Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
May 2020

Contents:

Performance Update

Global Stock markets recovered some of last months losses in April, with the FTSE 100 rising 3.9%* and the FTSE 250 rising 9.21%*. This led to gains in the portfolios of between 2.31% and 12.93%.

We are experiencing the worst economic data since the Great Depression. Perhaps the most striking fact is that there are now 33 million Americans unemployed, which translates into an unemployment rate of 20.6%.

Despite the terrible headlines, stock markets rallied in April, but began to fall again on the last few days of the month. Where they go from here really depends on medical matters: how effective the containment policy is, whether antibody testing works, the occurrence of a second wave of infections, and when a vaccine will become available.

Global policymakers have done well to prevent a worldwide health and economic emergency from becoming an immediate financial crisis. They have stimulated the economy by more than they did in the financial crisis of 2007-09, but will it be enough?

On the positive side, there are currently around 70 different contenders in the testing phase for a vaccine and limitless resources will be applied to the problem until one is found that works. The world's best scientists have been working on solving this problem and as news that a drug called Remdesivir was showing good results in treatment of the disease, stock markets moved higher.

Our portfolios remain relatively defensively managed and are also invested in some of the companies that are at the forefront in the fight against Covid-19. This is an important time for identifying the future stock market winners and we believe that technology and healthcare will be two of those winning sectors. 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	3.28	-3.02	0.80
Cautious	2.31	-4.14	-2.49
Balanced	2.77	-5.26	-3.16
Adventurous	3.16	-5.67	-2.77
Dynamic Equity	11.53	-3.26	0.26
Income Generating	5.28	-12.05	-10.67
Fourth Industrial Revolution	12.93	7.56	7.31
Retirement Investment Solution 1	3.58	-3.38	-0.17
Retirement Investment Solution 2	4.67	-3.42	-0.22
Retirement Investment Solution 3	5.70	-3.45	-0.27

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.04.2020.

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	✓
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	✓

The only equity markets that were above trend at the end of the month were the technology and healthcare sectors. UK and overseas corporate bonds moved above trend this month as governments pumped money into the economy thereby reducing the risk that companies will go bust.

Cautious, Balanced and Adventurous portfolios

These three portfolios have been very dynamic in their reaction to events and the shift to defensive assets started on the 1st February. The amount invested in defensive assets remains high, but this month exposure to healthcare and technology was increased in all three portfolios as these sectors broke above trend. These two sectors are the early winners and have recovered the quickest as they are both important in the fight against Covid-19. No other stock markets have moved high enough to break above their trends, although the US and Switzerland got close until they started to fall towards the end of the month.

Exposure to UK and overseas corporate bonds increased as governments helped reduce the risk that companies will go bust and therefore not be able to repay their debts.

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). Healthcare came into the portfolio this month at the expense of Europe, as healthcare stocks rose significantly in April. We are overweight US equities, gold miners, healthcare and technology. Gold miners rose over 40% in April which helped the portfolio achieve some extremely positive returns. This demonstrates how following a momentum driven investment strategy can reward you.

Foundation portfolio

The portfolio increased its exposure to healthcare and technology as well as UK and corporate bonds. 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 equities it will still invest some money in them, whereas the Cautious portfolio will reduce to zero. This means that it can produce better returns when stock markets rally after crashing, but also means that if stock markets continue to fall then the portfolio can fall further.

Income Generating portfolio

In March we reduced exposure to companies that had historically been paying higher dividends as many companies announced they were reducing or suspending their dividends to conserve cash during these difficult times. In April we further reduced exposure to these previous dividend payers by another 5%.

The portfolios have started to pivot and invest in companies that would be described as more growth orientated: these are ones that reinvest more of their profits in growing the business while paying lower dividends. Many of the companies that we are increasing exposure to are in the technology and healthcare sectors. We invested in the L&G Global 100 fund which invests in the largest 100 global multinationals. By its very nature, 39.9% is invested in technology companies such as Microsoft. While Microsoft only pays a dividend of 1.15%, it has increased this for the last 16 years and has $136 billion in cash. We believe that this company will continue to increase its dividend going forward. In addition, the fund invests 25.2% in consumer products such as Nestle (people buy chocolate even in a global recession!) as well as 15% in healthcare. The fund is ideal for increasing exposure to our favoured sectors whilst paying a dividend yield of 2.2%. As a result, the overall cash levels within the portfolio reduced from 20% to 15%.

