R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

February 2016

IT'S AWARDS SEASON

We are extremely proud to have won a number of awards over the past 12 months, the latest of which is a **5 star rating from Defaqto**

THE WORLD ACCORDING TO GLENN…….

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HEAD OF MANAGED FUNDS

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In the downtime between Christmas and the New Year I fell to thinking about the function of markets (in the broader sense of what purpose they serve rather than how they work, although I also concluded that a certain level of predictability, within a wide range, is central to how they work). And after sampling a glass or two of the tasty craft beer that secret Santa brought to the office for me I began asking what I considered to be a series of profound questions. Now it may have been the full on impact of a beer of somewhat greater strength than I'm used to, but when I asked these questions I was given short shrift by all and sundry and not one of my friends or family felt up to debating this issue.

Saddened by this apparent indifference I set about distilling the essence of my musings into just one question. I determined to frame this question carefully and came up with; "In a system where price is central to the allocation of capital, are markets able to work efficiently when money is essentially a free good?" (Answers on a postcard please, because I'm really struggling with this) I have written before about how Schumpeter's concept of creative destruction doesn't always work when applied to capital markets, because when interest rates are at the zero bound there is little incentive for companies to restructure as the cost of debt service is very low. Thus a dying company can't be put out of its misery, banks can't get a decent return on their lending and debt capital can't be recycled into profitable loans to growing businesses. What's worse is that the perception that the UK economy would see a rate rise in the first half of 2016 has been blown out of the water by Mark Carney's most recent musing on forward guidance.

OK so that's the debt market written off, what about equity markets? The problem here may be summed up quite simply; if I can't value bonds because they have become return free risks, how do I go about setting the equity risk premium? The answer, I suppose, could lie in looking at the intrinsic value of the enterprise in which we are considering investing. However, cheap money and plenty of it as a result of QE, has pushed up the price of equities and led many people to believe we are in the middle of an asset price bubble which now appears to be rapidly deflating on the back of falling oil prices. Well that may or may not be true but do not fall into the trap of confusing price with value I tell myself and I have resolved to follow the investment advice of Oscar Wilde who quite clearly stated in his investment treatise Lady Windermere's Fan, "a cynic is a man who knows the price of everything but the value of nothing" Now I'm quite a fan of Lady Windermere, OK so she may not be as good as Lady Gaga and she hasn't had a hit for longer than Lady Marmalade, but

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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there's a golden nugget in that aphorism and I believe the answer to the value conundrum lies in dividends. And dividend yield really does seem to be the way to value equities if we are to look at the market as a long term weighing machine (Ben Graham). After the knife has been taken to dividend forecasts UK equities are now yielding around 4%. In an uncertain world with inflation close to zero and the prospect of a rate rise from the Bank of England receding rapidly, the relative certainty of a 4% yield seems to me to be pretty attractive.

It may also be worth noting that although we are probably late in the market cycle (no one will know how close until the cycle turns) and forecasts suggest a slowdown in economic growth, a recession is unlikely anytime soon. The prophets of doom who shout "woe is me, sell everything" are, I contend, mistaken. Another financial crisis is unlikely to happen after the banking system internationally was only recently recapitalised and there seems to be no general shortage of liquidity. But it has to be acknowledged that since the turn of the year markets have been focused on the perceived implications of a slowdown in China. This and the politics of oil production (which have led to oil producers selling quoted assets to cover the shortfall in expected oil revenues) are causing real problems for some economies but, importantly, not all. Consumers of energy and industrial minerals have effectively just received a pay rise. Don't be lured into saving this when there is no return on savings, invest some for the long term in risk assets and go out and spend the rest. If you like, follow the mantra of George Best and spend a lot of money on booze, birds and fast cars. The rest you can just squander. In this way you will be doing your economy the power of good by helping to avoid the risks inherent in the "Paradox of Thrift" as postulated by Keynes and if you still need something to help you go out and celebrate the good fortune of a buying opportunity remember that in the absence of a recession bear markets tend to be shallow and short lived, so buy now while stock last. Please!

