Dear Client October 2022

You will have seen the turmoil on the markets which has been incredibly concerning. Exaggerated worries about global inflation, the fear that interest rate rises to quell that have not been enough and heightened fears about what Putin may do if he starts losing, have created uncertainty. At home, the UK's new fiscal changes are being digested and upon which the IMF has voiced its opinion well beyond its remit. I am not defending anything but the IMF didn't predict the present inflationary scare even though I stated it was staring us in the face two years ago. It's certainly not infallible. The unfunded tax changes came about after the significant underpin on energy prices which could already cost £100billion of extra borrowing (albeit this looks like being far lower if energy prices keep falling due to lower demand, increasing supply and economic slowdown). The goal on the tax cuts is that economic growth will be stimulated and thus revenue to HMRC created to offset the extra debt. However, markets need convincing, creating a whirlwind of negativity globally and panic and extreme volatility. The Bank of England stepped-in to calm markets and said it would buy government bonds to restore stability.

Sterling hit its lowest ever against the Dollar before rebounding 7% on the week, itself a remarkable change. It's not just us though, the Yen hit a 40-year low and the Euro the lowest too, below parity. UK Government borrowing rates rocketed before rebounding and that reflects confidence falling. Not only does that ratchet-up the costs (so a bigger Budget deficit) but it signifies we must pay more for what the markets consider is riskier debt than we had only the weeks before (and we have to sell even more of that to investors worldwide to pay for that).

The UK's FTSE100 was relatively protected against the Ukraine war in that its energy companies and certain defensives held-up well and supported the rest but the FTSE250, the companies from 101-350 in size, has seen its index plummet below the level it saw before the vaccination roll-out. Ludicrously, the FTSE100 is below its level seen in December 1999 – 23 years ago.

Compared to main markets and global bonds, because we avoided the most overpriced sectors, stocks, markets and bonds, we are doing well, even though that means losing far, far less than most investors 'out there' (and we hate losing a penny), including those in 'safe' or 'protected' bond funds which have been savaged since January. In our general portfolios, we hold some counter-balancing assets in stocks and sectors which rose as a consequence of the war and the Dollar's strength but these do not offset all declines. These positives include defensive industries and commodities like wheat and agricultural products we have sold and now include silver, uranium and cocoa. Miners (especially precious metals) and energy stocks have also been steadier. Indeed, we have not had to write blanket letters to clients to notify them of a 10% decline (since 5 July valuations), a silly and very unhelpful regulation as values change so rapidly. Anyway, across thousands of investment accounts, this suggests a far better overall outcome than conditions may suggest and also compared to investors elsewhere who do not have the inbuilt protections through our unique systems and the confidence in these vastly diversified strategies.

If you can look-past current traumas, it really is time to think about unused ISA and Pension allowances which can be filled. Needless to say, money goes far further. We expect several deposits from those with spare cash availing themselves of such low values and the tax boost from the earliest possible start but clearly, it does not appear easy with such volatility and negative sentiment abounding, just the sort of uncertainties dissuading people and history shows, the best buying times. As Mr Rothschild said famously, 'Buy when the blood is running in the streets.'

Have we seen the worst? I cannot ever afford to be blindly optimistic. At all times I must be a realist and the benefit I have is over four decades in the financial world to help guide my actions when faced with situations like this. Honestly,

Choweree House, 21 Boutport Street, Barnstaple, North Devon, EX31 1RP
Tel. (01271) 344300
Fax. (01271) 342810
Email: info@miltonpj.net www.miltonpj.net

we do not know. Human emotional panic can continue to drive irrational behaviour – such as those (including big fund managers who are simply humans) who sell-up at a stupid time, crystallising real and big losses to grab cash they don't 'need'. Remember you do not make a loss unless you sell. If you do, you may well believe you will buy-back later, cheaper but despite your perceived rational beliefs at the time, you won't. You will see each subsequent fall as justification and prediction of further weakness. Instead, it is likely to be far higher when you feel conditions are so much better. Even if we have not yet hit the lowest point, we are much closer now than just a few weeks ago and as these must be viewed as longer-term investments, we are 100% confident that recovery from here (even if they drop further) is assured. I have said before that the Chinese use different characters to write 'crisis.' One is for danger, the other for opportunity. In a crisis, be aware of the danger but as hard as it is, seize the opportunity and no, I do not say that glibly. Frighteningly too, the biggest future risk related to the interest rate moves and recession is what is going to happen to over-stretched house prices as well. Dare I predict how far they could fall? Is half too much or too little and what might that create? I am certainly not investing in investment houses, I can tell you.

