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Investment Solutions – Market Commentary – March 2017

Real Assets

Tangible asset classes are favoured at this time, perhaps like never before. Before we say why let us expand upon what is, or was, a tangible asset. This is an asset of finite and definite nature, such as equity outstanding (otherwise known as share capital), property/land and fixed interest - such as gilts and bonds, as well as cash. So if these are tangible what is, historically, an intangible asset? Well according to the investment website Investopdeia, an intangible asset is not physical in nature, including items such as patents, business methodologies, trademarks, as well as goodwill and brand recognition.

However, times are a changing as they say and right now some of the once tangible assets are moving towards the intangible - creating greater demand for the more tangible asset classes.

So what's hot and what's not?

Let us begin with examining **Equities** or the share capital of a company. The Board of a Company cannot issue more shares whenever it suits them. A dilution levy or rights issue must be ratified by the shareholders, as the issuance of more shares impacts directly upon the returns of the existing equity holders. Making share capital (equities) limited and defined in nature and therefore very tangible.

Commodities can be manipulated to some degree as we have seen in recent months with the production of oil limited by OPEC; moreover mining corporates can increase or decrece their operations to amend the supply of raw materials. But when markets are fearful gold and other precious metals are in demand - Why?

Well again these are finite assets, in other words tangible, and the supply can only be manipulated in relatively modest numbers. This explains why the most popular stock traded on one of our preferred investment platforms (Investcentre) during the Brexit dip was iShares Physical Gold 'Exchange Traded Fund'. Probably the most tangible investment available (not a Carlsberg advert!).

Turning to **Property**, both residential and commercial, this is another form of a tangible asset class. Whilst there will always be price fluctuations due to supply and demand the land itself cannot be manipulated. Therefore, unless there is significant alteration to countries demographic, the price has an inherent value (despite government tax policies). More people + finite amount of land is the equation - "God isn't making any more Land" is a favoured sales quote of US realtors. Once again a tangible investment class - that partly explains why property remains such a popular and successful long-term investment.

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So how about **Fixed Interest and Cash?**

Well is this is traditionally where the 'safe' money has been placed. Those looking for a secure haven went in to cash - aware (or not) that inflation would erode the real value over time. And those looking for a bit higher return sought Gilts - Government debt, or Corporate bonds - company debt (with varying degrees of risk depending of the state of the companies balance sheet). Together Gilts and Bonds are the asset class known as 'fixed interest'. Historically a Lower to Medium risk portfolio would have held anything up to 80% in fixed interest - now it is likely to be less than half that amount. Why?

Why are our lower risk asset allocations now holding so little fixed interest? This is directly due to an increasing intangibility of this asset class with central banks and the credit crisis the direct cause. Essentially central banks have been removing the tangible asset element of fixed interests when they embarked upon the now infamous 'quantitative easing', or printing money. How can an asset be tangible when you're able to create more whenever you need it?

For example if you could dig gold from your garden when needed some, this would be brilliant for helping you budget. If on the other hand your neighbour and his neighbour and so on could do the same, what would happen to the value of your gold? It would lose its tangibility and the price would fall.

And this is what has happened with fixed interest and to some extent cash, since central banks began printing money (by buying back government debt). The once stable assets classes have become the areas for concern due to central banks policies, interest rate increases and higher inflation. This is why we have less fixed interest and cash in our portfolios now than at anytime we can remember. Low risk is the new high risk. This is why we believe that (despite the historically high prices) equities, commodities and property remain the assets classes of choice, both now and for the foreseeable future.

The value of investments can fall as well as rise and past performance is not a guide to the future. This publication is for guidance only and is not a recommendation of any investment or financial promotion.