Watson Moore's Monthly Investment Update

October 2019

Contents:

PERFORMANCE UPDATE

- **The portfolios remained largely unchanged, with the exception of the Income Generating portfolio which rose by 1.69% and the Fourth Industrial Revolution (previously Third Industrial Revolution) which suffered a loss of 1.39%.**

- Every main asset class that we monitor is above trend, which has resulted in our portfolios accepting more risk. This risk has been rewarded over the last 6 months.

- Boris is pushing to get Brexit done and we are approaching the 31st October deadline. We still have no clarity on what is going to happen, with bookmakers taking bets on every eventuality.

- Central Banks globally are in fear of another recession so are doing everything possible to stimulate the economy. This is nowhere more so than in the US, where they lowered interest rates by 0.25%, taking the range to between 1.75% to 2%. However, there has been a shortage of Dollars and the range has been going above 2%, forcing the US Central Bank to provide liquidity. This could mean that interest rates will not go down any further from here.

- The yield curve inverted in August, which potentially signals that a global recession is coming within the next 2 years. However, the inversion did not last long and we wait to see whether this time it is different, or we do indeed experience a recession shortly.

- The performance of the portfolios over the last month, 6 months, and one year are shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-0.47	7.90	7.10
Cautious	-0.10	5.23	-0.01
Balanced	0.08	6.67	0.87
Adventurous	-0.05	7.61	0.29
Dynamic Equity	-0.06	8.29	5.07
Income Generating	1.69	5.23	4.84
Fourth Industrial Revolution	-1.39	3.44	-0.20
Retirement Investment Solution 1	0.06	6.90	3.49
Retirement Investment Solution 2	0.05	7.03	3.52
Retirement Investment Solution 3	0.04	7.14	3.55

Please note that these figures do not include the platform or Watson Moore's fees.

Trend Following Signals

The table below shows whether the asset class is either in a positive trend (✓) or a negative trend (×). The portfolios will have more exposure to those asset classes in a positive trend and less (if any) to those in a negative trend. These are the main asset classes we monitor:

Asset Class	Trend Signal	Asset Class	Trend Signal
Global Equity	✓	Emerging Market Equity	✓
UK Equity	✓	Commodities	✓
Europe ex UK Equity	✓	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	✓	UK Index Linked Bonds	✓
Pacific Equity	✓	Global Bonds	✓
Gold	✓	UK Gilts	✓
Global Property	✓	Emerging Market Bonds	✓
		Overseas Corporate Bonds	✓

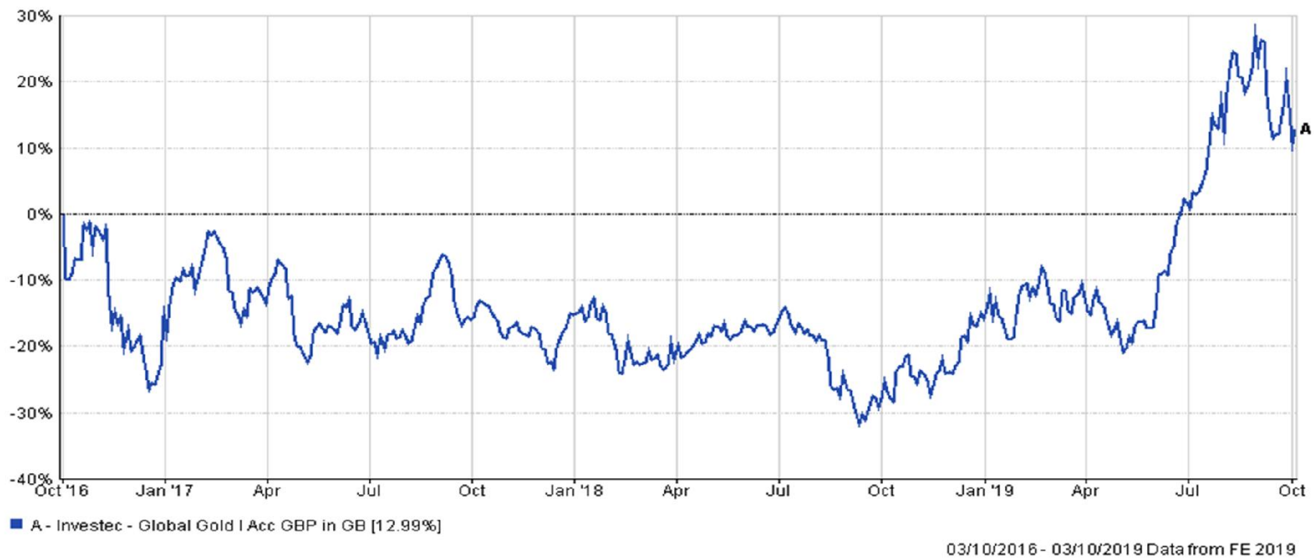
There have been no changes to the trend signals and all of them remain positive for the fourth month in the run.

