Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
April 2020

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Performance Update

Stock markets crashed in March, and we have seen some of the largest daily losses (and gains) since the 1930's. The FTSE 100 fell 13.41%* and the FTSE 250 fell 21.73%*, leading to losses in the portfolios of between 3.93% and 13.98%.

The FTSE 100 fell 23.84%* during the last quarter and most global stock markets are now classified as being in a "bear" market. This is where losses have exceeded 20% from their highs. To give some context of volatility levels witnessed in March, the US S&P 500's average daily change was 5.2% easily exceeding the previous record of 3.9% set in November 1929. Unprecedented has become a word used most days.

As at the end of the month, coronavirus had infected 872,893 people, with 43,271 deaths. We are bracing ourselves for the peak of the virus over the next few weeks. Whilst the news flow will be terrible, there is also much progress on testing, tracking and vaccinations, as the world's top scientists and medical companies all work on improving the situation.

The reaction of central banks and governments has been unprecedented, and we are seeing wartime-like stimulus measures being put in place to keep economies going. The exact policies differ from country to country, but they have lots in common. Governments and central banks have acted fast, in unison, and in size. This has helped global stock markets stabilise.

As stock markets and some bond markets broke below trend, the amount of cash in the lower risk portfolios has significantly increased.

The performance of the portfolios over the last month, 6 months and 1 year is shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-5.17	-8.77	-1.56
Cautious	-3.93	-8.59	-3.81
Balanced	-4.20	-10.27	-4.28
Adventurous	-5.21	-10.95	-4.18
Dynamic Equity	-9.93	-15.43	-8.43
Income Generating	-13.98	-17.34	-13.00
Fourth Industrial Revolution	-6.14	-5.18	-1.91
Retirement Investment Solution 1	-4.22	-8.91	-2.62
Retirement Investment Solution 2	-5.02	-9.90	-3.57
Retirement Investment Solution 3	-5.77	-10.82	-4.46

Please note that these figures do not include the platform or Watson Moore's fees.
*All figures are sourced from Financial Express to 31.03.2020.

Trend Following Signals

The table below shows whether the asset class is either in a positive trend (✓) or a negative trend (x). 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		Trend Signal
Global Equity	x	Emerging Market Equity	x
UK Equity	x	Commodities	x
Europe ex UK Equity	x	UK Corporate Bonds	x
US Equity	x	UK Corporate Bonds (Short dated)	x
Japan Equity	x	UK Index Linked Bonds	✓
Pacific Equity	x	Global Bonds	✓
Gold	✓	UK Gilts	✓
Global Property	x	Emerging Market Bonds	x
Global Infrastructure	x	Overseas Corporate Bonds	x

Every equity market is below trend, whilst corporate and emerging market bonds fell below trend this month on fears that companies and developing nations may default on their debt.

Cautious, Balanced and Adventurous portfolios

These three portfolios have been very dynamic in their reaction to events and the table below breaks down the proportion of each portfolio invested in cash, bonds and gold. These three asset classes are considered to be defensive assets as cash remains static when stock markets fall, while bonds and gold have experienced gains, thereby offsetting some of the falls in the rest of the portfolio. As you can see the amount in defensive assets is significant:

Portfolio	Cash %	Bond %	Gold %	Total Defensive %
Cautious	62.3	12	6.3	80.6
Balanced	62.3	10	2.7	75.0
Adventurous	54.8	5	2.8	62.6

The shift to defensive assets started on the 1st February. Global stock markets have fallen significantly over the last 2 months but our trend following investment philosophy has reduced the risk in these portfolios. We do not know which direction stock markets will go from here but having less invested in them is reassuring. Going forward, once we see stock markets begin to trend upwards in a consistent way then exposure to them will once again increase.

Dynamic Equity portfolio

The momentum philosophy that forms the core of this portfolio attempts to invest more money in those stock markets that are experiencing the strongest growth (or the lowest losses). No changes were made to the portfolio this month and we are overweight US Equities, gold miners and technology .

Foundation portfolio

The portfolio increased its exposure to defensive assets, which now stand at 75.75%. This portfolio will always be more diversified than the Cautious portfolio as it will always have some money invested in each asset class i.e. when the trend is down on UK Corporate bonds it will still invest some money in them, whereas the Cautious portfolio will reduce to zero .

Income Generating portfolio

There is a large allocation to UK equities within the portfolio and, with the FTSE 100 falling 13.41% last month, the portfolio was affected negatively. Companies are announcing the suspension of dividends but even if half of them stop paying dividends, the whole of the FTSE 100 index will still offer attractive levels of income compared to what is being offered by cash and gilts. We believe that this portfolio has the best opportunity to rebound, once a recovery is underway.

