JONATHAN DAVIS WM

Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

To comment on any of the points raised here or to ask a query just click *here*. Please DO NOT click Reply.

We publish these free reports on Economics, Markets and Financial Planning several times a year. We produce in-depth reports, for clients only, separately.
Should you wish to forward this to a friend click ***here***.

Happy New Tax Year on Thursday!

Self Employed landlords are now going to start seeing the massive uplift in their taxes which was established by thye 2015 Budget. It starts Thursday and ramps up annually over the next few years.

I've written of it previously and it is YET ANOTHER nail in the coffin of Buy-To-Let.

Two huge political shocks that the Establishment told us (rammed down our throats) would be hugely detrimental to society and to the economy.

I have said, repeatedly, that this was a stuff of nonsense. Scare-mongering. And, more worryingly, counter-productive and divisive. The opposite is the truth. The scare-mongerers are the problem.

Trump won't actually help the economy or financial markets. He says he will but he won't. He says he'll build bridges, roads, railways etc and spend $1,000,000,000,000 (a trillion dollars).

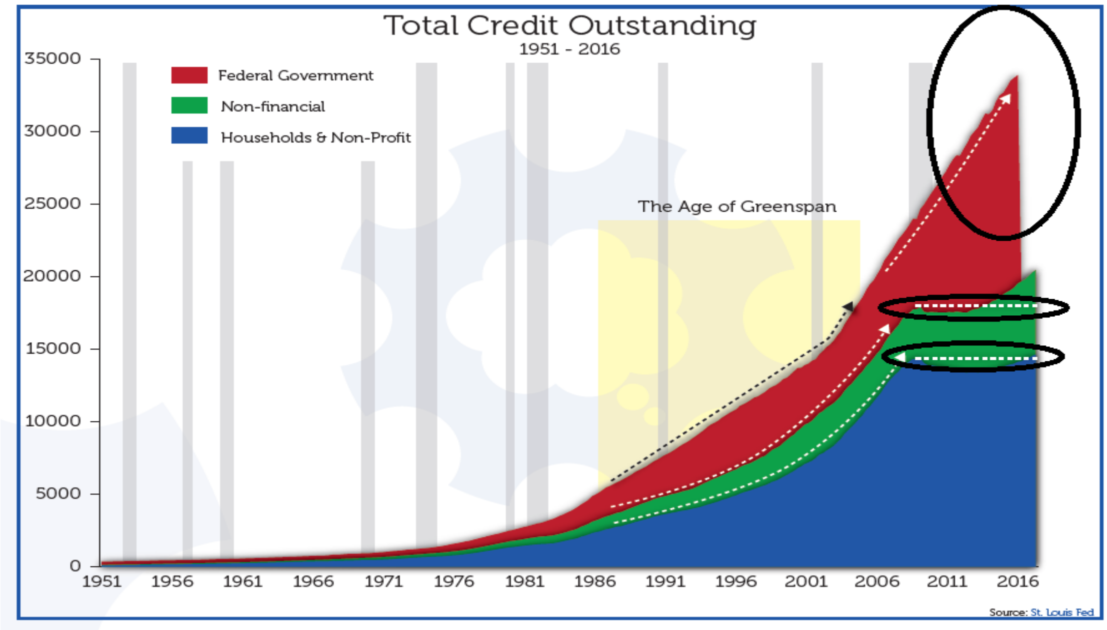
It looks a lot of money.

It IS a lot of money. Yet, it is immaterial.

US Govt Debt is $20,000,000,000,000 (20 trillion dollars), US Total Debt (Govt, business and household) is $35,000,000,000,000* and the economy (over his 4 year term) will amount to $75,000,000,000,000.

1 out of 75 won't make a material difference, except to those selling the construction.

* **$35 Trillions of debt:**



The grey bars are when the US (and, therefore, everyone, more or less) was in Recession. We are due another such period.

On top, the Federal Reserve of the US (the central bank) has now raised interest rates twice in 3 months (December 2016 and March 2017) as well the rise in December 2015. (So that makes 3 rises in ... 10 YEARS!)