Cautious, Balanced and Adventurous portfolios

No changes were made to the Cautious portfolio as all the trends remain positive. However, for the Adventurous and Balanced portfolios we invest more money in those asset classes that are displaying the strongest momentum (going up the most). This month for the Adventurous portfolio we sold out of healthcare stocks and emerging market bonds, reinvesting the proceeds in gold mining companies and overseas corporate bonds. For the Balanced portfolio we sold emerging market bonds but as we already have overseas corporate bonds, we purchased the next strongest bond class which was overseas government bonds.

Dynamic Equity portfolio

The momentum philosophy that forms the core of this portfolio attempts to invest more money in those markets that are experiencing the strongest growth. There was one change this month as healthcare dropped out of the "momentum" screen, to be replaced by gold mining companies. Our preferred way of investing in gold mining companies is via the Investec Global Gold fund and you can see that since June this year, gold mining companies have been performing well. It is also pleasing to note that they have pulled back from the recent highs so this could be a very good entry point:



Foundation portfolio

The portfolio remains fully invested and no changes were made.

Income Generating portfolio

No changes were made to the Income Generating portfolio. The portfolio has a large weighting in UK equities due to the high level of dividends that UK companies are paying. UK equities rebounded somewhat, and the portfolio was our best performing one last month, after suffering the most the previous month. We do believe that UK equities are considerably undervalued, and the level of income offered from the FTSE 100 is extremely high. Once we have some clarity over Brexit, we do believe that UK equities will become favourable again for overseas investors due to the high level of income being offered and that the Income Generating portfolio will benefit significantly. The portfolio overall is paying a yield of 3.87%.

Fourth Industrial Revolution portfolio

Back in December 2016 we launched our 'Third Industrial Revolution' portfolio. Since then the portfolio has grown by 44%, significantly outperforming the benchmark which has returned 34% by comparison. We have been extremely pleased with the performance.

The Third Industrial Revolution portfolio is unique, and no other UK investment manager has replicated our portfolio. The idea behind the Third Industrial Revolution portfolio was conceived by our investment adviser Dr David Brown (the co-founder of Viagra). The first articles written by him and on the subject can be found below:

https://www.forbes.com/sites/goncalodevasconcelos/2015/03/04/the-third-industrial-revolution-internet-energy-and-a-new-financial-system/#44709a92271a

Whilst we named it the Third Industrial Revolution, and still believe it is, unfortunately the US government, UK government, Wikipedia and the general mainstream press believe we are now in the Fourth Industrial Revolution. They believe that the Third Industrial Revolution included the personal computer, the internet and the digital revolution. They believe that the Fourth Industrial Revolution builds on the Third Industrial Revolution and includes breakthroughs such as robotics, artificial intelligence, nanotechnology, quantum computing, biotechnology, The Internet of Things (IoT), 3D printing and autonomous vehicles. Whereas we believe the Third Industrial Revolution never stopped, we do not believe we will change the terminology used by the establishment. Therefore, we have decided to change the name of the portfolio from Third Industrial Revolution to Fourth Industrial Revolution (4IR). The investment process behind the portfolio will not change, only the name. If you would like to know more about the portfolio or indeed invest further monies, then please do not hesitate to contact us.

Retirement Investment Solutions

No changes were made this month to the trend following part of the Retirement Investment Solutions and the portfolios are fully invested. The Retirement Investment Solutions are invested in not only a trend following portfolio, but the Foundation and Dynamic Equity portfolios as well.

Summary of Portfolios

For the fourth month running, every main asset class that we monitor is above trend and as a result our trend following portfolios are fully invested. Despite a difficult month in August and a relatively flat month in September, this additional risk is being rewarded as the returns over the last 6 months have been good.

