.22%**
	**FTSE Private Investor Balanced*	*1.34%*	*8.76%*	*30.77%*	*58.82%*
Growth	**Managed Funds**	**2.06%**	**15.37%**	**34.57%**	**74.31%**
	Direct	**1.78%**	**14.69%**	**34.84%**	**72.16%**
	**FTSE Private Investor Growth*	*1.73%*	*11.08%*	*34.42%*	*67.28%*
Market data					
	ARC £ Balanced	*1.23%*	*7.46%*	*21.45%*	*38.03%*
	ARC £ Steady Growth	*1.53%*	*9.93%*	*27.82%*	*52.69%*
	ARC £ Equity Risk	*1.73%*	*11.83%*	*31.40%*	*62.28%*

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)

THE WORLD ACCORDING TO GLENN CONTINUED………

modern blue collar America, I'm going to have to keep my feet firmly on the ground and write about markets.

By and large stock markets have taken economic, political and even existential factors (if we include the potential for a nuclear strike by North Korea), pretty much in their stride over the last six months. Perhaps we're wrong but this could be interpreted as evidence that collectively market participants have decided that some problems are too big to deal with in the short term and so they have not sought, for example, to model Britain's relationship with Europe post May 2019. Instead they have focused on simpler issues, such as finding companies that are able to grow both profits and dividends. If this view is correct and investors have indeed been more focused on bottom up fundamentals then the market has moved closer to our way of thinking, which has been beneficial to the relative return on our clients' portfolios. Indeed, our focus on seeking good relative value and the ability to pay growing dividends from internally generated cashflow has been the biggest contributor to our total return, ahead of the return from asset allocation.

Income producing assets around the globe have become highly valued by investors and some commentators believe that one of the effects of QE has been to put the valuations of these assets at risk of a major correction when interest rates begin to normalise. Our view is slightly more nuanced than this and, whilst we have long argued that interest rates will have to move back up to normal levels when the effects of QE are unwound, we believe a rapid return to normal interest rates is unlikely because in some parts of the global economy the threat of deflation (rather than the expected return of inflation as a result of monetary expansion) remains an issue.

Also, although unemployment is now very low in many developed economies, salaries are not rising as expected and neither is productivity. Finally, government and personal debt levels remain high which leads us to the view that it would be counter productive to raise interest rates quickly as it would drive many debtors into defaulting on their loans. As a result we continue to believe that income from dividends remains an important part of the total return on an equity investment, particularly where those dividends are growing.

The fall in the value of sterling coupled with a rise in the US equity market gave us the opportunity to take profits from overvalued large cap US equities and to modestly increase exposure to high quality small and mid cap stocks, which are expected to perform better than they have recently when interest rates rise. In Europe, the combination of weak sterling and an improving economic outlook helped to deliver good returns for UK based investors.

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THE WORLD ACCORDING TO GLENN CONTINUED……..

Japan continues to have attractive valuations and many companies are lowly rated in relation to their profits and dividend growth expectations. The expectation that Prime Minister Abe may call a snap election at the end of October attracted some foreign investors back into the Japanese equity market in recognition that the current economic stimulus package may continue while other parts of the world begin to reduce theirs. This has seen the market index rise to a high level, but an index is just a number and valuations remain attractive against their long-term history. While we do not expect Japan to be the biggest contributor to our portfolios, the growing dividends from Japanese companies with strong balance sheets and growing profits streams suggest we will get a good return while waiting for multiples to rise, reflecting ongoing structural changes in the economy.

Other Far East and emerging markets have also held up well in the last six months and while global economic growth forecasts remain favourable we plan to maintain our exposure to these areas. When sterling fell, large cap UK exporters did well and we took some profit, however, more recently we have added back some exposure to large caps by topping up holdings in the L&G FTSE 100 tracker fund.

The simple view on bonds is that as interest rates rise bond prices will fall. However, bond markets are anything but simple. The ongoing trend of rising economic growth is likely to result in a gradual withdrawal of economic stimulus throughout the major economies of the world (except Japan) and this is expected to result in very gradual interest rate rises.

