MARKET COMMENTARY NEWSLETTER

Q2 2018

THE WORLD ACCORDING TO GLENN……….

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My wife has recently started a new job and in a hunt for storage space at home, where she can keep some paper files, she unceremoniously evicted the stuff I had stored in what is now her home office.

This was mostly ancient articles and odd pieces of old research that then colleagues had passed to me as "useful information" for a naïve and still wet behind the ears unit trust manager to know. In honour of the recently deceased Tom Wolfe, when handed all this paper (which I had completely forgotten about) I probably should have had a "Bonfire of the Vanities" and just burned the lot. But my interest was piqued, not least because I reasoned that I must have kept it because I used to think it had some value. So, before deciding whether to keep it or not, I sat down to read. If nothing else, I have learned that displacement activity is a powerful motivation that can save us from ever having to make a decision. But, having read on, and on, and on …and let's be honest, most of what I kept was dross which was barely worth publishing even back in the day. But there were also a few market commentaries that were mildly amusing in the same way that looking through an old photo album can take you back in time. So out of nothing more than nostalgia I kept some pieces which analysed the likely effects of the 1987 crash and Black Wednesday (when Britain was forced to withdraw the pound from the Exchange Rate Mechanism). These pieces were not great works of literature, but the analysis was sound and re-reading them took me back to when I thought of myself as something of a young Turk who was about to change the world of fund management for the better (other opinions are available). But a lesson I did learn from October 1987 was that share prices change more quickly than underlying valuations and, in a crisis, when forced sellers push prices down, a nimble manager can improve the quality of his portfolio and the return for investors by buying good quality assets at beaten down prices.

Among the files were several papers written by American fund managers and market commentators. Peter Lynch, for a long while reputedly the most successful fund manager in the world when managing Fidelity's Magellan fund, seems to have been a bigger influence on me than I realised; as I can hear myself parroting his words of wisdom through aphorisms such as "invest in what you know" and "now is the time to buy". But Lynch is probably most famous for saying that "the person who turns over the most rocks wins the game". I think what he meant was that investing is about hard work and application rather than individual brilliance and if you keep looking under rocks you will occasionally find treasure. So, the more rocks you turn over the more treasure you will find. This approach was echoed by Richard Oldfield in his 2007 book "Simple but not Easy" where the message I took away is that anyone can be a good investor but it takes a lot of effort and a willingness to learn from previous mistakes. Oh, and most importantly, long term success depends on always maintaining a broadly diversified portfolio.

I also came across several of Richard Russell's Dow Theory Letters, this chap wrote a regular column from 1958 to 2015 and in

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PORTFOLIO PERFORMANCE

In addition to producing our own figures from genuine client portfolios, we also work with ARC to provide additional analysis and peer group comparison. Monthly investment returns and asset allocations for each client portfolio are submitted to ARC, who validate this data and independently categorise the accounts according to one of four indices. This process is replicated by all contributing firms, a group of over 70 which includes all the leading discretionary investment managers, to provide a peer group return for each index.

ARC then provide us with analysis based on the overall return of all R C Brown clients in each category, incorporating performance relative to our peer group and how this progresses over time. This data is also available on a client by client basis. The results provide a useful, independent validation of our approach and may be of interest when conducting initial due diligence or reviews for existing clients. Please do not hesitate to contact us if this is an area you wish to discuss further.

R.C. BROWN
investment management plc

Private Client portfolio past performance data
As at end March 2018
(FOR PROFESSIONAL ADVISERS ONLY)

Risk category		3mths	12mths	3 Years	5 Years
Cautious	**Managed Funds**	**-3.08%**	**3.13%**	**15.17%**	**35.49%**
	Direct	**-3.41%**	**1.33%**	**14.07%**	**34.20%**
	**FTSE Private Investor Conservative*	*-2.40%*	*1.21%*	*15.39%*	*31.75%*
Cautious Balanced	**Managed Funds**	**-3.67%**	**3.93%**	**18.39%**	**42.68%**
	Direct	**-4.15%**	**2.37%**	**19.10%**	**41.91%**
	FTSE Private Investor Income	*-3.46%*	*1.51%*	*17.93%*	*36.71%*
Balanced	**Managed Funds**	***-4.05%***	***4.50%***	***22.49%***	***45.75%***
	Direct	***-4.58%***	***2.85%***	***23.15%***	***48.43%***
	**FTSE Private Investor Balanced*	*-3.80%*	*1.78%*	*20.97%*	*42.99%*
Balanced Growth	**Managed Funds**	***-4.41%***	***4.86%***	***24.22%***	***50.13%***
	Direct	***-5.00%***	***2.57%***	***22.76%***	***47.34%***
	**FTSE Private Investor Balanced*	*-3.80%*	*1.78%*	*20.97%*	*42.99%*
Growth	**Managed Funds**	***-4.56%***	***5.14%***	***26.84%***	***51.10%***
	Direct	***-5.17%***	***2.70%***	***23.59%***	***47.78%***
	**FTSE Private Investor Growth*	*-5.56%*	*2.04%*	*23.68%*	*47.64%*
Market data					
	ARC £ Balanced	*-2.44%*	*2.21%*	*14.25%*	*29.06%*
	ARC £ Steady Growth	*-3.04%*	*3.13%*	*18.76%*	*37.94%*
	ARC £ Equity Risk	*-3.73%*	*3.61%*	*21.86%*	*43.48%*

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)

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those 57 years produced more than a few pearls of wisdom. One piece, which was titled "Rich Man, Poor Man" was reprinted widely when people began to recognise the simple undeniable truth he wrote about making money from investing. And in case you have never read it I am going to give you the bare bones (in my words not his).

