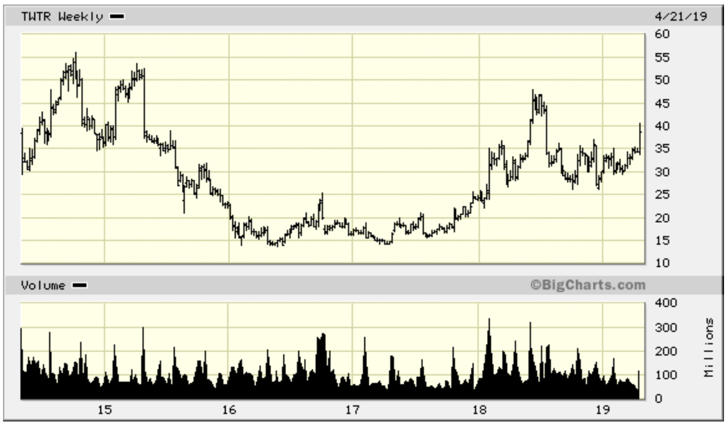
Global Market Strategy – May 2019

No end in sight for Goldilocks

Stockpicking need not be as difficult as many would make out! That's a controversial statement but many high profile successful investors have a relatively simple formula for investing, namely, pick the companies you understand.

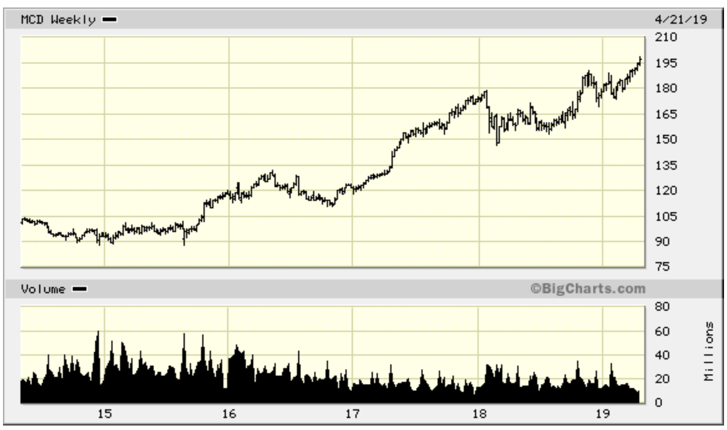
Most people don't have the time or inclination to monitor the minutiae of a company's cashflow, its return on equity (ROE), its return of profits (dividend yield) or its price/earnings ratio (PE), and yet so many companies impact us daily: Apple, Walt Disney, MacDonalds, Twitter, Facebook, Netflix, Google (Alphabet), Amazon, Microsoft, Mastercard, BP, Sainbury's, AstraZeneca, and so on. If they make that big a difference to us, it might be interesting to know if we can invest in them, and with them ride a rise in their profitability if they are run well.

Four and a half years ago Twitter rode the crest of wave of anticipation of large advertising revenue as Facebook and other social media outlets took hold, yet revenue didn't materialise and there was concern that Twitter, for all the advantages of its immediacy, was being used by some indescriminants as a conduit for boorish insult. The lack of monetisation led to a sustained dip in the share price. Jack Dorsey, the reserved yet brilliant founder, had to get a grip of investors' concerns, have a means of expelling ('blocking') users with insulting, offensive or bad behaviour, and create a platform which would attract more active users and consequently more revenue opportunity for advertisers. When Twitter announced its earnings in April, their figures showed they had made considerable progress, and the stock gained 17% the same day.



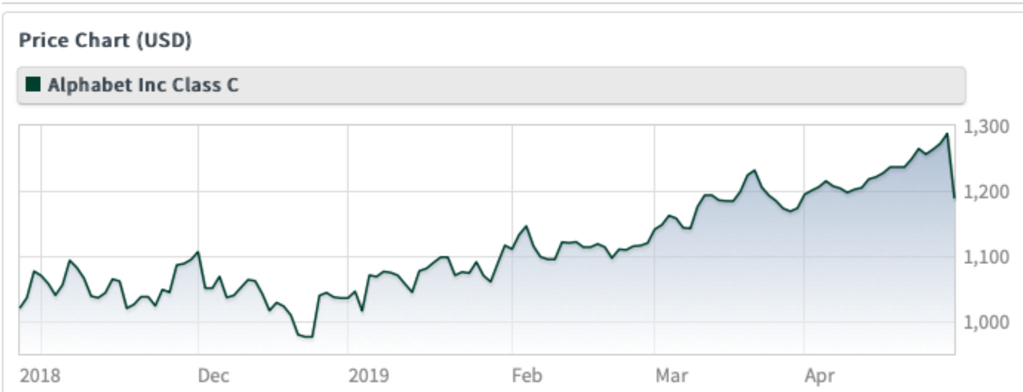
Twitter (TWTR), 5 years (Source: BIgCharts.com)

Five years ago, McDonalds was flat on its back. In an age of increasing health awareness, surely a fast food restaurant serving chips, coke and shakes, and burgers and buns that looked like someone had sat on them first, was doomed. People turned away, profits sank and the share price plummeted. In came a new, English(!) Chief Executive who ploughed money into smartening the outlets, retraining the staff, revamping the menu and, brilliantly, riding the coffee wave by offering 99p/99c coffee that gathered a reputation for being just as good, if not better, than that of the more chic coffee outlets, and soon the stock began climbing.



