KEYSTONE

PERSPECTIVE

AUTUMN 2019

www.keystone-capital.co.uk

KEYSTONE

DEAR READERS,

Welcome to the very first edition of Perspective – our half yearly newsletter. Most of you receiving this will know we formally launched Keystone Capital in July this year. We have been delighted by the level of interest, support and goodwill you have shown us in this short time. We are truly inspired by all your kind words of encouragement and feel thoroughly energised to create a business that really puts clients back at the very heart of all decisions.

We thought at length about putting together a Newsletter, its format, content, focus and audience. We felt that one of our real strengths is the extensive and diverse network of private client professionals we have built up over the years working in this industry. And it would be far more interesting if we were to invite a select handful of fellow industry professionals each time to provide us with their Perspective on topical issues close to their heart.

In our first edition we have a collection of articles covering a wide range of interesting topics from traditional stock market investments to use of trust structures and investing in wine.

We are extremely grateful to all our guest contributors for producing thought provoking and engaging content. If a particular article piques your interest and you would like to learn more, please get in touch with us. We would also welcome any feedback from you on this Newsletter. The frequency, format and content can all evolve over time based on your feedback. You can always drop us a note with your thoughts at help@keystone-capital.co.uk

Finally, we want to say once again how delighted we are to be supporting the Watts Gallery Artists' Village. They are a very well-managed charity based in Compton, Surrey, with an extensive outreach programme that saw a record-breaking 31,305 participants this year from schools, families, young people, adults and community groups. Their contemporary galleries this year alone have exhibited almost 1,000 works of art made by more than 300 vulnerable young people, young offenders, isolated and lone parents, women prisoners and adults affected by mental health issues, homelessness and addiction. If you live in the local area and have never visited then we would urge you to do so and if you are further afield and are passing by, be sure to include a stopover at the Watts Gallery. It is well worth a visit.

We hope you enjoy this first edition of Perspective and look forward to catching up with many of you in person in the run up to Christmas.

All the best,

Samik & David

Should you invest now?

INTERVIEW WITH LAURENCE FORRESTER

Portfolio Director, Cazenove Capital
www.cazenovecapital.com

We are witnessing a time of unprecedented geopolitical change with China-US Trade Wars; Brexit; Crisis in Middle East and many others that have the potential to impact financial markets and tip fragile global economies into a recession. Making predictions about the future of global economies and financial markets in such a backdrop is a fool's game. However, what we can do is look beyond all the noise and maintain a disciplined approach to making investments knowing that we may not always make the right calls. As with most successful investment strategies the key to managing risks in uncertain times is to avoid big losses, get the asset allocation right and maintain a good level of diversification. For our first Newsletter we ask Laurence Forrester, Portfolio Director at Cazenove Capital, one of our preferred partners, his views and how exactly he is positioning our clients' investment portfolios.

Q. SO AN INEVITABLE FIRST QUESTION ON BREXIT. HOW DO YOU PLAN TO WEATHER THE SHOCK OF A 'NO-DEAL'?

LF. Cazenove Capital's strategy to hold overseas equities in their local currency (or US dollars where emerging market currency exposure does not appeal) has proved beneficial – for our UK investors – as sterling has weakened since the referendum result in June 2016. A "no-deal" Brexit would very likely see sterling fall further which would further increase the value of our overseas holdings, acting as a natural hedge in what could be a difficult period for UK assets. However, given sterling has been in a 12-year bear market (vs. US dollar), we remain flexible and prepared to use currency-hedged share classes – to protect clients from currency volatility – should the political situation shift quickly.

At present we have a neutral weighting to equities in client portfolios but favour US, Asia Pacific and emerging markets over UK, European and Japanese equities.

Q.MARKETS ALWAYS REACT VERY NEGATIVELY TO ANY NEWS FLOW OF THE US-CHINA TRADE WAR ESCALATING. HOW DO YOU VIEW THIS THREAT?

LF. In the US, in spite of Sino-US trade relations, economic fundamentals remain sound and earnings growth expectations remain relatively buoyant. Whilst trade tensions will continue to weigh on investor sentiment, there is a significant degree of pessimism priced in to equities and both President Trump and Xi seem unlikely to find the prospect of presiding over a(n unnecessary) recession an appealing one.

Although growth in China is slowing, it is still one of the engines of growth for the global economy and central bank stimulus should help the whole Asia Pacific region. Should prospects of a full-scale trade war with the US begin to rescind significantly, we may see a positive shock in equities – both here and in the US – and we want to be well-positioned for any such event. This should also be felt within emerging market equities, where valuations remain attractive relative to developed markets, but we accept the performance can be more volatile.