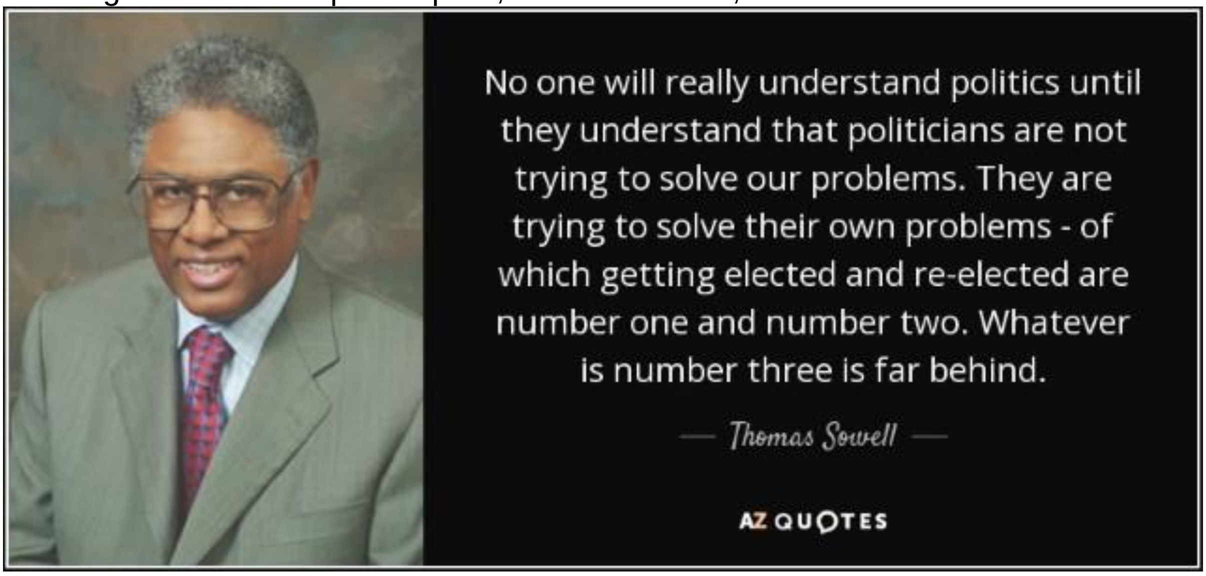
Rising interest rates in a highly indebted economy cannot be positive for the economy, short to medium terms.

They say they will raise a further 3 times this year. (Like the unicorn, I'll believe it when I see it.) More likely it will be 1 or none. If more then, in fact, the economy is strengthening. If, 0 or 1, as I suggest, then it is because the economy is teetering on Recession.

Just last week, the Atlanta FED (one of the 12 regional offices) announced US annualised GDP at just 0.9% for 2017, based on what it has recorded in Q1. This is not strong at all and could easily roll over to negative from that level, unless concrete strengthening takes place.

Incidentally, the UK economy grew 1.8% last year, as announced last week by the Office for National Statistics. That makes 0 out of the last 10 years that the UK has grown at least 3%. ZERO! And how much 'stimulus' has there been? Stimulus? My uncle was a monkey. All it did/does is help the top 10%. The bottom 90% are either unaffected or actually harmed. And, no, it is not Left or Right. They both do it.

As the great economic philosopher, Thomas Sowell, said:



In 3 of the last 10 years growth was over 2%. (2007, 14 and 15)

In 4 it was sub 2%. (2010, 11, 13 and 16)

1 was under 1% (2012)

And 2 were negative (2008 and 2009)

Note 2014, 15 and 16 were 2.9%, 2.2% and 1.8% respectively. In other words, the trend is down.

Also, please note that, under Obama, his 8 years as President of the US also saw not one year with at least 3% growth. Not one.

So think about that. 10s of Trillions of bail outs, stimuli, zero interest rates, astronomical government borrowing (from our children and from their children) and not a single year of even 3% growth.

Don't tell me there isn't something rotten in the 'State of Denmark'.

I say - yet again - the only thing keeping the plates spinning is massive government annual borrowings.