The changes made, as well as possible future changes, will ensure that the Income Generating portfolio is best set up to benefit from the eventual recovery in global equity markets. This will be achieved by investing more money in those companies that are set on growing their dividends but from a slightly lower base.

Fourth Industrial Revolution portfolio

The portfolio grew by 12.93% in April and is up 7.31% over the last year, despite the FTSE 100 falling by over 17%. 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. These three funds are ideally positioned to benefit from this as they invest 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.

We believe that the underlying themes within this portfolio will be the most profitable ones over the next ten years and we have increased exposure to them within our other portfolios. However, we must also be aware that this portfolio will fall significantly more from time to time.

Retirement Investment Solutions

Similar to the Foundation, Cautious, Balanced and Adventurous portfolios, the exposure to healthcare, technology and UK and overseas corporate bonds increased. However, the portfolios still remain defensively positioned.

Summary of Portfolios

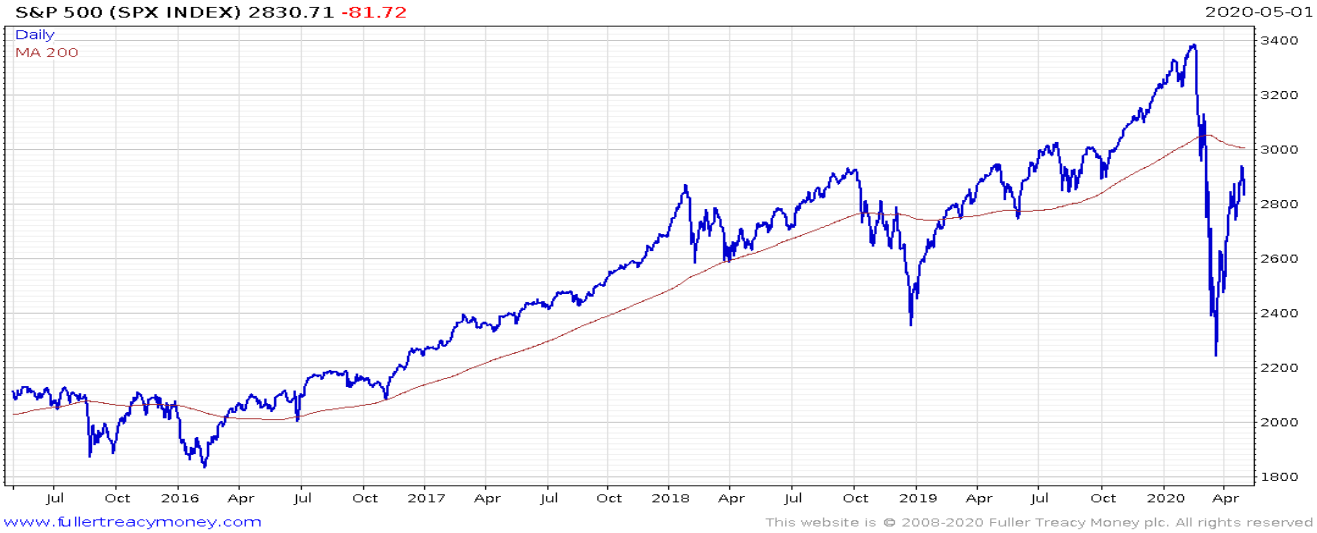
We have seen a sharp rally in global equity markets and our portfolios benefitted from this. However, there are signs that the rally might be over as stock markets began to fall in the last few days of the month. Where they go from here depends mainly on the virus and our fight against it. Our trend following investment philosophy reduced the risk to our lower risk portfolios significantly, but as we start to identify the winners (currently technology and healthcare), exposure to equities has started to increase. We are at a pivotal period for investing wealth and we are flexible enough to be able to pivot portfolios so that they can invest more in the sectors/regions that are performing the best and displaying upward trends. Very few investment companies are as dynamic and will remain invested in the same places regardless of market conditions.

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 how some of the most important markets have begun to recover.