We are more nervous about the prospects for European and Japanese equities at present, as a result of Europe's slowing economy and proposed increases in Japanese consumption taxes. We are always prepared to look at the opportunity any negative news flow may elicit should these situations change.

Q. IN PERIODS OF UNCERTAINTY TRADITIONAL WISDOM SUGGESTS FAVOURING GOVERNMENT BONDS. HOWEVER, WITH YIELDS AT CURRENT LOWS AND IN SOME CASES IN NEGATIVE TERRITORY, WHERE ARE YOU LOOKING FOR 'SAFE' RETURNS?

LF. Developed world government bond yields have recently been compressed even more with many offering coupons below inflation and in some markets slipping into negative territory (Germany and Switzerland for example). It seems increasingly unlikely we are going to see positive real returns in conventional government debt, at least in the developed world, until monetary policy is normalised. This has prompted us to look at emerging market debt where we feel there are opportunities for investors to earn attractive levels of income and be compensated for the additional risk inherent in emerging market securities.

We continue to favour index-linked UK and US government bonds to provide ballast in client portfolios, particularly given central banks appear to be trying to force their currencies lower (legitimately or not).

Q. SO WHERE ELSE MIGHT ONE EXPECT A RETURN ON THEIR INVESTMENTS THAT BEAR LITTLE OR NO CORRELATION TO TRADITIONAL EQUITIES AND BONDS?

LF. Throughout periods of volatility and uncertainty, alternative assets can provide both uncorrelated returns and attractive levels of income.

Real assets, such as infrastructure, renewable energy investments and asset finance, provide yields on a par with emerging market debt and have visible long-term cash flows. We continue to favour absolute return and multi-asset strategies to help control volatility inherent in our equity allocation. We also like trend-following funds that have historically performed well when equity markets struggle.

In recent months we have been buying physical gold. As bond yields head lower and, as mentioned, in some cases move into negative territory, holding an asset which tends to perform well throughout periods of geopolitical tension and inflation should prove beneficial for client portfolios.

Q. TO SUMMARISE THEN, HOW CONFIDENT DO YOU FEEL ABOUT THE FUTURE IF ONE WAS TO START INVESTING TODAY?

LF. Remaining flexible and nimble is imperative until there is greater visibility. In spite of the geopolitical uncertainty, we remain optimistic we can achieve attractive risk-adjusted returns for clients over the medium-term from this point.

Laurence Forrester is a Portfolio Director within the DFM Team at Cazenove Capital where he has worked since 2008. He started his career as an equity trader in 2003 moving to Private Client Fund Management at Quilters in 2004. Laurence graduated with an Honours degree in Anthropology from Goldsmiths' College, University of London, and is a Chartered Fellow of the CISI.

Investors Give Value a Spin

BY STEPHEN CONNOLLY

Managing Director of Plain Money, a private family office, and a regular writer and commentator on finance, business and markets in the press.

Some equity investors have been placing big bets over the summer that economic recovery is in sight and that bombed-out, unloved businesses whose fortunes are tied to economic cycles will be the winners.

They've been ditching "growth" stocks — the type that have led to double-digit market returns so far this year — and piling into "value" instead to capture an upturn. Such "rotation" is common, but the recent scale is historically significant: over three days in September, the top US performers slumped 3% while value stocks jumped 3.3% — the overall index hardly changed, masking the aggressive shift.

We all know of high-flying stocks with unstoppable share prices, while value shares have been out-of-favour for years. And it's always the case that the extreme gulf between the two can't last forever — we just don't know when things will turn. The big shifts suggest professionals see change close at hand. So should we be following their lead?

In the near term, there could be something to play for. Goldman Sachs crunched the data and found sizeable rotation tends on average to last four months, during which economically-sensitive stocks have indeed done better. There is, though, a risk that these manoeuvres are little more than self-fulfilling as opportunists leap onto the bandwagon, fearful of missing out. Growth has, eventually, reasserted itself.

Nevertheless, a case could be made to support rotation — central banks are cutting borrowing costs and using other tools; credit is expanding; the China/US trade war is not a total stand-off with concessions emerging quickly after each threat; and governments are under pressure to help recovery via fiscal stimulus — effectively opening up state coffers and spending their way out of trouble. These themes are likely to hang around for a while, on and off, strengthening the notion that rotation might be with us for a few months yet.