For now, the £ has been damaged enough and is now rallying. But it will not be long term sustainable. The UK has the biggest twin deficits in the developed world. Our currency is - correctly - hated.

And no. It has absolutely nothing to do with Brexit.

The £ has been falling for many years. Years before the referendum was even discussed in polite society. It is arrant nonsense that Brexit caused the £ to fall. It was falling anyway. Look at any chart.

I did say, however, a few months ago (it's on the JD WM site) that the £ would rally up to, say, \$1.40 (maybe even \$1.50+). It's happening. So, all those who believed the media that the £ would now plummet due to Brexit have eggs on their faces.

Longer term, until our illustrious government**s** stop borrowing like billy-o (Public Sector Borrowing Requirement aka 'The Deficit') and until we import far less and increase our exports (Balance of Payments deficit) we will retain the dubious accolade of the biggest twin deficits in the developed world and our currency will continue to crash, long term. We will continue to import inflation. Our business and living costs will continue to soar. (The official statistics of the inflation indices are fraudulent. Our true inflation indices are far far higher than they tell us.) Our standards of living will continue to fall, long term.

It strikes me as amazing people simply don't get that the only reason our economy hasn't ground to a halt is because households, businesses and government have just borrowed manically for 20 years AND CONTINUE TO DO SO!

Those who read this and scoff and / or say all will be well, long term, need their head examined.

OF COURSE THE CHICKENS WILL COME HOME TO ROOST.

And it will have absolutely nothing to do with either the President of the United States or that the UK has invoked Article 50 of the Lisbon Treaty.

Brexit won't happen anyway for at least another 2 years. So that won't make any difference to the economy until it happens (assuming it does...). It hasn't happened yet. All that has happened is we have delivered a letter starting 'divorce proceedings' to the EU. Click: ***Here is the paper...*** ;)

About this time last year, a client asked me why don't we just print and print and borrow ad infinitum?

Because dear reader eventually the £ would debase and it would usher in not just 1970s style Super Inflation but Venezuelan-style Hyper Inflation.

And if we don't stop the massive printing/borrowing we WILL move, at least, to Super Inflation. Remember the 1970s? 3 Day week. General Strike. 25% Inflation. Near 20% interest rates.

But that couldn't happen again could it?

In the 1960s we had sub 3% inflation. A decade later it was 25%.

So, why couldn't it happen again when the economics today are WORSE than the late 60s / early 70s?

So how does all that affect investing and portfolios?

Well, we can talk till the cows come home about what is happening, or not, in the economy but if the economy were markets we would not be seeing ALL TIME HIGHS practically week after week in many stock indices.

So, the anwer to the question is: 'not a lot'.

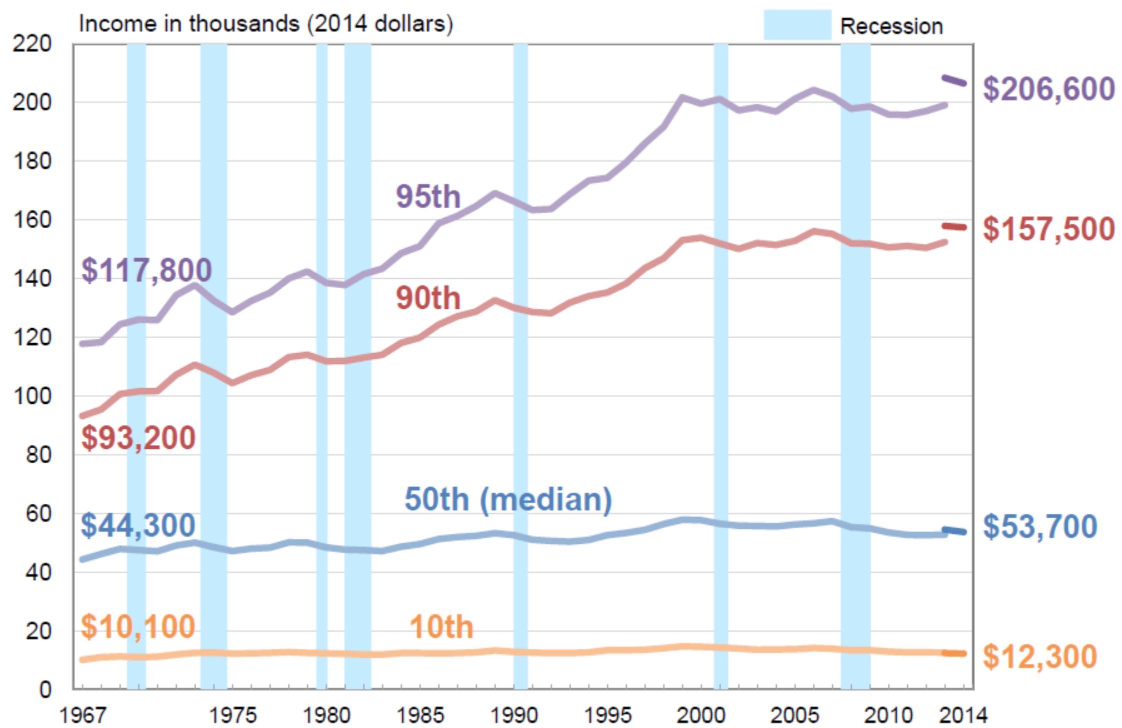
Having said that there are hugely worrying issues out there:

Sub-prime car lending is off the chart. They're using Securitisation again folks - the same system they used to flog sub-prime mortgages to pension funds up to 2008. That will not end well.
(If you're in a Final Salary pension, do you know if it ever bought sub-prime mortgages or does it own car loans...?)

UK unsecured lending is now rising over 10% p.a.. I was on LBC on Saturday (1 April) talking about this as it is reported 75% of credit card issuers no longer require an income to obtain a card. You couldn't make it up!

Savings rates in the UK are at ALL TIME LOWS. Redolent of every cyclical peak since ... for ever.

Real (inflation-adjusted) earnings for the bottom 90% have hardly moved in 50 YEARS (!). Look at this chart for the US (UK and elsewhere very similar):

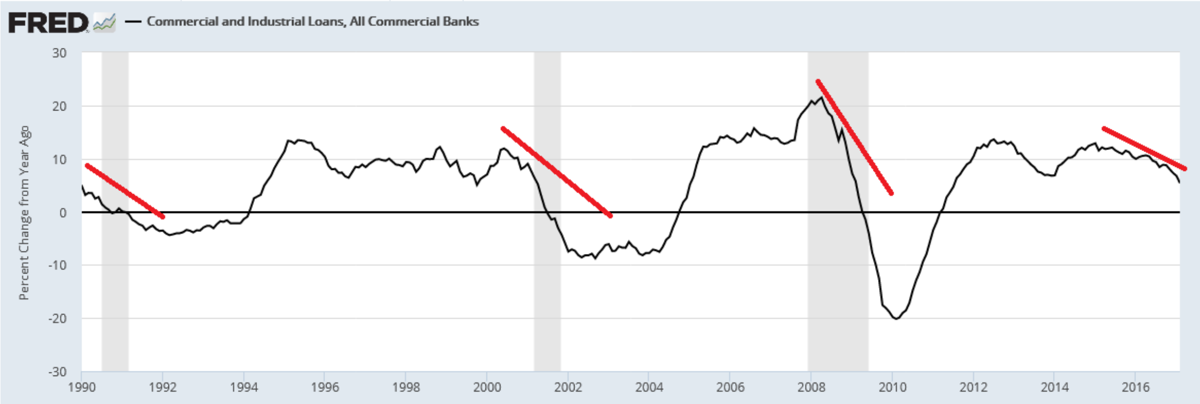


Incidentally, while car prices rose 10-fold, house prices 100-fold etc, you really shouldn't wonder why Trump and Brexit happened.

[And you believe the inflation statistics...?]

Such lack of earnings rises, for the bulk of folk, while the costs of living soars, does not at all bode well for debt-laden economies.

Look at US Commercial and Industrial lending.



It's not negative year-on-year but it's heading there. At the end of 2016 the annual rise was around 5%. A slump is happening and, as of February (not shown), the annual rise is now merely 2.5%.