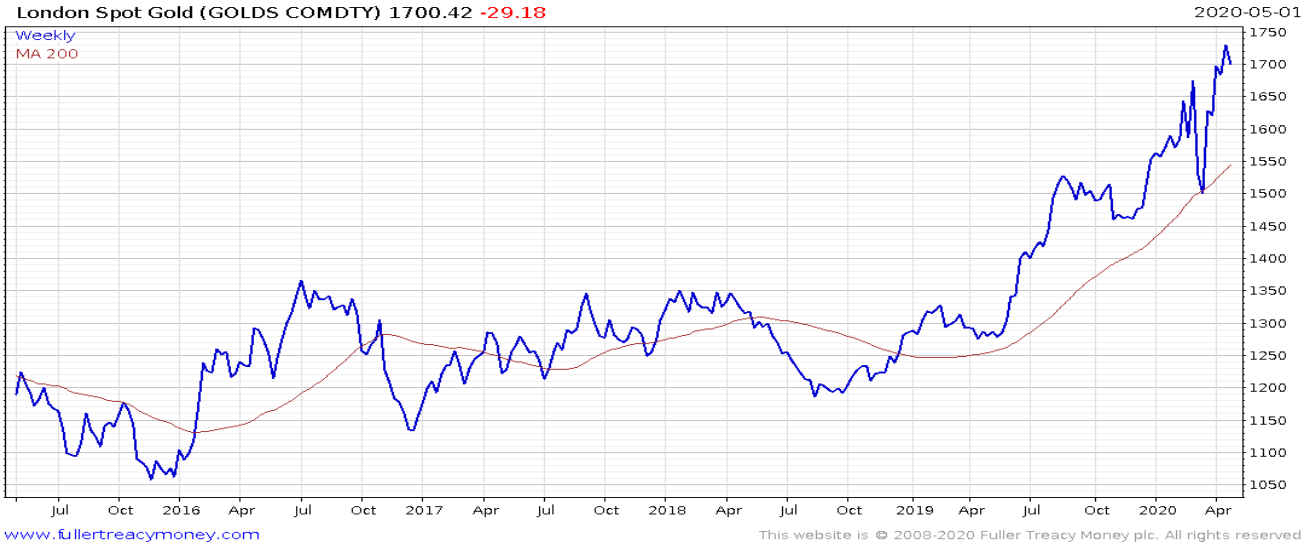
S&P 500 – recovering somewhat

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 recovered significantly towards the red trend line. However, just as it approached the trend line, the market started to fall. This is a very typical reaction whereby investors begin to start buying a market because they believe it has fallen too much, but the recovery stops at a major trend line and investors begin to sell, thus taking a quick profit. History shows that the market is likely to fall a bit further before a second attempt at moving above the trend line takes place. The US continues to outperform most other stock markets.