On the other hand, bond yields will stay low for some time and this is now entrenched in the financial system. And economic growth is modest at best — certainly not enough to wean investors off bonds or attract them to the idea that value-priced companies are about to enjoy a sustained renaissance. So where might investors turn for investments that lead markets and portfolios higher? Yes, back to growth stocks, for a while at least.

Anyone reading the current market as a call to make a wholesale switch to value may be vindicated for a while. But it opens up the very considerable risk that when markets "rotate" back the other way, not only will the portfolio miss a growth resurgence, it will be saddled with retreating value investments.

Rather, if this recent "rotation" means anything for a typical long-term portfolio investor, it's a signal — more properly a reminder — that trends do fizzle out and revert. The message is to review portfolios in the context of current conditions and a re-assessment of long-term aims, and to build greater balance or diversification.

There's nothing wrong with holding, say, technology or media. There are significant businesses generating high cashflows with strong balance sheets that are spearheading revolutions and will transcend traditional business cycles. Investors should stick with these companies.

At the same time, however, increasing exposure to cheap, more defensive stocks can give a bit of protection during an economic cycle. Value may not be exciting, but as a bonus there are lots of decent yields giving a reliable stream of returns which will always be appreciated when volatility and turmoil return. Most of us are long-term investors without the time to follow — let alone react to — the movements in every pocket of the market each day, and so some prudence makes sense, just as the market seems to be telling us.

A former Royal Navy officer, Stephen has spent over 25 years in investment banking, asset management and private banking in the UK and overseas. He heads a private family office working with a small number of wealthy families and entrepreneurs. He writes and comments regularly on finance, business and markets in the press, most frequently for MoneyWeek, the UK's best-selling financial magazine.

sc@plainmoney.co.uk

Shares vs Property: An age-old conundrum.

KEYSTONE CAPITAL

www.keystone-capital.co.uk

There is no quick answer to the million-dollar question of where to invest your hard-earned cash. However, here are some basic facts that can help you with this decision.

PROPERTY IS BEST, ISN'T THAT RIGHT?

We all love property. We all want to buy property. We all love talking about house prices. Property has, after all, turned thousands of Britons – mostly post-war Baby Boomers – into millionaires.

House price data from Nationwide building society offers some interesting facts – if you bought an average house 40 years ago, you'd have paid £13,820. Today, you could sell it for £211,443. That's an overall increase of 1,429%.

Although it actually equates to a modest average growth rate of just 7%.

SO HOW DID EVERYONE GET RICH?

Debt. Nearly every homeowner loaded up on it.
In financial industry jargon, it's called leverage. You buy a house for £1,000,000 and you borrow £400,000. The house price rises by 20% to £1,200,000. But your return is not 20%, it's 100%. This is because your £600,000 investment has increased by £600,000 or literally doubled. This is simplistic as we have not factored in the cost of borrowing.

We're often lectured about the evils of borrowing (rightly so when it's excessive) but in moderation, borrowing has its merits, as we have seen with the generation of post-war Baby Boomers.

DID ANYONE GET RICH FROM INVESTING IN SHARES?

The perfect advocate for stock market investing is the billionaire Warren Buffett. One of the world's richest men, he initially built a fortune by fastidiously buying shares he believed were unfairly undervalued. According to Business Insider, he achieved a return of 24.5% a year, after fees, between 1957 and 1969 compared to only 7.4% for the Dow Jones stock market index. Today he's number three on the Forbes Rich List, worth $86bn.

Investors should always be cautious of past performance figures: they offer no guide to the future – whether it's property or shares. Extraordinary periods of returns may be just that – unusual one-offs. Mr Buffett was pretty pragmatic about it in 1967. He said: "The results of the first ten years have absolutely no chance of being duplicated or even remotely approximated during the next decade." That's a healthy, sceptical investment attitude.

So Buffett's success is one thing. Looking more broadly, there is further data available on this. The Credit Suisse Global Investment Returns Yearbook suggests stock market returns were 5.1% a year, with inflation taken into account, between 1900 and 2016. In the golden era, from 1980 to 1999, the annual return was 10.6%.

This may sound modest against the property price gains – but the house prices numbers did not take into account inflation. Official data shows the average UK inflation rate for the last 40 years has been 4.4%. So a 7% annual gain is reduced to less than 3%. Not so great.

SO…WHICH IS A BETTER INVESTMENT?

We can't answer that question definitively as everyone's circumstances are different.