Each time it has gone negative, over the last 20 years, we've all had a recession. Remember... **in the next recession they can't slash rates.**

However, the investing music is playing and not to be investing is as bad as bad investing.

But that does not mean we invest in the usual stocks and bonds portfolios. I have written before and shown how, over the long term they do not work for investors.

Great for the institutions and advisers/wealth managers.

The next time there is a recession, just calculate what you've made over the years. **The last 8 years has been rather par for the course. If history tells us anything, the next recession will be sooner than you expect. If you are still in the stocks and bonds portfolio through the crash then much of what you made in the last 8 years will be gone.**

See the ***November 2016 Booms and Busts Report*** for background.

So, what do we do, to protect our wealth and, hopefully, grow it?

When in inflation, buy inflationary assets eg commodities and Emerging Markets.

When in deflation, buy deflationary assets eg Government Bonds.

And also look for quality, global level assets which have already crashed and look as if they may be ready to fly.

Take **Emerging Markets**, for example.

Emerging Markets (AKA Brazil, Russia, India, China etc) had a torrid time vs Global Equities, generally, into 2000/01. Then they soared, relatively, into 2011. 5 years of relative underperformance (indeed falls in prices) later, the multi year falls may be over. Certainly, 2016 saw major outperformance.

This is an example of what we are invested in.

Are EMs guaranteed to outperform from now on? Not at all. But they are doing so at the moment and there is nothing to suggest this is to change. So we go with it.

Why don't you?

Jonathan Davis Wealth Management
We have been busy this year with Enterprise Investment Schemes - expected low risk - obtaining 30% income tax relief for amounts invested, no capital gains taxes, no inheritance taxes after 2 years AND deferral of CGT liabilities (for ever, if appropriate).

We have managed/effected ISAs, JISAs and pensions for clients and all they had to do was agree to our recommendation once and we do it, annually, without them having to lift a finger.

We have saved clients loads of tax by the straightforward and sensible approach that we have.

We continue to have inflation-biased portfolios as that is what we see. If we move back to disinflation or even deflation we will alter portfolios accordingly.

For new clients we have raised our minimum entry requirement for value of financial assets to £0.5m as we do a better job for clients with fewer clients.

We will only ever work with around 100 families.

We have written to clients saying we expect portfolios to rise 15-30% net over the next year or two, based on what we see just now. On verra, for sure.

I have restarted the weekly Booms and Busts Show, where I discuss free markets, capitalism and I show the utter venality and counter-productivity of cronyism and socialism. It is a successul show (rising listener numbers) and I try for it to be educational whilst entertaining. Download ***here*** and subscribe. See also Twitter ***@boomsandbustsshow***

I have recently been asked to become one of the ***authors*** for ***The Daily Reckoning*** (DR), writing regularly. Some 90,000 receive the DR via email.

I continue to appear often in the media, generally, at an average rate of approximately 2 appearances per week (over the last 10 years). See ***JD WM site*** for recordings/articles etc. (It will be more like 4 a week when the next recession hits.)

What should YOU do to secure your wealth?
Speak to me before something happens, that nobody (else) advised you could happen, and which detrimentally and materially affects your wealth and financial security.

Don't put it off till it's self-evidently too late.

Can you benefit potentially from our advice?
We work for wealthy families (from £500k of financial assets) and/or high earners.
We work for clients all over the UK and indeed on three continents.

Our most important and most often repeated philosophy is (as seen widely on our website): "We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note carefully the following important messages (and pass them on if you wish):

I believe most folk do not realise, in big picture, **the sheer gravity** of our economics and markets (major stock markets, corporate bonds and property).

They will.

I think most folk do not realise, in big picture, **the amazing opportunities** in our markets.

They will.

Click ***to forward to a friend*** if you think they could benefit from reading.

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me on 0345 862 2919 or emailing me by clicking ***I have a query***. Please **DO NOT** click Reply.

On Twitter my personal account is ***@J0nathanDavis*** where I frequently comment and link to important commentaries on markets and economics.

Kind Regards

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