McDonalds (MCD), 5 years (Source:BigCharts.com)

Of course, it's easy to be clever in hindsight. Google (renamed Alphabet but still listed in the US under the ticker GOOG), by contrast saw its shares plummet following news that its advertising revenue had deteriorated markedly. Ad revenue grew by only 15% for the year to the end of March, versus 24% for the same period a year earlier. The reason for the fall was Google's adjustment of the algorithms on its subsidiary business YouTube, to prevent harmful content being included in the feed of recommended referral videos when viewers sought to see certain news content, for example as a result of searches for "conspiracy theory" or "school shooting". In spite of the fact searches of this type represent only 1% of all searches, the adjustment of the relevant algorithms apparently had a material impact on Google's ad revenue. Investors listening to the company's conference call explanation of the revenue fall clearly didn't buy into this, and so $70 billion was promptly wiped from Alphabet's market capitalisation as a result of investor sales of the stock.



Alphabet (GOOG), last 6 months (Source: Interactive Investor)

The highlighted stocks of McDonalds, Twitter and Alphabet are just three examples of success and failure in the equity universe, yet logic and reason should give private investors the initial tools necessary to delve deeper into the viability of investing in a particular stock, monitor it, and sell it when it becomes expensive. That said, while buying cheap the stocks of Twitter and McDonalds might have seemed a no-brainer, forecasting Google's sales demise would have been near impossible. Even professionals cannot foresee an occurrence such as that, but as when there is rumour of an accounting irregularity, when news is bad the best course of action is to ditch the investment and move on to the next one. There's always an opportunity somewhere.

For sure, there is a fear of a new and sustained Stockmarket fall which still haunts investors in the wake of 2008, yet even during a market correction, Walt Disney will still attract families from all over the world, Mastercard will continue to act as a growing means of cashless payment, Microsoft will continue to be the first choice provider of computer software packages to individuals and businesses. Investors cannot invest in these companies or any company on name alone; they must do due diligence and examine the financial statements of them first, and think about behavioural shifts taking place which could impact a company's business, for better or worse. Those who don't have the time or inclination to do this should delegate responsibility for long term investing to reputable fund managers who do the research for them.

Only during a recession, when people lose their job and their spending power, do investors need to completely reappraise their exposure to stocks and shares. **The US stockmarket** is at record highs, appreciating by 18% in just four months from the lows of Christmas Eve last year. US year on year growth figures for the first quarter 2019 surpassed expectations by a huge margin (of 3.2% actual versus 2.3% forecast), however many world economies are still in the midst of a pronounced slowdown, indeed Europe has barely left the runway since the financial crisis of 2008/09. Asia's growth is dependent on China but the whole region has huge untapped growth potential, and if China can continue its measured 6% growth rate which is 3 times Europe's, 3 times the UK's, twice that of the US, there is no need for recession to take hold, despite the forebodings of the US yield curve. Concern for global growth is acting as a rein on the US Federal Reserve and thus a restraint on the US dollar, which is good for Asia and, necessarily, emerging markets. Certainly, the recent rise in the price of oil, aided by Trump's threat to remove waivers on its sanctions against oil exported by Iran, is effectively a tax on consumers, and is in itself a rein on any thought the Federal Reserve might have to raise interest rates on the back of increasing US Stockmarket wealth creation. This push and pull of optimism and pessimism, satisfaction and concern, hope and worry is what creates the goldilocks environment for equities to continue to be the first port of call for investors for the immediate future.

The Institute for Economic Research claimed in April that an electric vehicle produces more carbon emissions than a diesel one. According to a report in the Financial Times, the energy intensity of making the batteries for a Tesla results in greater carbon output than the diesel emissions of a Mercedes. While electric vehicles are quieter and result in cleaner air in big cities, those economies reliant on fossil fuels, especially in developing markets, will find the argument in favour of electric vehicles harder to implement.

The UK government's **receipts from inheritance tax** have seen an increase of around £160m in just a year to a record high of £5.4bn for the tax year 2018/19, up 3.1% from the previous fiscal year.

The tax take will slow slightly as a result of the increase to £150,000 from April 6th this year in the Residential Nil Rate Band but with few people understanding the complicated rules around the RNRB, which is nothing to do with the bird charity, plus increasing wealth pushing estates over the £2m threshold for maximum potential use of the band, Her Majesty's Revenue & Customs' receipts of inheritance tax will build exponentially.

Inheritance tax remains one of the most avoidable taxes with careful and early planning.

Favoured investment plays:

Nil risk:	**Cash**
Cautious risk:	AAA Corporate bonds
Balanced risk:	Managed / Multi-asset funds
Market risk:	**UK equity**
Adventurous risk:	**Asia, US equity,** European equity
Speculative risk:	**Technology, China, India, Other EM**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (including new energy, all US) 14%, China 11%, Asia 11%, Pharmaceuticals 12%; Global Equity 15%, UK equities 11%, US equities 14%, Emerging Market equity 12%,

McLaren Asset Management SL & McLaren Wealth Management UK Limited
Telephone 0208 133 8070 Email: info@mclarenwealthmanagement.com