1. To make money you need a plan and you must stick to it for a reasonably long period of time.
2. Take time to understand how compound interest works. By compounding small, low risk returns over long periods an investor can turn a modest initial sum into a reasonable sized pot of money to retire on, but only if the capital is left in the market for a long period and the income is re-invested. After seven or eight years of compounding the interest on a bond you could be showing a reasonable return (even at current low interest rates). But if you reinvest the growing dividends on an equity over a 40 year career you could end up sitting pretty. And if you continue to save and diversify your risks over this sort of time period you are likely to enjoy a comfortable retirement where you can draw down the value of what you have earned and keep your spending power constant in real terms. Remember though, compounding is powerful magic. For a long time nothing much seems to happen. It looks boring and you have to be patient for the magic to work. But when it does you get a return on the initial investment, plus a return on additional investments, plus a return on the growth in dividends and finally you also get a return on the return of those investments. With all these returns compounding over time you hardly need target a return through multiple expansion, but if you get your entry and exit points right you will also get this as an extra
3. To get rich and stay rich don't speculate and risk losing big money. Accept that from time to time things will go wrong and not every investment made will be a winner but put this in the context of

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your long-term plan. Accept risks that you can understand and don't bet the ranch on one great idea. If it goes wrong you have lost all the benefit of compounding previous years returns and you only have a limited time to earn back your loss. Instead maintain a broadly diversified portfolio with lots of uncorrelated or lowly correlated risks.

4. Finally, and almost as important as understanding compound interest returns, never feel pressured to make money in the markets. If you need cash for something specific you need to know that you will have enough to make your purchase, so don't speculate. Save for a wedding, or a sports car, or a dream holiday while continuing to make long term investment, but don't risk not having enough for your needs in case you have to sell when the market is down or your dead-cert "ten bagger" goes bust.

Nostalgia was the motivation behind me re-reading documents that I had completely forgotten existed, but I also recognise there was an element of conformation bias in my seeking to rationalise my decision to keep something that I had coped pretty well without for many years. And speaking of confirmation bias, now that Richard Thaler has received the Nobel Prize in Economics for his work on behavioural economics I might just nudge you gently into gaining a better understanding of how human beings make supposedly rational decisions. After all, three Nobel prizes have been awarded in this field since 2002 (to Daniel Kahneman 2002, Robert Schiller 2012 and Richard Thaler 2017). Perhaps a return to classical microeconomics and an attempt to understand human motivation is overdue after a long period when econometrics sought to forecast the likely outcomes of discrete hypotheses without first asking "Why?" So, my question is, why build a theoretical mathematical model of the world when you can just look out of the window and see the real thing?

Putting theory to one side, as one homo economicus to another, I would like to reassure you that our practical, everyday decision making remains rooted in building broadly diversified portfolios that aim to deliver better than average long term returns with lower than average volatility. By and large we have achieved these objectives, so if it ain't broke don't fix it and if it works, who cares what you call it.

SERVICE IMPROVEMENTS

Not only are we focused on careful management of client money, we are also very aware that how we engage with you is key to our joint success, so we have been working on a number of service improvements:

1. **Refreshed website** (www.rcbim.co.uk)
   We have refreshed our look, and streamlined the number of pages to make navigation easier

2. **Costs & Charges Calculator**
   In our constant drive to make our industry more transparent, we have added a calculator tool to our website (http://www.rcbim.co.uk/fees/) so that you can see in real £ terms the total expected costs (including the VAT). As far as we know, we are the first Discretionary Manager to make this depth of information freely available on their website

3. **Online Application Form**
   Last year we launched our online application form, for introduced clients. After a test period, and some extremely useful feedback, we are streamlining this process, which should be completed over the summer. We will update you further in our Q3 newsletter.

4. **Valuation reports**
   With quarterly reporting now a reality, we are giving Advisers & clients the option to receive their reports electronically. These are in the form of password protected PDFs. We are also working on improvements to our online valuation system that will, in time, host these reports as well as offer secure messaging and an App for mobile devices.

   Clients that still prefer paper reports are not left out, they will continue to receive their bound reports directly from their Investment Manager.

   We just like to give clients the choice.

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GDPR – How did it go for you?

Well the anticipated Armageddon of the 25th May 2018 failed to materialise, and we are all still here, which hopefully means that we all followed the advice and updated our policies and how data is stored.

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, which is covered under the 'Legitimate Interest' rule.