For the benefit of clients the synthesis of my rambling thoughts on markets in the light of recent volatility were put into a letter the body of which I repeat here as it sets out what we have done in their portfolios. I hope you find it useful.

I am sure you are aware from media reports that world stock markets have suffered a torrid start to the year. In light of this turmoil we felt it may be helpful to reassure you that we continue to find some reasonable investment opportunities within the chaos and to bring you up to date with our view of the world and how this translates into the structure of your portfolio.

The well documented slowdown in the growth of the Chinese economy and its transition from an export led economy, using revenues from export sales to build infrastructure, into a more balanced economy, where domestic consumption is far more important than hitherto, is at the root of recent market volatility. This slowdown has precipitated significant falls in the price of oil and industrial commodities and led to big downward revisions in the growth forecasts of countries such as Russia and Brazil as well as the Middle East oil exporting nations. However, although the growth rate of the global economy is slowing there are still op-

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portunities to invest in areas that consume rather than produce energy and where valuations are relatively attractive. These markets are beneficiaries of falling input costs and consumers here benefit from having more money to spend after paying their heating and transport bills. We do not think it likely that the world will slide into a tailspin of deflationary pressure where buying decisions are continually delayed in the hope of getting a better price next week. But having said that we think very low inflation is likely to remain a feature of the developed world for some time to come.

In the last few weeks we have been considering carefully the balance of risk and reward in stock markets around the world while also considering each of the asset classes available to us to build your portfolio. Baldly put our conclusions are that fundamentally not much has changed and market bears are benefitting from the negative publicity of retelling news that has been known for months. This means we continue to believe that equity investment remains the most attractive area on a relative basis, certainly compared with bonds, but that we need to be sensitive to valuation multiples and take advantage of market dips to add to high quality long term positions. To this end we have made some minor changes to our preferred asset allocation by reducing exposure to North America where equities are expensive relative to the growth in corporate profits and added to European equities, where multiples are more attractive and growth is set to pick up, to Japan, where balance sheets remain strong and good increases in dividends is expected, and to the Far East, where markets have fallen too far on little change in fundamentals.

All investment carries a degree of risk but we believe there are still attractive opportunities and you should rest assured that we continue to work hard to deliver good long term returns without taking undue risk with your capital. As always if there is anything you would like to discus about your portfolio please do not hesitate to give me a ring.

R.C. BROWN
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Private Client portfolio past performance data
As at end December 2015
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	4 Years	5 Years
Cautious	**Managed Funds**	**2.87%**	**4.92%**	**27.61%**	**40.80%**	**n/a**
	Direct	**1.79%**	**2.37%**	**24.03%**	**36.96%**	**n/a**
	**WMA Conservative*	*1.21%*	*1.95%*	*17.29%*	*23.70%*	
Cautious Balanced	**Managed Funds**	**3.92%**	**5.47%**	**32.46%**	**47.83%**	**48.10%**
	Direct	**3.15%**	**2.17%**	**26.89%**	**41.12%**	**39.16%**
	**WMA Income*	*2.46%*	*2.19%*	*21.10%*	*30.53%*	*34.64%*
Balanced	**Managed Funds**	*4.73%*	*5.72%*	*30.91%*	*46.78%*	*45.16%*
	Direct	*3.96%*	*2.80%*	*28.91%*	*42.89%*	*38.03%*
	**WMA Balanced*	*3.77%*	*2.70%*	*25.68%*	*37.12%*	*37.36%*
Balanced Growth	**Managed Funds**	*5.25%*	*6.68%*	*35.45%*	*52.07%*	*47.13%*
	Direct	*4.29%*	*2.70%*	*28.94%*	*42.67%*	*35.44%*
	**WMA Balanced*	*3.77%*	*2.70%*	*25.68%*	*37.12%*	*37.36%*
Growth	**Managed Funds**	*5.56%*	*6.41%*	*36.89%*	*53.99%*	*48.56%*
	Direct	*4.51%*	*2.70%*	*29.10%*	*43.75%*	*35.74%*
	**WMA Growth*	*4.76%*	*2.97%*	*28.27%*	*41.08%*	*37.81%*

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

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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.