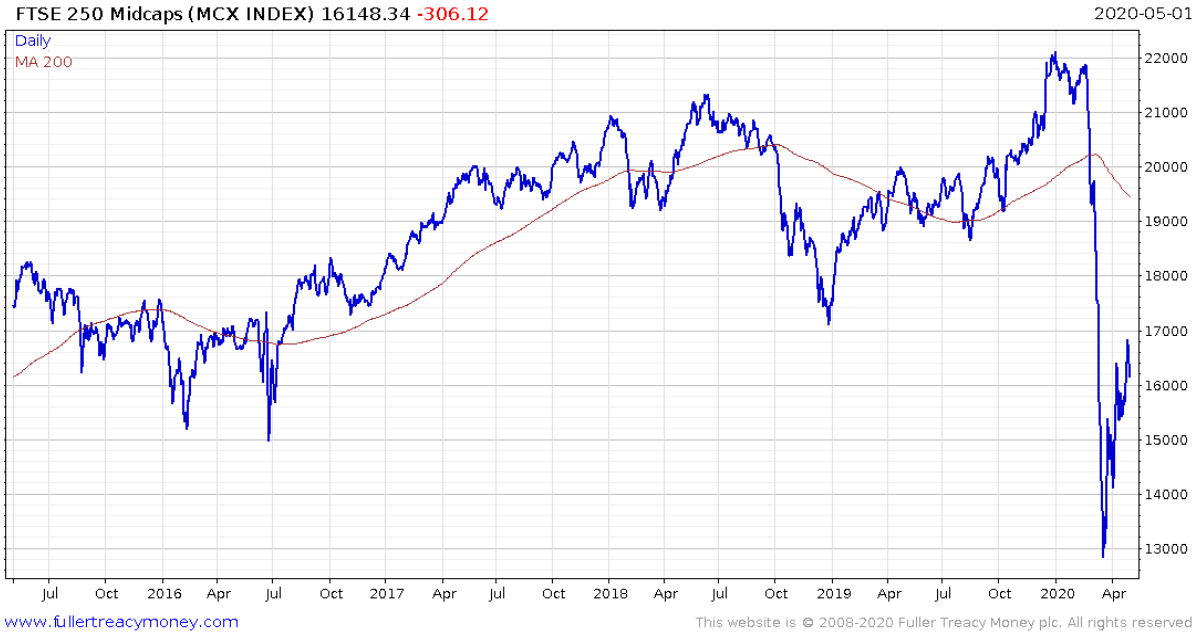
Gold – moving higher

In times of uncertainty, gold tends to do well and we have seen this happen again this time around, with the market continuing to move higher:



UK stock markets – a reasonable recovery

The FTSE 250 is a stock market that measures the value of medium-sized UK companies. As you can see, it has also begun to recover but not as much as the US stock market:



Europe – a similar pattern to the FTSE 250

The stock market is displaying a similar pattern to the FTSE 250. Europe has some of the world's leading healthcare companies such as Roche (building an antibody test for Covid-19) and Sanofi (developing a Covid-19 vaccine) but also some of the world's biggest companies that are in industries most impacted by Covid-19 such as Airbus and BMW:

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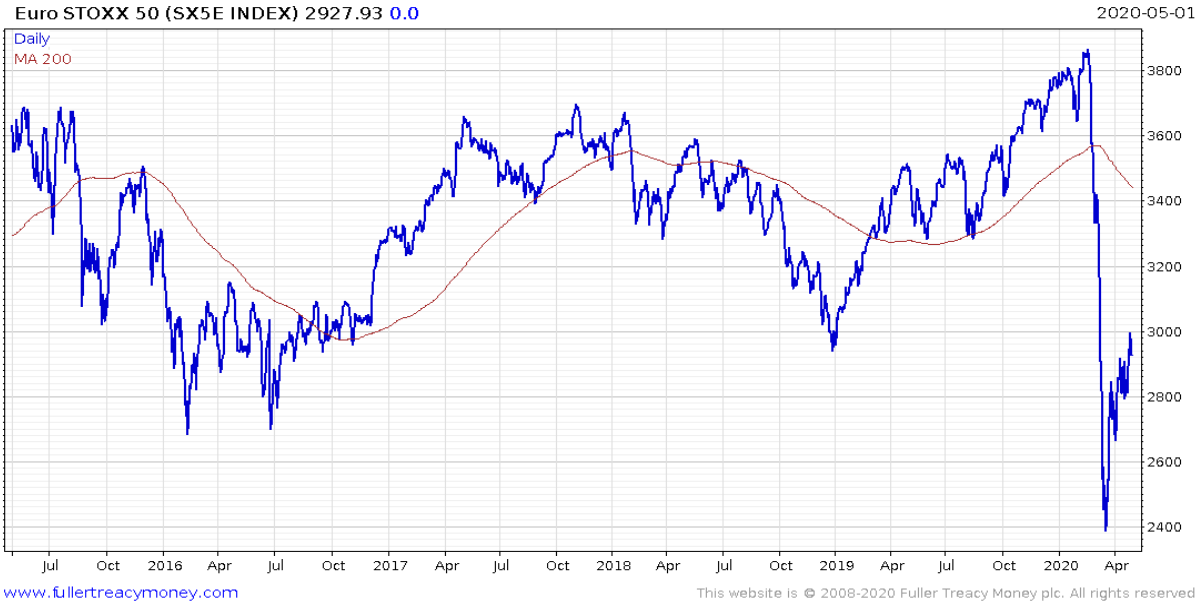


Summary

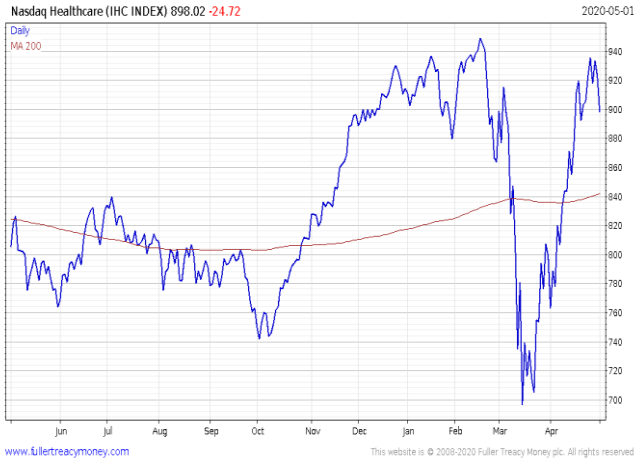
The US stock market is clearly winning the recovery race, mainly due to having some of the world's best technology companies, which are the clear winners from Covid-19. However, the recovery looks like it is at a stage where it is pausing and we will see markets fall back somewhat.