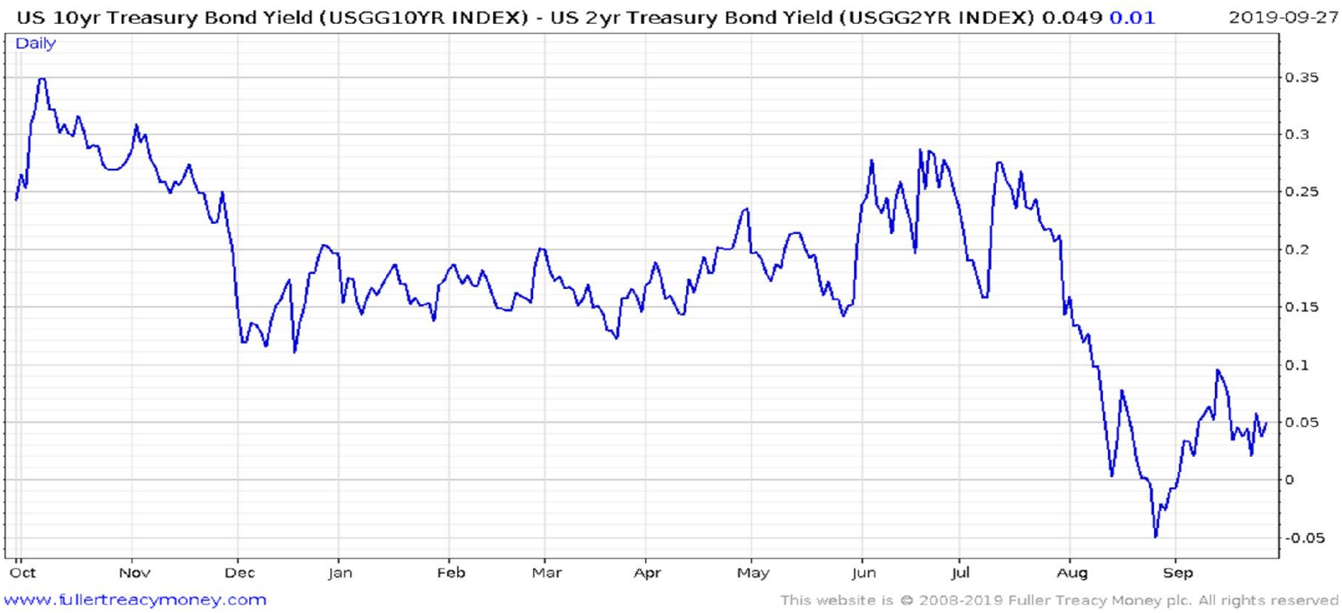
Having a period in which trends have all remained positive for a long period is very encouraging, especially as we are now entering the seasonal period in which we have historically experienced the strongest returns. Whilst this is positive, we must balance it out with the knowledge that Brexit, Trump and a possible recession forecasted will create much more volatility with our wealth than normal.

ASSET CLASS REVIEW

This section will give you an insight into our current thinking, and below are some charts that look interesting.

The Yield Curve – just in positive territory

The yield on the ten-year US government bond is currently higher than the yield on the two-year, which is the normal way of things. However, the curve did invert last month (go negative), and this has been a good recession indicator in the past. This was the briefest of inversions and investors are beginning to say that it wasn't inverted for long enough and this time it is different. What we do know is that it is good news that the yield curve is now positive, but the same thing happened in 1998 and therefore we must remain wary over the next couple of years:



Gold – the start of a new long-term upward trend?

The chart below shows how gold peaked in 2011 before falling from over 1800 to below 1100. We then experienced a sideways trading range mainly between 1150 and 1350 before it broke out above this range this year:

Gold is somewhat known as a "safe haven" and investors use it in times of uncertainty. However, the only part that is important to us is that it is now in a strong upward trend and our trend following portfolios have exposure to it.

China – the trade war is affecting its stock market

Recent economic data has shown that China's economy is suffering from Washington's imposition of tariffs on over half its exports to the US. Factory output growth has hit a 17-year low, and car sales have fallen in 14 of the last 15 months. Whilst the US stock markets are all close to their all-time highs, the Chinese stock market has suffered since early 2018. We are possibly at a time in which both Trump and China need a deal, and this could boost global stock markets.

Gilt yields – very volatile but still on a downward trend

The chart below shows the yield that you can get from investing in 10-year UK government bonds. As the yield falls the price of the bonds rise. You can see how the yield fell significantly, but last month the yield rose from 0.4% to 0.7% and then fell back to 0.5%. This means that one of the safest places to invest your money has become more volatile. Whilst UK government bonds fell in September, the price of bonds is still on an upward trend.

