BMF WEALTH

Personal Excellence in Wealth & Family Office

A PARADIGM SHIFT – PART 2

7 January 2019

You may recall our newsletter "A Paradigm Shift" sent to you in April 2018. It is on our website (BMF Newsletter Link) together with other articles we have written over the past year.

Some nine months later, and looking back, we see how relevant our comments were back then. For example, we suggested some of the following:

1. "Lessen overall risk, be more defensive" – we have achieved this for our clients' portfolios.
2. "Quantitative easing is now becoming quantitative tightening" – we have seen this happen in the USA and Europe which in turn is putting pressure on interest rates to increase.
3. FAANG stocks are "now at a rollover point" – we were correct as Alphabet (Google) is down 20% from its highs; Amazon down 26% from its highs; Facebook down 40% from its highs; Samsung down 31% from its highs; Apple down 32% from its highs, and so on.
4. "The FED will raise interest rates" – there have been 4 interest rate increases in the past 12 months.
5. "Changing policy shifts negative for China" – we were correct again as the Shanghai Index is down 25% in the past year.
6. "Very profound shift in the Oil Market" – Oil prices have fallen 25% in the past year.
7. "Gold waiting to break up" – gold in AUD is up almost 9% in the past year.

In summary, we look back over the 2018 Calendar Year to see how the world equity markets have performed and the results are as follows.

1. The USA is down approximately 6%
2. Australia is down approximately 7%
3. Europe Top 50 index is down approximately 14%
4. Germany Top 30 index is down approximately 18%
5. The UK Top 100 index is down approximately 12%
6. Eurozone MSCI ETF is down approximately 19%
7. Asia MSCI ex Japan is down approximately 16%
8. Japan Nikkei is down approximately 12%
9. China Shanghai Composite Index is down approximately 25%
10. The MSCI All Countries World Index is down approximately 11%
11. The Sydney housing market is down by approximately 10%

Our clients' portfolios have outperformed the above. This has been achieved as we have taken an active effort to lessen your overall risk and to ensure that your asset allocation is more defensive. Whilst we admit that a few of our alternative strategic investments have been disappointing, we are still confident in them and expect a recovery in 2019.

So where do we go for the 2019 year? Firstly, we once again reiterate that we take a 5 to 7 year strategic outlook so the results for a year or two when isolated are not that critical. If we look back over the past 5 to 7 years, our clients have done well.

Nevertheless, we believe the following investment strategies will still be important for 2019.

1. Gold – Bullion and Gold Equities
2. Holding foreign currencies
3. Uncorrelated investments such as Alternative funds
4. Emerging markets including Asia
5. Holding sufficient cash both in AUD and USD in case of a liquidity crisis
6. Spreading your custodian risks by having a number of banks, both local and international, and avoiding wrap platforms
7. Minimizing debt
8. Owning companies and funds, both listed and private, which we believe in and have excellent management

The above are some of the strategies we believe in. Importantly, portfolios need to have the correct asset allocation, the correct asset mix and the right balances between the asset classes and within the asset classes.

We will be attending two major international investment conferences in March and May, as well as meeting with International Banks, Economists, Investment Advisers, Investment Strategists, Fund Managers and the like and once again we will bring back new ideas to our clients as we have done successfully for many years.

We, at Team BMF Wealth, wish you all a healthy and prosperous 2019 and we really appreciate our relationship with all our clients and thank you for trusting us in managing your wealth with you.

Yours sincerely,

Barry Mendel, Jill Nes, Brad Mendel & Justin Gaywood