NEWSLETTER

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Strongbox
tailored wealth management

What should you be doing?

In our last Newsletter we said, a propos of the Panama papers story that “the proportion of the world's citizens who are either young and idealistic or poor and struggling is growing, and so is their impatience and frustration with the people in charge.” Well we don’t need to look any further for comprehensive proof of this than the result of the Brexit referendum, although in this instance it seems that the Leave voters were the poor and struggling rather than the young and idealistic.

We were as surprised as anybody by this decision - we really thought that good old British pragmatism would carry the day, even if only by a whisker. However, with hindsight, maybe it was not a surprise that neither the Tories nor Labour could quite bring themselves to put their hearts into the Remain campaign in the way they should have, leaving the way wide open for the spread of disinformation and downright lies from the likes of Boris and Nigel. We are far from being fans of the EU with its out-of-touch technocrats and over-weening ambitions for political union even when this leads to economic disaster. However, the real risk here is what will happen when the UK’s Leave voters realise that the reason neither they nor their children can get jobs or afford to buy a house is absolutely nothing to do with Brussels or the EU but with (a) the UK’s position as a post-Industrial country which cannot complete globally in labour-intensive manufacturing as it used to and (b) the increasing gap between the prospects of the privileged and educated and the others in a service-based economy.

In the long run, it is not impossible that the UK could be better off out of Europe – although as the UK is already the ninth most competitive economy globally, there are no obvious easy wins to be had - but the long run is a long time away, and in the meantime, there is a lot more scope for bad things to happen on the political front than good ones. The old political order doesn’t seem to be working any more, but what will the new one look like? And what does this say about what might happen in the US Presidential election?? The UK is not unique in the issues it faces, but will the answer from the electorate be the same? Interesting times….

Equities comment

As promised in the last newsletter, this month we will look at the second of the recent additions to the model portfolio: CF Industries. As we have said repeatedly before, there are two components to a share price: the value and the sentiment. Our skill is knowing when the sentiment is zero or negative and the share price is below fair value. This was the case with CF Industries when we bought it and is probably still the case. The company is amongst the biggest manufacturers of Nitrogen fertilizer and Nitrogen products in the world. It is based in the US and trades on the New York Stock Exchange. Commodities are way out of favour at the moment and so is CF Industries, but food is not and never will be out of favour. CF has strong cash flow and has been investing to grow production for the future despite being temporarily unpopular with the market. This is the sign of a good quality company which is confident of its future. It will be in pole position when the market turns in its favour. The world population continues to grow and growth will mean more food requirements; a key component of meeting that food requirement will be fertilizer. Natural gas is a key element in the production of fertiliser and while it may well rise in the future, it will remain at levels favourable to CF for some time to come. It is too early to call a turn in the fertiliser market right now, but the turn will come, and by investing now when sentiment is low and value is high we will be in an excellent position to reap big gains. Keep watching!

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Model Portfolio

There have been a number of changes to the equity portion of the model portfolio in the last quarter. We have sold out of our positions in GPN (at a very substantial profit of around 260%); Reckitt Benckiser (also at a very tidy profit - 110%) and AT&T (at a modest profit of 37%). We felt that all these stocks had reached their full potential. As it turned out, we were premature on the RB sale as, in the wake of the Brexit vote, the stock went up a further 8%+! But as they say, you never go broke by taking a profit. On the down side, the GBP part of the portfolio was hit badly by the post-Brexit weakness in sterling despite the stocks there doing exceptionally well.
The model bond portfolio is currently valued at $607.2k, up from the original value of $514k, and is yielding 5.75% on our in-price, down from 5.9% several months ago as resettable rates are invariably being re-set at lower rates.

Model Portfolio

Initial value $1m **Current Value** $1.97m

Cash 22.9% **Bonds** 30.47% **Shares** 47%

Performance		**Top Performer Bonds (ytd)**		**Top Performer Shares (ytd)**	
6 months	7%	ANBHA	0.9%	Paragon	+755%
12 months	4%	GPFLA	0.3%	S32	+44%
since start	+97%	RSCHA	0.1%	Weir	+36%

Financial planning basics – 8

We've been talking about the fact that, no matter what you do with your money, it is at risk from something, even if only the time effect of inflation. In order to offset that risk alone you have to structure your portfolio to have exposure to growth assets – i.e shares (equities) – as well as income generating assets.
The very rough rule of thumb (which of course can be adjusted for specific circumstances) is that you deduct your age from 100, and the number you get is the percentage of your portfolio that you put into equities – i.e. if you are 60 years old, the you put 40% into equities and 60% into fixed income investments. So, to go back to our earlier example, let's assume that you are sixty years old; you want to retire on a gross income of $100k from your fixed income investments and you would like to maintain your capital as much as possible. Last time we wrote in this Newsletter on this topic we assumed a 7% return from the Fixed Interest portfolio. How times have changed! As of now, 4% (and trending downwards) would be a better estimate. In current circumstances, that would require capital of $2.6m to generate income, and a further $1.6m in equities to hedge against inflation for a total portfolio value of $4.1m. Last time we did this calculation the capital required was only $2.4m. This is a very alarming change for anybody involved in retirement planning whether purely on their own account or as part of a large fund management or pension planning business and one which is unlikely to revert to what we might consider “normal” any time soon.

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