Remember, we are here for you. We can't change anything but we try our hardest to communicate as much as we can and to reassure if that is the right thing. Sadly, we hear frequently that many product providers and advisers 'disappear' – no contact whatsoever with the very clients and investors who have paid them well over many years and that is not good enough. If they are still engaged through the other side (and already some firms are cutting back on staff, let alone growth/ recruitment programmes), I hope their clients will remember that.

DIVIDEND AND INTEREST PAYMENTS – IMPORTANT

Dividends are paid by companies to investors, from profits they make trading with you and me, as a part reward for investing in them. If the share price increases over time (as it often will), investors also enjoy gains on their capital. So, will the latest market turmoil result in less trading profits overall and smaller dividends? Initially, no.

My experience says that some will suffer (those importing for example where Sterling weakness adds costs) there will also be those less reliant on imports and with a UK-based customer base, or those exporting where a cheaper Pound will raise exports.

Yes, we shall have a tiny few companies and funds reducing payments temporarily. However, we shall gain from energy companies, banks and others paying rocketing dividends. Our clients have advantages to better protect them. We have a vast range of components and whilst the fall in one is unwelcome, we do not have a big proportion of any investor's capital in any one situation. Secondly, as we use Investment Trusts rather than open-ended funds as most investors 'out there' have, they have different tax rules and often hold reserves so even if some of their components drop payments, they can continue payments till things 'normalise'. Open-ended funds can't do that – they can only pay what they receive. We are also 'value investors' so the running yield on our strategies is around 4%pa, so far higher than most investors 'out there' who are skewed more towards 'growth' stocks which pay little.

Investors are wise to try to ensure their income is within what is being produced and that they do not inadvertently start to spend capital by taking more than they could or should, without realising. Of course, there are degrees – a small extra for a short time is no problem but if an investor takes too much then the capital hit can be adverse. Now is the time to review; do you have cash reserves you could spend-down so you stop taking as much income from market investments? It should only be temporary – but wisdom, that's all. Whoever holds/manages your capital, act if you can. For our clients taking income we aim to retain a reserve regardless. Clients know our systems are very flexible and there is always something we can sell to top-up the pot but clearly, we don't encourage that at the wrong times. However, please don't 'just' carry-on drawing income regardless but review yours (as well as seeing if you have surplus cash reserves, National Savings, Premium Bonds or whatever, to use to pay the bills instead). If just a few months you can stop (or reduce) your income taken till we can look again later, that is prudent, as we can then use that income on your accounts to buy depressed assets instead.

If you have instructed a pending withdrawal/liquidation from your investments here, please consider whether you could defer the need for a period or totally, or finance it another way as now really is a poor time to sell.

WHEN TO BUY AND WHY?

Even normally it is not an easy judgement. It is even harder now. There is so much value and many UK 'blue chip' companies are so cheap. They won't disappear during this crisis. Cash rich companies will begin pouncing on vulnerable competitors whilst the value is so good, especially from the States where their Dollars go so far now. We have loads of prime targets for them. Companies plush with cash can buy-in and cancel their own shares - that is happening already. Whether these are the Apples, Metas (previously Facebook), Amazons, Microsofts or the Berkshire Hathaways of this world with hundreds of billions spare, nothing is stopping them putting that money to great use. Sadly, they too are driven by emotional humans who mainly choose to worry about uncertainty rather than being contrarian (as Warren Buffett's reputation usually shows but I am waiting for him to act).

THE FUTURE

When you and I look at the present financial situation, our eyes are distracted by the storms causing the upsets. We are fearful – both at individual levels but collectively as humans. We are also alarmed for our jobs, our businesses, our investments and their income, the likely position of state finances and how the cost of living will escalate.

But we must keep perspective, the old record playing again. There have been far worse situations. The last two world wars killed millions and the physical devastation destroyed whole countries. Look at how bombed cities and countries recovered. At the worse times no one could imagine a future but it happened and Japan and Germany became two of the most influential and prosperous nations in the world. There are still 8billion people in the world, concentrated upon Asia. In northern Vietnam, there was not a building left standing after that conflict and likewise most of Japan and Germany's big cities and towns; London and most of our cities were blitzed too.

