Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

June 2020

Contents:

Performance Update

Global Stock markets continued to recover in May, with the FTSE 100 rising 3.34%* and the FTSE 250 rising 3.67%*. This led to gains in the portfolios of between 1.90% and 11.48%.

With the global economy slowly reopening, we wait to see how quickly the economic data rebounds. In America there are now 40 million unemployed and in the UK, the unemployment rate is set to move significantly higher as companies are made to contribute towards furloughed workers.

Despite the terrible headlines, stock markets continued to rally in May on optimism that the containment policy is working, antibody testing is becoming available, the chance of a second wave of infections is reducing, and progress on a vaccine has been made. On top of this, central banks have continued to flood the economy with money.

As stock markets continued to recover, we saw more of them break above trend, leading to our portfolios having more invested in them.

Technology and healthcare continued to lead the stock market rally, and this helped ensure that the US remained the leading region for stock market returns because it has some of the world's foremost companies in those sectors. However, we are now also seeing strong rises in other markets and we could see a catch up from the sectors and regions that have been underperforming.

Despite stock markets rallying, bond markets also remain strong and every bond asset class that we monitor is now also above trend. If the economic recovery continues and discussions about when interest rates will rise take place, then bonds could fall significantly.

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	2.40	-1.34	2.29
Cautious	1.90	-3.22	-0.06
Balanced	2.17	-4.61	-0.47
Adventurous	3.00	-4.49	1.14
Dynamic Equity	5.13	-0.57	6.86
Income Generating	2.30	-12.31	-7.37
Fourth Industrial Revolution	11.48	13.97	24.71
Retirement Investment Solution 1	2.36	-2.55	2.83
Retirement Investment Solution 2	2.76	-2.34	3.34
Retirement Investment Solution 3	3.12	-2.15	3.81

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.05.2020.

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

Global, US and Japanese equity markets have all moved back above their trend lines. Every bond market is now above trend.

Cautious, Balanced and Adventurous portfolios

These three portfolios have been very dynamic in their reaction to events and were very defensive in March and April. The portfolios added exposure to healthcare and technology in May as these sectors broke above trend. This month equity exposure was further increased by the addition of Global, US and Japanese equities in the Cautious and Balanced portfolios and Global, US, North American and Gold Miners in the Adventurous portfolio.

Exposure to UK corporate bonds and emerging market bonds increased in the Cautious portfolio and we find that every bond asset class is now above trend.

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). We are overweight US equities, gold miners, healthcare and technology. Technology rose 7.1% in May 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 US and Japanese equities as well as UK corporate bonds and emerging market bonds.

Income Generating portfolio

We continued to pivot the portfolio, investing more 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. We further increased exposure to the technology and healthcare sectors by adding to the same funds as last month.

Towards the end of the month we bought the VT UK Infrastructure fund. We sold the fund back in March due to the fact that four of the top ten holdings were in companies that produce energy, mainly through solar, and with the oil price crashing, it could have led to losses within these companies (possibly bankruptcies). The danger of this happening has receded due to the fact that the oil price has steadily been rising, but there was a stage in which the oil price actually turned negative. We now believe that the Fund is recovering and will once again provide us with a steady stream of income. As a result, the overall cash level within the portfolio reduced from 15% to 10%.

Fourth Industrial Revolution portfolio

The portfolio grew by 11.48% in May and is up 24.71% over the last year, despite the FTSE 100 falling by over 11%. We do not believe that there is a better performing portfolio in the UK.

We believe that the underlying themes within this portfolio will be the most profitable ones over the next ten years and one of the themes that we can see doing very well is Robotics (please read on to see why we think this). However, we must also be aware that this portfolio will fall significantly more from time to time.

Retirement Investment Solutions

More equity markets moved above trend and we added exposure to North America, Japanese, US and Global equities. In addition, every bond fund is now above trend and exposure was increased to UK corporate bonds and emerging market bonds. All three of these portfolios have now produced a positive return over the last year.

Summary of Portfolios

We have continued to experience a sharp rally in global equity markets and our portfolios benefitted from this. The portfolios were positioned very defensively back in March and April and if stock markets had fallen further then our trend following portfolios would have helped protect our clients wealth. However, as stock markets have recovered, we have been increasing exposure to them and will continue to do this as and when markets break above trend. Thus we have helped protect wealth during the bad times and have started to grow it again during this recovery.

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.

S&P 500 – above trend

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 just moved above the trend line and the US continues to outperform most other stock markets:

Japan – above trend

Japan has had the fewest deaths among the group of seven major economies and this could be attributed to its mask-wearing in society. The stock market has rallied quickly and moved above trend:

China – above trend but losing momentum

China recovered very quickly, possibly due to the country being the first into and out of lockdown. However, the stock market recovery is losing momentum as other countries are starting to discuss a lesser reliance on China in the future:

Brazil – the latest hotspot for Covid-19

The stock market has barely recovered on fears that the country is very ill prepared to fight the virus. Brazil now has the 4th highest number of deaths and the daily amount is rapidly growing. The stock market is near its lows:

Italy – still a long way to recover

The Italian stock market was hit very hard as it was the first European country to be severely hit by the virus. Whilst the country appears to be over the worst of the virus, the stock market has not recovered much:

Summary

We are now at a stage where there are clear winners and losers in global stock markets. The US has bounced back strongly due to the fact that it has some of the world's best technology and healthcare companies, but Japan has also rallied hard as the virus has been less severe there. However, Italy has been hit hard and has not recovered and Latin American countries are now going through the worst stage of the virus. At this period of the recovery, it is important to invest in those places that are recovering well and trend following allows us to do this.

