BMF WEALTH

Personal Excellence in Wealth & Family Office

YOUR WEALTH – ADAPT AND GROW

30 May 2019

We have returned to Sydney after conducting two significant research trips over the past three months in the USA, UK, Switzerland and Singapore which included two conferences, one in Singapore and the other in Dallas.

However, we come back with some disturbing economic news which is a concern to us all. Should you care to read our newsletter "A Paradigm Shift" of 10 April 2018 and "A Paradigm Shift – Part 2" of January 2019, (both displayed on our website www.bmfwealth.com) you will notice that, in general, the tone and the tune have not changed to where we are now, our clients have also noticed that the positive changes in their portfolios have been based on the international research forays we have undertaken.

The three most important risks of investing are:

1. Losing money
2. Losing opportunity by not investing
3. Underperforming inflation

To ensure that the above three points are addressed, the best way to protect your assets is to diversify. Diversification should take place over asset classes, banks, custodians and countries. For this to be achieved, active asset management is a mandatory requirement over passive asset management. Importantly, we are firm believers that investment management requires uncomfortable idiosyncratic decisions

A sample of some of our research is set out below.

AUSTRALIA

A presentation on Australia by an internationally well-known strategist was given in Dallas – some points are set out below:

1. House prices vs per capita income since 1975 to date in Australia have gone from 100 to 230, and globally from 100 to 95. Under this scenario, House prices in Australia vs Income are 61% overvalued compared to the USA which is 1% undervalued.

2. Household debt as a percentage of income is approx. 190% and in the USA, its approx. 98%

3. China's economic miracles may have ended - China GDP growth year on year is slowing.

4. The big 4 Banks in Australia on average pay out 79% of their profits as dividends compared to the big 4 banks in the USA where the payout ratio is about 27%. This dividend payout ratio is unsustainable.

GLOBAL

An extract of comments also raised by a wide array of 34 speakers included:

1. Tactical advice will assist in making investors more resilient.
2. The boom in US Corporate earnings per share is mainly due to the Corporates buying back their shares. USA corporates have spent $3.5 Trillion over the past ten years doing so!
3. Cash flows of businesses are affected by servicing the debt.
4. Bearish views generally on China
5. Europe is becoming an outdoor museum. The European Union is a treaty imbedded in a culture that's not there.
6. The USA has changed the way it is dealing with Russia, Iran and China. It won't go to war but it will use its economic power to get results.
7. A global recession by end of 2020

Conclusion:

The above represents a small sample of economic beliefs discussed over six days in two conferences, and over 50 meetings internationally with the best and brightest economic advisors around the world.

Whilst no one can predict the future, our job is to analyse the information and use the experiences we have to adapt client portfolios to the changing economic environment so that the three risks outlined on page 1 of the report are mitigated. To this end, we believe we have achieved our goals by the diversification and growth evident in our clients' portfolios.

To quote Lenin "There are decades in which nothing happens and then there are years when decades happen"

Our global Wealth Management business is at the cutting edge of ensuring client portfolios are growing and are diversified. Our uniqueness is that we invest in every investment we recommend so that we are completely aligned with our clients.

Please contact any one of our directors should you wish to discuss the impact of our research in detail on your portfolio.

Kind regards,

Barry Mendel, Jill Nes, Brad Mendel & Justin Gaywood