ASSET
Advantage

Your quarterly newsletter from

ASSET
Investment Management Ltd
wealth management specialists

Summer 2016

The EU Referendum.

It is clear that even those with access to data and who are in the corridors of power have little idea as to what happens next - largely because there was no plan and also because much will depend on the stance taken by Germany and France, the strongest economies remaining in the EU.

It is probably best to reflect on the words of Neil Woodford, the legendary UK Equity manager. This is what he wrote last Friday morning:-

"The people of Britain have voted to leave the European Union. This clearly represents a very significant decision for the UK, for the European Union and indeed for the wider global economy. Markets are clearly shocked by the decision but, in our view, it is not as negative a development as the market's initial reaction appears to imply.

We have been clear in our thinking on the economic implications of Brexit for some time. The independent report that we commissioned on the subject (if you haven't read it, please do, particularly if you need reassuring on what this decision is likely to mean for the economy), concluded that Britain's long-term economic future would be largely unaffected by a decision to leave the European Union. We stand by these conclusions.

That is not to say there won't be challenges in the near-term. There will. We now face a period of uncertainty as the exact terms of Britain's exit from Europe are negotiated. Financial markets loathe uncertainty as amply demonstrated by this morning's reaction across all asset classes.

On this momentous day, it is worth reminding our clients of a few important things. On the 20 February 2016, when David Cameron announced that the EU referendum would take place, the FTSE 100 index was at 5950, the 10 year Gilt yield stood at 1.41% and the sterling / dollar exchange rate was 1.44. Since then the equity market has risen 6.5% but that rally has been quite narrow, being led by oils (+15%), and the mining sector (+18%). Banks have performed well too, up just under 10%, with pharmaceuticals flat, tobacco up 7%, utilities up 4% and general retail up 5%

Clearly, on a day like this, markets have responded negatively to the uncertainty that follows this vote, and may continue to do so for some while. However, my job is to peer through this short-term uncertainty and focus on the long-term fundamentals of the economy and the businesses in which we invest.

The result of the EU Referendum is now known and irrespective of our individual views we must now try to navigate the investment waters to achieve returns on our investments.

There will undoubtedly be opportunities ahead but with a leadership contest looming in the Conservative party (and probably one in the Labour Party) it is too early to say where or when these opportunities might present themselves.

Our Services

We are able to offer qualified advice in areas other than pure investment, such as:-

- Care Fee Planning
- Equity Release
- Mortgages
- Income Protection
- Life & Critical Illness cover
- Pension Planning
- Inheritance Tax Planning
- Wills and Estate Planning
- Lasting Powers of Attorney

As I have said on a number of occasions recently, the global economic backdrop will continue to be challenging, regardless of our membership of the EU. Many of the greatest economic challenges that we face now and in the future, in my view, dwarf the economic issues associated with today's outcome.

Nevertheless, in the near-term it is likely that UK GDP will be lower over the next 18 months or so than if we had voted to remain. But, because inflation will (temporarily) be higher following the fall in the pound, nominal GDP could well be little changed. Growth in consumer cash flow will be marginally lower, principally because fuel prices will be higher but of course exporters will enjoy something of a windfall.

In the longer term, it is my view that the trajectory of the UK economy, and more importantly the world economy, will not be influenced significantly by today's outcome. Consequently, the portfolio strategy will not change. It was designed for a challenging world, characterised by low growth, deflation, debt problems, weak productivity and troubling demographics. Despite these headwinds, I remain confident that the portfolio will deliver the returns we have targeted over the three-to-five year time horizon that we continue to focus on.

Although market conditions such as these can be unsettling, we would strongly urge investors to look through this period of uncertainty and focus on the long-term opportunity which, in our view, continues to remain attractive."

Asset Investment Management Ltd,
Drayton Old Lodge, Drayton, Norwich,
Norfolk, NR8 6AN. Tel: 01603 869988
e-mail; info@asset-im.co.uk
web; www.asset-im.co.uk

Independent Financial Advisers

Authorised and Regulated by the Financial Conduct Authority No 462797.

Tax advice is not regulated by the Financial Conduct Authority.
Registered in England and Wales company registration number 5880144.

The FTSE 100 and 250 indices.

This morning the FTSE 100 index, whilst having fallen last Friday by some 8%, regained some ground. Over the last year it has however fallen by around 8%. This index represents many companies who are international players such as Shell, BP, Vodafone and so forth.

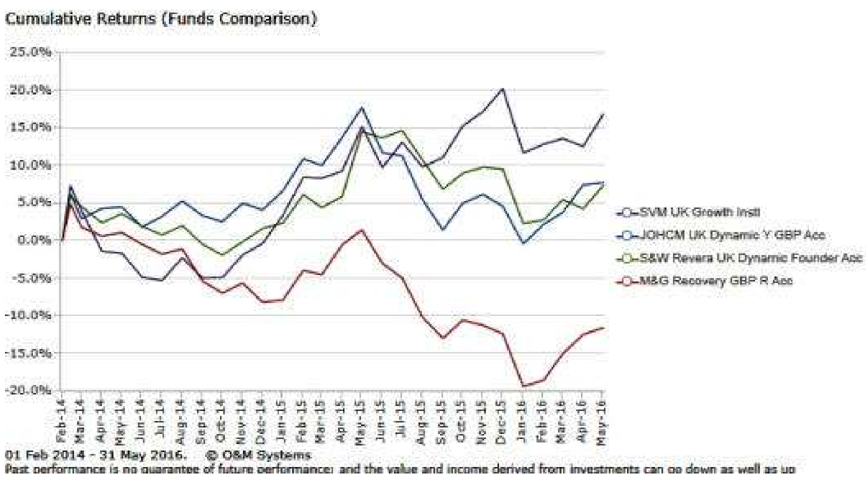
Over the same period the FTSE 250 has fallen by around 8.33%. Increased volatility is possible in this index as it represents more closely the domestic UK market so one might

Fund Switching

From time to time we recommend that a fund be replaced on the grounds of its performance.

This is not a step we ever take lightly as it involves considerable time in research and also incurs a small cost to the investor, but a cost nonetheless.

Over the last 18 months or so we moved out of M&G Recovery - a flagship M&G fund - and replaced it with others. It is interesting to see how this decision has had an effect on clients' portfolios:-



expect more volatility here.

On the other hand, if the UK economy is as strong as we are told and our exit will affect our global partners more, this situation could well reverse.

Whilst the first quarter of this month showed some improvement for the M&G fund one can clearly see that following our removal of it it continued its downward trend, so we can see that it was well worth the cost of switching .