TOWN CLOSE
Financial Planning

ICM MINUTES
February 2019

future proofing your finances

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ICM MINUTES, FEBRUARY 2019

This document reflects the discussions held at the Town Close Financial Planning Investment Committee Meeting that took place on

12th February 2019

Macro Overview

Since the last ICM not a great deal has changed.
The big things are whether the trade talks between the USA and China and the increase to a 25% tariff. If it goes through it will be a game changer in the short term. Further detail on the tariff increase should be forthcoming over the next few days.
If the US / China trade deal happens it is believed that the balance of possibilities is on the upside.
And then there's Brexit. The ICM believes Brexit will happen. Our guess is there is a 51% chance of there being a deal vs 49% no deal.
And Brexit means we don't know when the UK will increase interest rates next. That will, of course, have a short-term impact. Either way, during March, both Brexit and the US/China shenanigans should be sorted.

More on Brexit

A no-deal Brexit should be the best outcome for most people with a diversified portfolio because the pound should fall in value.

The TCFP portfolio earns most of its returns in $, €, ¥ and other currencies; the pound dropping makes those returns more valuable.

The FTSE should be ok during Brexit, but commercial property might take a hit with no deal. Everything else ought to be ok.

There are no awful situations either way.

If Brexit happens with a deal, the pound can be expected go up, perhaps by c5%. The day of the referendum the pound dropped by 20% but recovered quite quickly.

Brexit with a deal should mean that UK mid-cap and small-cap do well and commercial property should be fine.

The markets

US assets are priced for interest rates at close to 0%. This is incorrect. It is more likely that an interest rate will happen sometime after June. This could add some volatility.

The global economy is slowing slightly but now is not a good time to look at it, given what short-term things are going on.

Germany is being caught up in the US/China trade deal and China's own slowing. Germany exports to both US & China. German equities are down; this is justified if the tariffs go up but not justified if they don't.

China will slow down, and this could be orderly or disorderly, who knows? And when we don't know then you can't make investment strategy off the back of it.

Emerging markets depend on the US market and investments here should be seen as being neutral. Equity markets are probably a bit overvalued in general.

Is a recession likely?

The probability of a recession in Germany, UK and France is higher than it has been.

Growth of 0.24% last year shows recession is close but doesn't look likely. It is, however, likely that you will hear about impending recession through the media.

The next recession will be called a crisis, but it will be very mild in comparison to previous recessions.

Italy is only just in recession; it has been wildly under-reported. The European Commission will have to help Italy in order to preserve the Euro.

The biggest holders of Italian bonds are Italian banks. The rule is that if you hold your own bonds, they count as zero risk. Which is nice.

The European central bank would never allow interest rates on Italian bonds to get so high that it would cause a problem. The rate at which it becomes a problem is about 7-8% and they are currently at c3%.

The Italian's budget has been rejected by the European Commission but it will go back to the Commission with no amendments. It is not a radical budget.

Taking the market's temperature

We'll be using a questionnaire that measures various aspects of the world's economic and investment environment. That includes things like inflation, interest rates, market volatility, debt markets, etc.

Quarter to quarter we will compare the results to give us a feeling for where we are on the "depths to despair to maniacal euphoria" spectrum.

Getting too far one end or the other of that spectrum will mean that the ICM will consider taking appropriate asset allocation decisions.

At this ICM we determined that we are well within the normal range. Things are probably a little warm/excitable in some areas but nothing that requires any more than ongoing monitoring.

Portfolio changes

The TCFP portfolio will remain 80% equities, 20% bonds. Cash will be held in addition to the extent that it's needed for the next three years' living expenses and as an emergency fund.

The components of the portfolio will change from 16 to 4 funds, we will eliminate the overweight UK position which leads us to be underweight everywhere else.

The costs of the portfolio reduce by c0.5% pa as a result and the performance metrics improve too.

They are, of course, backward-looking but do give us comfort that we're not doing anything daft/reckless.

Using the industry standard risk scale 1-7 the portfolio, in isolation, rates as 4 out of 7.

A full note on the background to these changes can be found **HERE**.