Remember the chart of market performance, an historical record, a simple upward line on paper showing the 'market' over the decades, back to when opportunity of investing and trading in companies started. Imagine the Great Depression in the early 1930s, centred upon the States but not excluding us. Think about what the deaths and destruction of WW1 and WW2 did to our world (and I am excluding other regional wars of course but their impact on many nations was similar). There was also the Spanish 'flu which killed more than died in all of WW1. Remember the 1970s and the three-day week, the 'great' strikes, the oil price shock where our inflation hit almost 30%, or when mortgage rates hit 15%. Technologically now, we are so much further advanced than ever. We have so much more and indeed cash reserves across the World are immense compared with whatever anyone would have had thirty years ago. We are and shall remain very wealthy as will all the developed and developing world, the investing world. Remember, because of what shares generally constitute, stockmarkets will always out-perform any other asset class in time (and if you do not know why, then I shall have to explain how, another time).

This chart ignores all the 'noise' from those times. We look at it dispassionately, it is a line and we see when it was cheap and when it was dear. The reasons for either are almost irrelevant. But do not forget, there were other awful consequences which created those other times too and to which the line of history, the chart, is oblivious.

So why do I say all this? People need feeding, clothing and sheltering. They want communications, energy, heating, water, travel, finance and insurance. The majority has or can afford medicine, education and care and yes, it will entertain itself, holiday, relax, collect things, garden, visit, eat out, watch and do sports, play and attend music and sport events. From this 'normal' activity, business will survive and thrive and whilst some will fail, those enduring will be in demand, even if people have to review their own finances and spending in terms of what they can afford.

So, we must look at the chart and disconnect from the storm. The chart will continue, reflecting through the other side. In time, we shall see this totally Putin-created blip as a small interruption. It is hard, unsettling and distressing but at some point, certainty will replace uncertainty and this will be reflected in the economics and indeed, our own personal and business lives as we can make forward-looking decisions again. There are phenomenal opportunities out there. The infrastructure is still there and indeed in say a year we may look back and see the economic reaction now as another great opportunity for the shrewd, in so many ways.

Sentiment can change very quickly, like on 9/11/20 at the vaccine rollout announcement which saw the biggest rises in so many stocks I have ever seen on one day. We are already seeing major energy price drops, the main contributor to inflation and therefore, rising interest rates. Employment disputes and the impact these have will then subside too. Let us also pray for an end to the war which has ramped-up inflation and caused unimaginable misery for so many innocent Ukrainians.

PRACTICAL THOUGHTS

Some recommendations. First, don't keep watching the 'news' – you can't change it and if it is depressing, it won't help your own health and ability to cope with the negative events we face. Limit the times you watch perhaps. Put investment valuations and reports in a drawer and forget them for several months. Remember, media sensationalises news to sell stories – it is doing very well now. Watching the news is like watching the storm. If you see instead how you can plan to come through, it will pass and indeed you will be uplifted by concentrating on constructive and positive things as you cannot change the storm's paths. Let us do the worrying for you – that is why we are here.

Patience is critical. We have overcome situations like this many times, emerging stronger. You do not have to do anything, unless taking advantage to invest capital for instance, as prices are so good. With us you will have an excellent and diversified portfolio of assets, in an unrivalled and very low cost system for what we offer.

For those with mortgages, do all you can to maintain interest payments and if necessary, speak to your lender if cost increases become unaffordable. Budget for future increases. With further interest rate rises likely, these are testing times, particularly for those forced to stretch themselves due to over-priced homes.

We encourage you to remain calm. Rest assured we monitor things intensely and make changes for clients' strategies as necessary. Market volatility is not rare. However, it is why we demand of everyone they invest for the longer term and retain a level of cash reserves for short-term needs.

In time, such events which seem awful now will appear as small corrections in the bigger picture. However, this is in no way suggesting complacency and I assure you of our closest attention – as we always give at such times.

We must not panic and neither sit still doing nothing, without reason. At the same time, we must remember we invest in real businesses with which you and I trade every day and which still pay incomes to us as investors. Caution, yes but we shall nibble-away at seriously cheap stocks with cash reserves and surplus income. We cannot guarantee better times overnight but it is not time to do the wrong thing. There is so much prospective optimism ahead regardless, none of which is priced into the markets and I look forward to concentrating upon them instead.

With very best wishes

Yours sincerely

Philip J Milton DipFS CFPCM Chartered MCSI FPFS FCIB
Chartered Wealth Manager
Fellow Of The Personal Finance Society, Fellow Of The Chartered Institute Of Bankers