For many people their main home may well be all the property investment they need. For others a portfolio of Buy-to-Let properties may complement income from other sources. It is also fairly easy to invest in commercial property through the markets without the need to tie up large amounts of money in a single investment.

What we can say is that putting all your eggs in one basket is never a great idea. Holding some cash for emergencies is a sensible approach and then investing in a wide range of assets from the stock market to traditional properties will help smooth out volatility over the longer term. Everyone's situation is different, and we are here to talk through these options with you.

52 Brook Street, Mayfair, London W1K 5DS T. +44(0)20 7078 4855 E. help@keystone-capital.co.uk

Musings on the Property Market

BY CRAIG JORDAN

Chief Executive, Jordan Hennessy
www.jordanhennessy.com

Sajid Javid our new chancellor raised temperatures in August just ahead of the bank holiday weekend. The Times on Saturday reported that; Mr Javid was considering the idea, to save first-time buyers from paying the tax, upend stamp duty and shift the burden from buyer to the seller. By Sunday Tweets from the Chancellor soured the Pomerol enjoyed the night before "I wouldn't support that," and continued "I know from the Ministry of Housing, Communities and Local Government the we need bold measures on housing- but this isn't one of them." Could this have been a grave error in hindsight? Granted that to the seller this feels like CGT in another form. However, for the buyer this presents an option for greater leverage. The fear of market stagnation and the daily figures published show a decrease in transactions in large parts of the UK. We assume most buyers want to buy and vendors want to sell, but the alignment on price is preventing this. A huge stamp duty burden on the buyer means the need for significant bonuses year on year to afford the capital required for the stamp duty costs which often exceeds seven figures at the higher end of the market. If however this were to switch to the purchase price and therefore leverageable, this could potentially reenergise the market.

The EU Referendum on 23rd June 2016 and its impact on prime property markets should not be viewed in isolation; it has to be combined with the significant changes to taxation of property and stamp duty levies that took place on 1st April 2016. These two dates in time will compete with each other for which had the greatest impact.

There have been four major changes to Stamp Duty Land Tax levies on the most valuable homes over the last seven years alone. The most notable in April 2016 of an increased levy, an extra 3% duty on additional homes, resulted in a flurry of transactions in February and March. Previously the market has absorbed these spiralling costs, but this time the sentiment has drastically changed, verging on outrage, scandalous, daylight robbery and frustration. Will our newly formed cabinet back-track, abolish or alter these staggering costs? The question is whether this impact has created a far greater market stagnation for the UK property market than Brexit currently? Knight Frank reported in the year to June "properties over £5m in the prime country market fell by 7.9%". We remain cautious as our market is traditionally quieter during the summer. Autumn will provide a greater insight on the market's health.

I am all for downsizing Stamp Duty. Is it beyond radical to create a tax break for 'last time buyers'? Contrary to what you might expect, the biggest beneficiaries could be younger families. Governments, mortgage providers and house builders all obsess over first time buyers, offering them any number of new schemes each year to join the housing ladder. The top end of this ladder is incredibly rickety and largely unsafe. There are about 7.7m unused bedrooms in the UK, largely as a result of adult children flying the nest and leaving many parents in properties much bigger than they want or actually need. Stamp Duty acts as a powerful disincentive to downsize. About 6m homeowners aged over 50 have thought about moving in the past 5 years alone but decided against it because of the costs. According to research by LV, Britain's biggest friendly society, more than 4 in 10 people in this age group would be open to moving to a smaller property if Stamp Duty were cut or cancelled. This tax on home buyers was just 1% when many 'baby boomers' bought their homes but is now a powerful argument not to change your address. John Perks, Managing Director of LV, states that "cutting Stamp Duty for last time buyers could help younger couples seeking a family home and might even raise HM Revenue & Customs receipts if sufficient numbers of empty nesters downsize instead of staying put, increasing the supply of properties for sale and boosting tax revenues which could provide a double whammy for the new Chancellor".

An interesting article way back during the referendum campaigning went largely unnoticed. Published on the 22nd June 2016 in the Sunday Times it suggested Gazumping could be banned. The Government was and I hope continues to consult on bringing forward the point when buying a home becomes binding. Consumers lose £270m a year on surveys, legal and other fees in failed purchases. It happens to about 18% of transactions each year, often when buyers who have had their offer accepted are outbid or "gazumped" at the last minute, losing the home they had set their hearts on. Policymakers at the Department of Business Innovation & Skills (BIS) have held private meetings with senior figures to discuss this issue in full. This could mean in the not too distant future that sales in England & Wales become legal once an offer is accepted, as in Scotland and many other countries in Europe.