During this period of uncertainty, the portfolio has increased the cash position to 20% by selling higher risk bonds, UK equities, infrastructure and property funds. We will look to deploy this when stability returns.

Fourth Industrial Revolution portfolio

The global corporate landscape continues to be reshaped by a revolutionary combination of technological innovation and changing consumer preferences, which is upending established business models. Covid-19 will only accelerate this change as new habits are formed such as working from home. The portfolio is ideally positioned to benefit from this as it invests in some of the world's leaders in technology, cyber security, artificial intelligence (AI) and biotech. It is quite easy to see how these types of companies will do well in this current environment.

Working from home means more work for cyber security firms; biotech companies will receive more funding to fight future viruses; companies will turn more to robotics to make them less reliant on humans to produce goods; and data will become ever more important in controlling Covid-19 and future viruses.

Retirement Investment Solutions

Similar to the Foundation, Cautious, Balanced and Adventurous portfolios, the exposure to defensive assets has increased significantly and now stand at 74.5%, 64.3% and 57.1% for the Retirement Investment Solutions 1, 2 and 3 respectively.

Summary of Portfolios

Global stock markets have fallen significantly over the last 2 months as well as some bond funds. Companies are cutting or suspending dividends and we do not know how long the economic shut down will last. Governments and central banks have helped stabilise economies and if we start getting some better news on the fight against Covid-19 then we could see a strong recovery. Conversely if the news gets worse we could see another leg downwards. Our portfolios have been very dynamic over the last few months and will continue to be so. Our trend following investment philosophy has reduced the risk to our lower risk portfolios significantly.

Asset Class Review

This section will give you an insight into our current thinking and we have included some charts that we believe look interesting. With stock markets experiencing some of their steepest ever falls, we look at what damage has occurred in some of the world's biggest and most important markets.

S&P 500 – recovering somewhat

The blue line is the main US stock market (S&P 500) and the red line is its trend line. As you can see, it has fallen significantly below the trend line but is also recovering somewhat. The US continues to outperform most other stock markets.

Gold – moving higher

In times of uncertainty, gold tends to do well and we have seen this happen again this time around, with the market moving much closer to the 2011 highs. However, during the month gold fell by over 10% and then recovered. We believe that this was as a result of panic selling by large hedge funds who had to sell anything they could to shore up their losses from their equity investments. Gold recovered as the US Government announced that they would pump money into the economy and this probably stopped one or more hedge funds from collapsing:

UK stock markets – back to 2013 levels

The FTSE 250 is a stock market that measures the value of medium-sized UK companies. As you can see, it has fallen dramatically and is back to 2013 levels:

Europe – a similar pattern to the FTSE 250

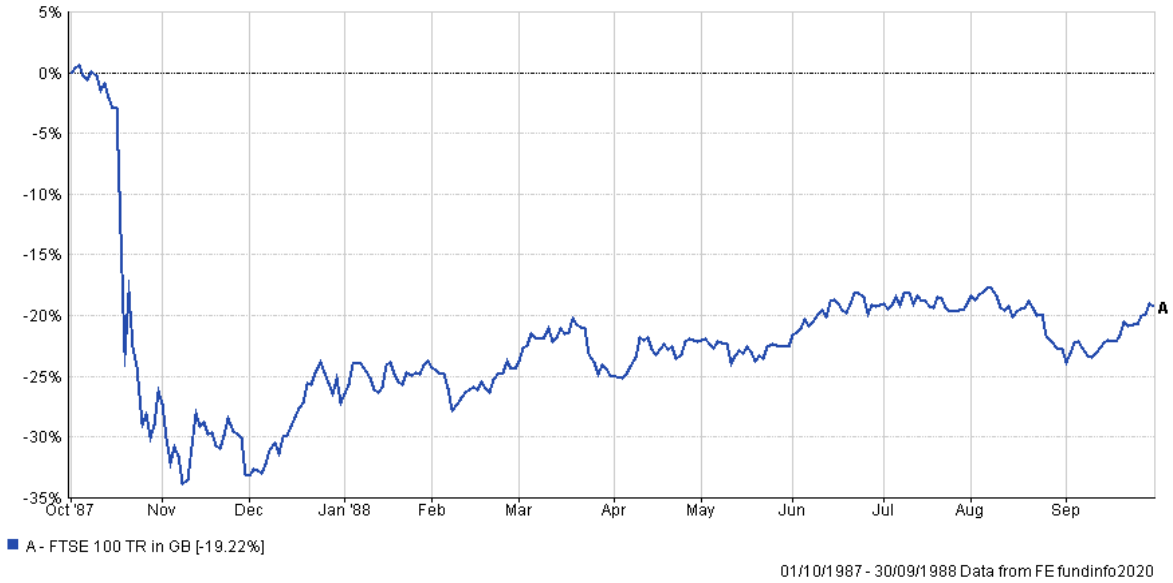
The stock market has fallen back to levels seen in 2013 but is beginning to recover somewhat:

Summary

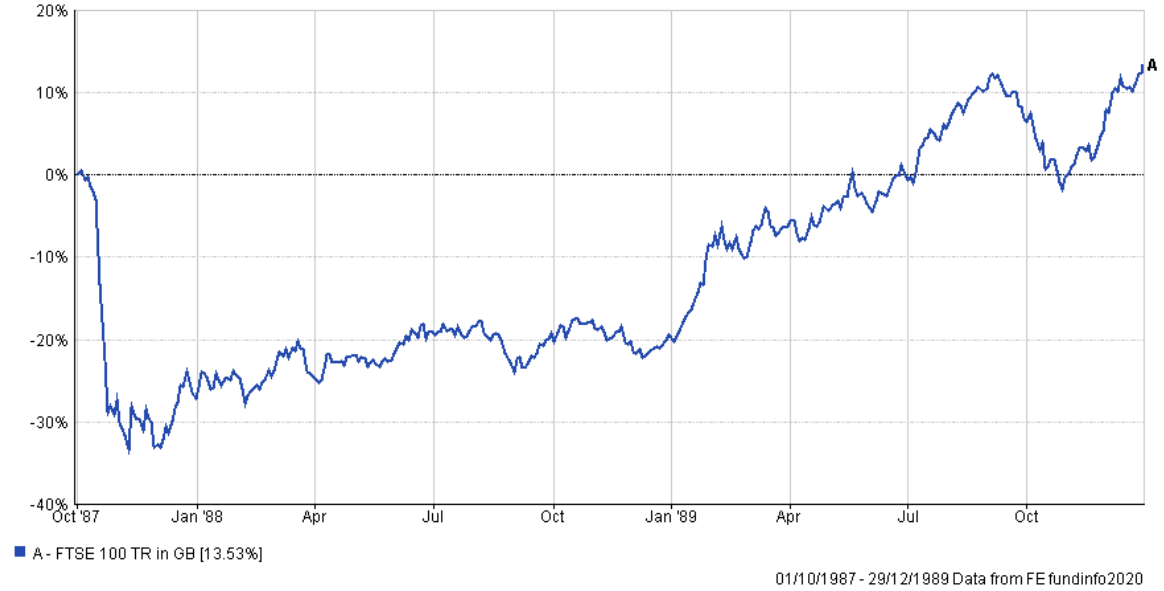
Stock markets fell dramatically during the month. If markets begin to recover, we will probably see some markets recover much more quickly than others. Currently the US is recovering the quickest.

Just Like 1987?

Global stock markets have fallen significantly and rapidly, with some falling more than 40% from their highs. Therefore we have experienced a stock market crash and simply this means that the falls are driven by panic as much as by underlying economic factors. The daily swings we are experiencing are very reminiscent of the crash in 1987 and if we look at the chart of the performance of the FTSE 100 during this period, we can see how it fell by between 30-35% in less than 6 weeks before a period of volatility, followed by a slow recovery:



We have experienced a similar 30-35% fall in the FTSE 100 as well as the short-term bounce of around 10%. If we follow the same pattern, we will see another wave of selling before a more stable recovery. This does not mean that stock markets cannot fall further, as each time is different. However, the behaviour of humans when faced with significant losses has not changed between 1987 and now; and therefore it is plausible that a similar pattern could emerge. The catalyst for the recovery is that governments globally are determined to protect the economy and will do whatever it takes, which means a merger of far right and far left politics, with every politician behind the plan. If we extend the 1987 chart, we can see how by July 1989, the FTSE had regained the losses:



Summary

Whilst the world has changed over the last 33 years and the cause of the stock market crash is dramatically different, human nature has largely remained the same. The reaction of stock markets currently appears to be very similar to 1987 and this could mean a full recovery over the next few years.

Final Comment

The Covid-19 pandemic has been a profound shock for societies and economies the world over. For the first time in modern history, the world has experienced a synchronized shutdown of most economic activity and the enforced quarantine of almost entire populations. Our lower risk portfolios have reacted by becoming significantly more defensive.

Where stock markets go from here depends on the virus and how long the global economy is shut down for. The reaction of central banks and governments, the recovery in China, as well as how markets reacted after a similar crash in 1987 gives us some cause to believe that stock markets will recover.

Whilst this investment update aims to provide you with some reassurances as to how we are currently managing your wealth during this crisis, for us, by far the most important factor is that you and your loved ones stay safe and well.

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