

March 2020

Dear Client

It has been some time since my last newsletter, when I promised I would write again once we had some idea of the outcome of Brexit. While the UK has left the European Union, longer term trade deals have not yet been finalised and the effect on both the UK and EU economies is still unknown.

However, global stock markets have fallen sharply in recent days, due to fears about the Coronavirus and the effect it is having on the global economy. These falls have been exacerbated overnight by the fall in the oil price following the trade dispute between OPEC and Russia.

We had already begun to see falls in client valuations with some of the higher risk investments falling over 10% since the beginning of this year. The likelihood is that many portfolios will see similar levels of reduction following the latest news. However, we have seen similar reductions in the past and they have always been followed by a recovery. Going back to 1986, the FTSE All Share has seen an average drop of 15.4% from peak to trough during the year but has shown positive returns in 24 of those 34 years. Both figures exclude dividend income.

At Altorfer, we have always designed client portfolios for the longer term. We build in a high level of diversification with a normal exposure of between 30% and 55%, dependent on individual clients' risk profiles, to investments including cash, fixed interest securities, commercial property and gold which react differently to stock market movements and provide some protection against large falls. This means that between 45% and 70% of most clients' assets is exposed to global stock markets.

In recent years, we have retained a higher than normal cash allocation within portfolios, primarily due to concerns over the effects of Brexit on the UK economy and the ongoing trade dispute between the USA and China on the wider world. Two weeks ago, our Investment Committee met and decided that this cash level should be reduced if markets continued to fall, as this represents a buying opportunity. We take the view that, while we may not time the market exactly, it is always better to buy when markets are low and sell at a higher price, rather than the other way round. We do not normally invest for a short term profit, but sometimes opportunities arise that allow us to do so. The last time was during the Credit Crunch in 2008, when the FTSE All Share fell 43% from peak to trough. We bought a FTSE 100 tracker when this index fell through 5,000 and topped up these investments as the index continued downwards. The lowest tranche was purchased at a value below 4,000 and all of the investments were sold when the market recovered to over 6,000. This represented a profit of between 20% and 50%, plus the dividend income of 3-4%.

I am also aware that many more of our clients have requested that we manage portfolios more ethically, so this time we intend to use an investment that excludes tobacco companies and those that have the worst effect on the environment. We remain concerned that the UK economy may show slower growth in the short term, so will be investing globally as there is now a far wider range of options than were available in 2008.

Our message remains the same as it has for the past 30 years; retain sufficient cash reserves, outside of our management, for your own needs, invest for the longer term, ensure that portfolios are sufficiently diversified to benefit when markets rise and have some protection when they fall, don't follow the herd and hold your nerve when others are losing theirs. We have seen this level of volatility before and I am sure we will see it again.

Altorfer remains open for business and we hope that this remains the case. However, there may be a situation where we are forced to either cancel face to face client meetings or, in extreme circumstances, close the office due to the coronavirus. If the former is recommended, we will be able to conduct meetings by telephone and follow up in writing if there are issues arising. The latter is more complicated, but we intend to provide the best service we can by telephone and/or email. Please bear with us in the unlikely event this happens.

I trust that this is sufficient for you to understand our approach and provide reassurance that we are constantly monitoring all of the investments we hold on your behalf. However, if you have questions regarding the current market situation or your portfolio in general, please speak to your adviser.

Kind regards

Regards and best wishes

A handwritten signature in black ink, appearing to read 'Daniel Wackett', with a stylized flourish at the end.

Daniel Wackett
Managing Director
Altorfer Financial Management Limited