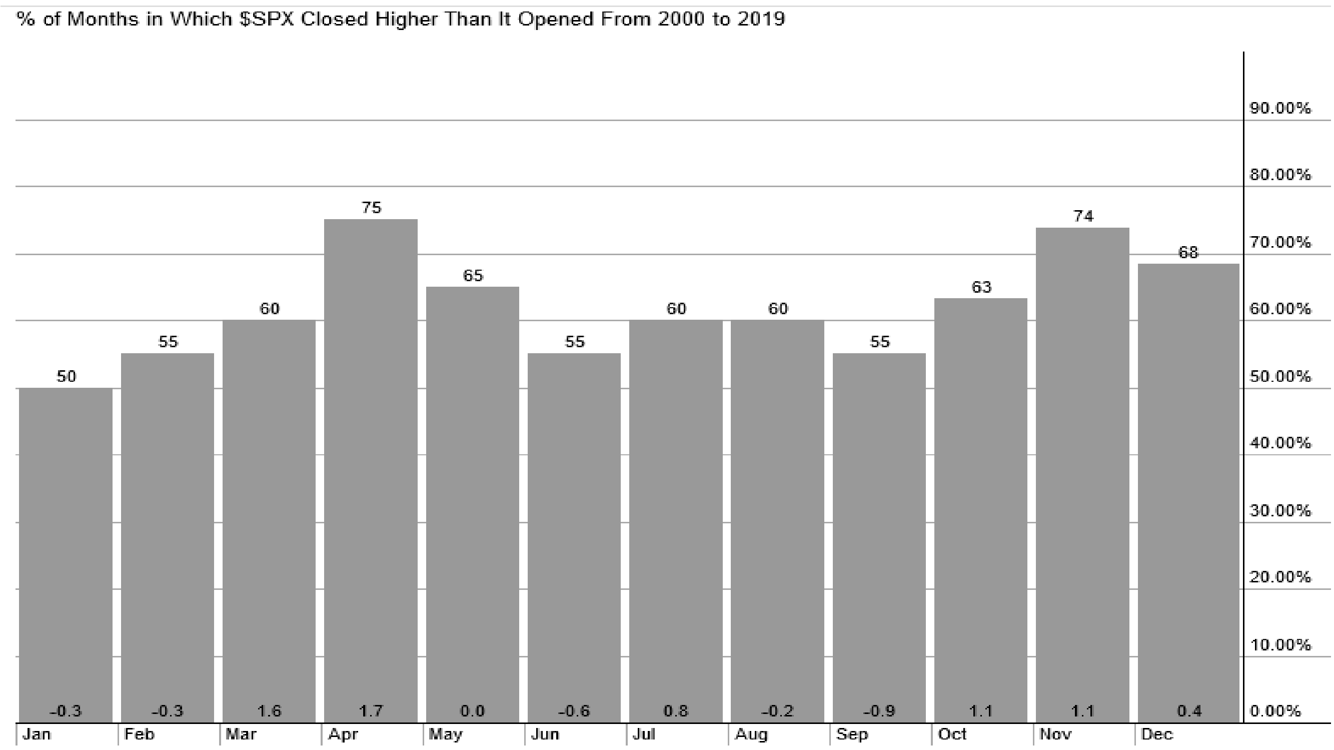
DONCASTER - WHY IS THIS TOWN SO IMPORTANT?

Doncaster Racecourse

The old stock market adage, “sell in May and go away, come back St Ledger’s day”, has been a remarkable forecaster of stock market returns. The notion being that stock markets were dominated by the upper class and whilst they were busy enjoying the summer attending sporting events, liquidity would be thin. Anyone trying to sell would be met by an absence of buyers and prices would fall. Better to wait until the world’s oldest classic flat race, the St Leger, has taken place at Doncaster Racecourse in mid-September and business returned to normal, before venturing into the market.

Does it still work?

The chart below shows the average monthly return of the main US stock market over the last 20 years, together with the percentage of times the month produced a positive return. For example, October produced a positive monthly return of 1.1% and was up 63% of the time:



As you can see, the months of October, November, December, March and April produce the strongest returns, whilst the months between May and September have only one positive month. The winter months produced a positive return of 5.3% whereas the summer months gave a negative return of 0.9%. Whilst this is based on the main US stock market, the same seasonal returns seem to work on most stock markets and over most time periods.

In Summary

Whilst Doncaster might not be the most famous town in the world, it has somehow become an important predictor of stock market returns. We are now in the period in which stock market returns have historically been the strongest.

FINAL COMMENT

We are approaching crunch time with Brexit as well as Trump's trade war with China. This could bring much volatility to the portfolios over the next few months. However, if progress is made on both issues, we do have a catalyst for the next move higher in global stock markets.

We believe that Trump wants a deal with China in order to assist him in being re-elected President. This will push stock markets higher and help the global economy avoid a recession. We would not be surprised if this happens sooner than later as economic data is deteriorating in both China and the US.

In respect of Brexit, a "deal" could mean that investors move money back into the "unloved" FTSE 100 and a "no deal" would mean sterling falls which helps our overseas holdings. Therefore, both scenarios could be good for our wealth in the short term.

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