The Rise of Robots

Covid-19 has led to an exponential growth in the use of technology in our lives from working from home to online shopping to Zoom meetings. Perhaps the biggest change is about to come though - the 'Rise of the Robots'. The robots have one big advantage - they can't get Covid-19. As human interaction is kept to a minimum the world over, machines are increasingly being drafted in to fill the void. From China to Russia and the US, robots and automation are rapidly becoming an integral part to how some companies adapt to social distancing. With less humans on site, bots can be deployed for essential cleaning, shelf stocking and deliveries for businesses of all shapes and sizes.


An ultraviolet-light-disinfection robot in action

UVD Robots, the Danish manufacture of ultraviolet-light-disinfection robots, have shipped hundreds of its machines to hospitals in China and Europe. Their website explains what they do:

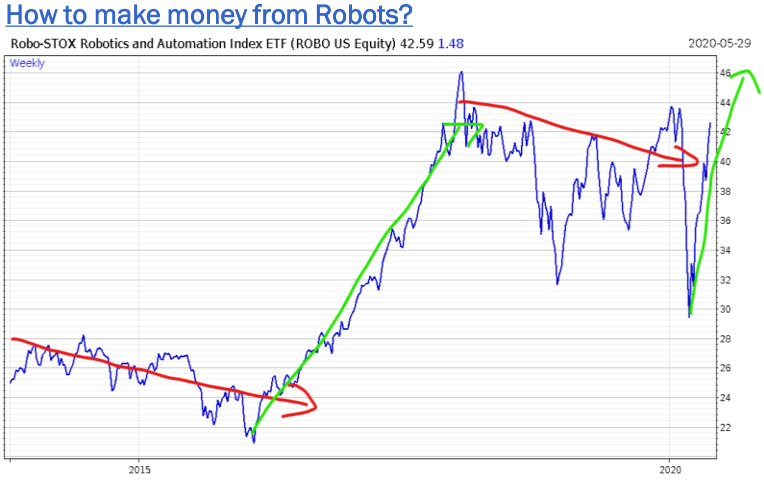
'The UVD Robot is used as part of the regular cleaning cycle, and aims at preventing and reducing the spread of infectious diseases, vira, bacteria, and other types of harmful organic microorganisms in the environment by breaking down their DNA-structure. The robot is safe, reliable and eliminates human error. Furthermore, it is user friendly and is designed to be operated by every-day cleaning staff.'

These machines will probably be seen in schools, grocery stores, pubs and even our own homes before long. They may also help the restaurant industry by providing a cheap and virus-free delivery service.

Robots may also replace human staff in restaurants and fast food chains. McDonald's have already been testing robots as cooks and servers, and if they had been employed, then McDonald's could have kept its outlets open during this pandemic. We can only imagine that the company will now speed up this process and install fully automated restaurants shortly, thereby safeguarding future profits.

Then there are the companies that wish to reduce their reliance on using China as part of their manufacturing supply chain. The reason China was used was due to the fact that labour was cheap there. However, if a company can build a fully automated, robotic manufacturing facility in their own country, then it is likely that they will do so. President Trump may even give tax breaks for this!

How to make money from Robots?



The chart to the left shows the stock market index of the companies involved in Robotics. You can see how they moved down before doubling in value between 2016-18. They then entered another downward period and could now be set up for another strong period - we certainly have the catalyst for this.

Most of these companies are based in the US and Japan and none are household names, due to the fact that they are generally small in value.

Our Fourth Industrial Revolution portfolio invests directly in the above index and all of our portfolios invest in companies that can benefit from Robots, such as McDonalds, and we believe those companies that embrace a more robotic future will see their share prices increase. We may look to start investing directly in the above index within our other portfolios in due course.

Final Comment

The initial crash in stock markets has been followed by a recovery. How far this recovery goes and whether we break into new highs or test the previous lows depends on the virus and how successful we are at opening up the economy without increasing the rate of infection. Stock markets are certainly telling us that the worst is over and the second wave will not hit us.

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 the foreseeable future and they will help solve some of the world's leading problems, including Covid-19, over time. We also believe that the virus has fast-forwarded technological advances and we are about to experience more robots entering the economy which our wealth should ultimately benefit from.

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.

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Authorised & Regulated by the Financial Conduct Authority

The past is not necessarily a guide to future performance. The value of any investments can go down as well as up and you may not get back the full amount invested. Taxation is subject to change and you may have to pay tax on any gains. The Watson Moore portfolios are unlikely to exactly mirror our clients' portfolios due to the timing of the initial investment and the speed of response to our fund switch recommendations as well as the effect of charges. The figures above therefore assume a client invested on the launch day and have responded immediately to our recommendations. As from the middle of 2016, the portfolios have been run on a discretionary basis by our sister company WM Capital Management. All figures and charts are provided by Financial Express.