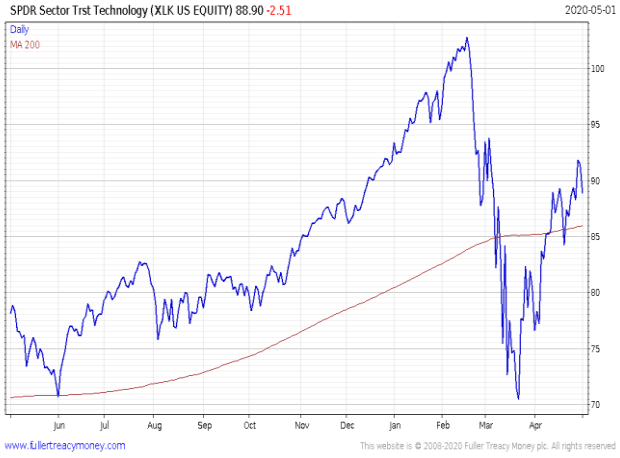
You are Saving the World

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 most important industries at the moment are the healthcare and technology sectors. Between them they are building the machinery designed to overcome Covid-19 by researching vaccines, drugs to fight the disease, technology to monitor the spread of the virus, testing equipment and anti-body tests.

Our portfolios invest in the healthcare and technology sectors and by this very virtue your money is helping to fund the companies that are helping to save the world.

Both sectors are performing very strongly in comparison to others and are now above their respective trend lines, meaning that our portfolios have increased exposure to these sectors. The charts below show how these sectors are above their red trend lines:





Some of your wealth will be invested in companies such as Gilead Science and Abbot Laboratories. Gilead is a long-time drug maker best known for developing the first major cure for hepatitis-C. Along with US trials, Gilead is conducting a randomised, controlled clinical trial in Wuhan, testing Remdesivir as a treatment for mild-to-moderate forms of pneumonia in people with the virus. The World Health Organisation has stated Remdesivir is their best bet for a suitable treatment for coronaviruses. Remdesivir has shown promise in anecdotal reports over the last three months but is quickly being backed up by better supported data. That's good news for patients but is also positive for the global economy because with a successful treatment regime: fewer people will die, time to recover will reduce and the need to sustain lockdowns to avoid a shortage of hospital beds will be reduced.

Abbot Laboratories has built a rapid Covid-19 test that can deliver positive results in 5 minutes and negative results in 13 minutes. Its rapid testing program should reach the general population in June. Helping to identify asymptomatic cases through extensive testing is the only way to ensure this outbreak is contained so people can get back to work quickly.

The largest technology companies are also working together to help fight the disease, with Apple and Google building a contact-tracing app that automatically alerts people if they have recently been near to someone who has been diagnosed with Covid-19. This will help to stop the spread of the disease.

Summary

Some of your wealth is being invested in companies that are fighting against Covid-19. While this is today's biggest problem, your wealth will also help solve other future problems that the world faces as you are invested in some of the leading cutting edge companies in the fields of healthcare, biotech, technology, robotics, cyber security, nanotechnology and medical innovation. Not only are you helping to save the world but as these companies are performing well, you are making money. The ultimate investment!

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. The initial crash in stock markets has been followed by a recovery. How far this recovery goes and whether we test the previous lows depends on the virus and how successful we are at containing it in the short term. We are seeing a gradual reopening of the economy in different parts of the world, but "normality" cannot return until we see the benefits of recent technological advances being implemented as well as the development of a vaccine (expected within 12-18 months).

We have the world's leading scientists and companies working together on fighting this virus and we have invested more of your wealth in those companies. We believe that the healthcare and technology sectors will be the leading sectors for some time and they will help solve some of the world's leading problems, including Covid-19, over time.

While 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.

Watson Moore Independent Financial Advisers Limited
54 Station Road
Upminster
Essex
RM14 2TU

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com