Positive Wealth Creation Ltd

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Positive Wealth Creation Ltd is authorised & regulated by the Financial Conduct Authority: 481182.

February 2019 Investment Commentary

2018 was a volatile year, the final quarter particularly so. Whilst in the UK it is easy to blame Brexit for uncertainty, markets have been led by macroeconomic conditions in the USA. Threats of trade wars do not help but the main issue is Donald Trump's loose fiscal policy, which is resulting in increased US Government Debt at a time of solid economic growth, meaning that it might be necessary for the US Federal Reserve to pursue tighter than expected monetary policy, leading to greater rises in US interest rates to combat inflation, reducing consumer and business spending and hence corporate profits. In addition, balance sheet normalisation, known as Quantitative Tightening means there is ongoing and considerable monetary tightening. Ten of the last thirteen rate rise cycles have ended in a US recession.

The FTSE 100 index of leading UK Shares fell by 13% from the end of January to the end of March, recovered to a new all time high of 7,877 by 22 May and has headed downward again so that it is over 11% below that all time high at the time of writing.

The Bank of England expects there to be further gentle interest rate rises over time after August 2018's increase to 0.75%. Nevertheless, interest rates for savers remain lower than UK inflation.

Index / Asset Class	Return Period	Change
FTSE 100 (UK shares)	Year to 31 January 2019	**-7.5%**
8000 7800 7600 7400 7200 7000 6800 6600 6400 Apr 2018 Jul 2018 Oct 2018 Jan 2019 SOURCE: TRADINGECONOMICS.COM | OTC/CFD		
FTSE 100	Rise from post financial crisis trough (3,506 on 6 March 2009)	**98.8%**
FTSE 100	Fall from most recent peak (7,877 on 22 May 2018)	**-11.5%**
S&P 500 (US shares)	Year to 31 January 2019	**-4.0%**
Nikkei 225 (Japanese shares)	Year to 31 January 2019	**-10.8%**

Hang Seng (Hong Kong shares)	Year to 31 January 2019	**-15.2%**
UK CPI (inflation)	Year to 31 December 2018	**2.1%**
UK GDP (economic growth)	Q3 2018	**0.6%**
UK 10 year Gilt	Yield change year to 31 December 2018	**-19.7%***
UK 10 year Gilt	Yield change month to 31 December 2018 (1.19% presently)	**2.5%***
Commercial Property (IPD UK Monthly Property Index)	Year to 31 December 2018	**7.3%**
Commercial Property (IPD UK Monthly Property Index)	Rise since pre financial crisis peak (942 June 2007)	**67.8%**
Residential Property (Nationwide House Price Index)	Year to January 2019	**0.1%**
Residential Property (Nationwide House Price Index)	Rise from pre financial crisis peak (£186,044 October 2007)	**13.9%**
Gold	Fall from peak to 31 December 2018 ($1,901 September 2011)	**-30.6%**

China: The Official Chinese Purchase Managers Index (PMI) has turned negative owing to falling export orders resulting from tariffs. Deleveraging and dealing with bad debt continues to be required.

Eurozone: The European Central Bank continues to provide support, although its version of Quantitative Easing finished at the end of 2018. There will be a new Bank Governor later this year, who may or may not re-confirm Mario Draghi's statement from July 2012: ***"Within our mandate, the European Central Bank is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough."***

The current macroeconomic conditions of rising interest rates and above target inflation are not ideal for Fixed Interest securities such as **gilts and Corporate Bonds.** Therefore, returns are weak from these assets presently. **High yield bonds** have low default rates and their progress is linked more to the economic cycle.

Time in the market, rather than timing the market, is often the key to successful long-term investing. **If you sell today, then when do you buy back?** We believe investments should be held for the medium to long-term. Portfolios are generally spread and so not overexposed to one asset class. Falls and rises are part of investing and falls only turn into losses if you sell out. If you remain a medium to long term investor, whose attitude to risk and circumstances have not changed **it is not advisable generally to alter a diversified portfolio because of short term volatility:**

- JP Morgan has published data from the beginning of 1995 to the end of 2014 and Yahoo Finance from the beginning of 1998 to the end of 2017 (i.e. Including the financial crisis and the dotcom bubble) which shows the effect of short term volatility.
- The effect of missing out on the **ten best days** in the market is that **returns are halved**. Missing the best twenty days in the market halves returns again.
- **In particular, JP Morgan found that six of the best days in the market occurred within two weeks of the ten worst days.**
- Therefore, consistently timing the market whether out or in is incredibly difficult. Nobel Laureate William Sharpe found that 'market timers' must be right **82%** of the time to match the return realised by long term investors.
- This underpins our belief that investments should be held for the medium to long-term. Since 1899 the UK stockmarket has outperformed cash in 75% of five year periods and 90% of ten year periods.

*An increase in yield means a fall in capital.

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