

BMF WEALTH : INVESTMENT OUTLOOK 2018

10 April 2018

A PARADIGM SHIFT

We are now back in Sydney after a great research trip around the world where we confirmed our investment views outlined to you last year (under our Rethink. Re-evaluate. Reset Report), but more importantly have concluded that due to the changes in economics, geopolitics and demographics, we are entering a PARADIGM SHIFT in society which will affect all investment decisions.

We started our research trip with a full day tour of some of the properties invested in USA real estate funds in California, attended a three-day Strategic Investment Conference in San Diego, had full day meetings and presentations in Geneva and Zurich with our International Banking Relationships, attended another three-day conference at Burgenstock, Switzerland and finally attended meetings in London with International Fund Managers before returning to Sydney. Overall, we had in excess of 80 meetings and/or presentations and have been analysing the contents in detail.



We set out below just some of the comments made to us for your benefit and:

The 5 most important points are:

1. The key right now is to “stay alive” and to keep your capital intact
2. To have a plan
3. To increase cash
4. There is likely to be a recession in 2019 or 2020
5. Today’s Millennials and Generation Z are increasingly turning to socialism

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Other significant points raised at the conference are inter alia:

1. Lessen your overall risk, be more defensive
2. Be disciplined
3. Opportunities outside the USA provide more attractive valuations
4. Emerging markets should grow at 3% p.a. more than developed markets
5. Quantitative easing is now becoming quantitative tightening
6. In the past year FAANG stocks index is up by over 40%, now at a rollover point?
7. The USA stock market is the second most overvalued in history according to the Shiller Index
8. ETFs are a huge problem and should be avoided. What is actually in them?
9. The FED is more hawkish under Jay Powell – will raise interest rates
10. Trillion-dollar deficits lie ahead for the USA
11. USA 10-year bonds are likely going to 3.75% over the next year from 2.7% today
12. Changing policy shifts negative for China – structural reform taking place
13. Number of listed companies in the USA has halved over the past 20 years
14. The USD will likely bear the brunt of a lack of fiscal discipline over the long-term
15. China's working population is declining at an alarming rate
16. Once in a generation shift to inflation is happening
17. Very profound shifts in the oil market
18. India has good demographics and will have stronger growth than China in the decades ahead
19. Japan is entering a new bull market but faces political headwinds
20. In an inflation scenario, gold will take off
21. The magic of compounding works both ways
22. Baby boomers spending growth peaking in the 2020's and then falling
23. Bullish on commodities
24. Wage inflation is coming back in the USA
25. Wealth is being stolen by government policies
26. Amazon is a bubble? As for Tesla??
27. Extreme over indebtedness will lead to economic decline
28. Global interest rates to rise
29. Gold waiting to break up
30. Automation and robotics will dramatically alter the allocation of labour and productivity

For the past 10 years, investment portfolios have generally risen well and we have got used to the excellent returns achieved with relatively low levels of volatility. To me the most interesting comment made on our trip was by Grant Williams who said, "the magic of compounding works both ways." So, after 10 years, a million dollars invested in 2008 giving 8% p.a. net returns would value your portfolio today, in 2018, at over \$2 million. If compounding works in reverse, that \$2 million portfolio today will, on the assumption of an 8% p.a. decline, be worth half of today's value in 2028. E.g. down to \$1 million.

We are very cognisant of this fact and that is why we have been and are continuing to turn the dial away from investments directly correlated to the listed stock market and continue to diversify to protect your capital.

We are at the beginning of a PARADIGM SHIFT and accordingly, should you wish to discuss any of the above, please do not hesitate to call any of our Directors or arrange a meeting at your convenience.

Kind regards,

Barry Mendel, Executive Chairman