This will not be a good environment for bond markets and we expect to maintain our asset allocation to bonds near to the bottom of the range we can have for each of our five strategies. Also, we have marginally reduced the interest rate sensitivity of our bond holdings, by holding a greater proportion of shorter dated corporate bonds and added marginally to our position in US Treasury bonds in order to benefit from the yield pick up relative to UK gilts. Looking ahead, we believe that the return on bonds is likely to come almost entirely from income and the capital return could well be negative as interest rates rise. However, because of the frequent coupons paid on most bonds it is unlikely that the total return will be negative on a short duration portfolio. For this reason we are likely to maintain a fairly short dated bond exposure for some time yet.

On September 20th Catherine Mann, the chief economist of the OECD, gave a presentation outlining her organisation's economic outlook. In brief, the positives were that; short term positive momentum has become more broad based, growth has been greater than expected in the Euro area and the upturn is now synchronised across the major economies. While the negatives were; more investment is needed to sustain the recovery, inflation remains low and wages have not picked up and stronger economic growth in emerging markets depends on deeper reform.

This analysis appears to us to be broadly positive for equity investors and even the negative points are indicators of how current growth can be made stronger and last longer, rather than a warning that growth is about to collapse. Equity markets have undoubtedly risen a long way and in some cases, such as the US, valuation multiples are extended. However markets elsewhere such as Japan and Europe remain cheap against their long term valuation history. The UK and European markets are difficult to call because political factors are likely to have a significant effect on investor confidence. However, economic growth remains good (and is improving in Europe) and many companies are attractively valued in markets that have risen considerably.

To sum up, our "steady as she goes" strategy has helped us navigate safely between the Scylla of co-ordinated withdrawal of monetary stimulus and the Charybdis of global political uncertainty. We are pleased to have delivered another six-month period where performance was greater than that of the relevant benchmark for each of our strategies. Rest assured we will continue to work hard to maintain the good performance.

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Product Provider Partners

We regularly get asked with 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
- 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
- Suffolk Life
- Talbot & Muir
- The Company SSAS Ltd
- Tower 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)
- Canada Life (IoM & Dublin)
- Sanlam Investment & Pensions

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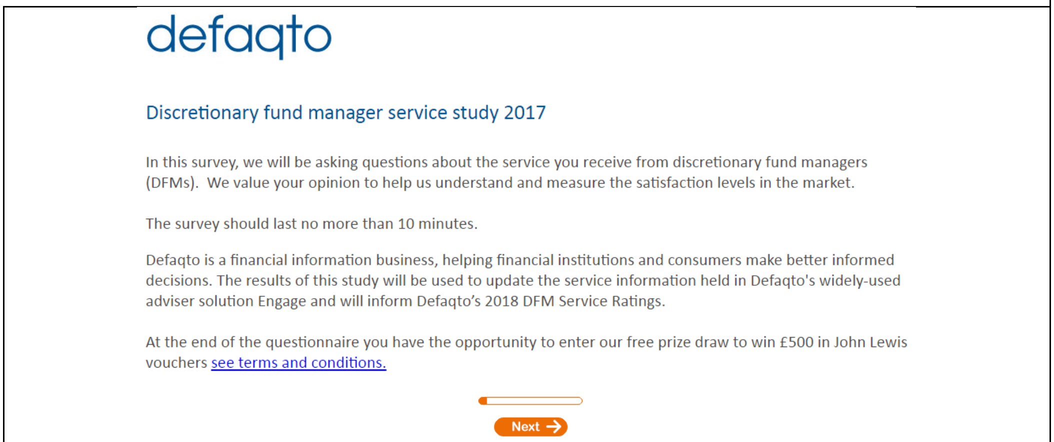
We are always keen to know how we measure up against the competition, and are pleased to be participating again in this year's Defaqto DFM Service Study. All we ask is that you click on the link below and complete the study, which won't take any longer than 10 minutes, and you can rate all of the DFMs that you use in the one visit.

Thank you for your support

https://www.snapsurveys.com/wh/s.asp?k=150529706341&Provider=47



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