Craig founded Jordan Hennessy in 2012, having previously worked for HSBC Private Bank. Harvard educated and with an unrivalled knowledge of the property market, he acts as trusted real estate adviser to Private Clients both UK & International needing advice on all matters relating to property in the UK.

Trust in your Will

BY JAMES HARDAKER

Partner, Stevens & Bolton
www.stevens-bolton.com

Whilst trusts have, for some years now, come under increasing pressure due to legislative tax changes, they still offer one of the best ways of protecting wealth for future generations.

Trusts come in all shapes and sizes and are often set up during lifetime to provide for future generations and as a means of lifetime estate planning. However, for individuals who feel uneasy about giving away wealth during their lifetime or would prefer to make provision for future generations on death, a trust (or multiple trusts) in a Will can assist with this. Will trusts can provide a means of getting assets down to the beneficiaries but in a more controlled manner than an outright gift can. Although many Wills simply make outright gifts, many individuals prefer to put trust structures in place where substantial gifts are being made.

In the case of spouses/civil partners, trusts can be accommodated in Wills so that they come into play on the first death and/or on passing assets down to the next generation(s). Deciding upon the right type of trust gifts for any Will involves balancing:

1. THE FAMILY CIRCUMSTANCES;
2. THE RELATIVE SIMPLICITY OR EASE OF ADMINISTRATION OF THE TRUST; AND
3. A CONSIDERATION OF THE VARIOUS TAXATION CONSEQUENCES.

As with so many things in life, there is not a "one size fits all approach" to trusts in a Will given that every individual's circumstances are different. However, there are a variety of trusts out there which enables the individual to decide on what they consider will be the best way of protecting the assets. For example, some Will trusts provide that a beneficiary has a right to the income arising from underlying the assets of the trust (an "interest in possession" trust), whilst other trusts (more commonly known as "discretionary trusts") provide that payments of income and capital are left entirely to the discretion of the trustees.

Will trusts can help to mitigate inheritance tax ("IHT") and take advantage of available IHT reliefs. In particular, assets which qualify for IHT business property relief or agricultural property relief can be held within a Will trust for future planning opportunities and to ensure that the relief is not wasted on the first death. They can also help protect against divorce and creditors.

Trusts do come with their own unique tax challenges (they are subject to tax in much the same way as you and I) but for many individuals, these tax challenges are substantially outweighed by the piece of mind a trust can bring in taking all feasible steps to provide that assets should not end up in the wrong hands. Of course, choosing the right type of trust is only part of protecting wealth on death, choosing the right persons to manage the trust is also a key consideration.

James trained and worked at Speechly Bircham before joining Stevens & Bolton LLP in 2007 and was made a Partner on 1st May 2019. James has significant experience with onshore and offshore trust structures; succession planning, drafting complex wills and lifetime trust structures; advising UK and non-UK domiciled clients on general UK tax planning; cross border estates and employee benefit trusts. James is a member of the Society of Trust and Estate Practitioners (STEP).

Raising a Glass to Fizzy Investments

BY RUPERT PRITCHETT

Managing Director, Taurus Wines
www.tauruswines.co.uk

Investing in wine always sounds rather glamorous – if you're going to put money somewhere it might as well be into one of your passions, right? And in some ways, you'd be correct. Top names such as Sassacaia, Pétrus and Château Lafite Rothschild can be bought through major London brokers and tracked using Liv-Ex (the London International Vintners Exchange) then talked about swaggeringly at dinner parties as they climb (or fall) in value – but neither you, nor your London broker would have ever seen, let alone held, poured, sipped or tasted those stonkingly good wines. You might as well have invested in steel for all the ambrosial pleasure it will give you.

But there is a way that you can 'invest' in wines for your own cellar. In the wine trade it's called buying en primeur and involves buying wine from a vineyard, via a reputable merchant, before that wine is bottled or aged. In essence, you're buying the wine while it's still in cask and putting your trust in the winemaker's ability – helped along by those with experienced palates (such as wine merchants and journalists) who will taste the cask samples during the spring after the harvest, judging them on elements that the less-experienced palate couldn't begin to recognise. Once the wine is bottled (on average about 18 months to two years after you've bought it) and enters this country you pay the UK tax and duty and cellar the wine yourself at home (or in a bonded warehouse if you would like to continue trading it).

So with the obvious downsides of not really knowing what you're buying and having your cash tied up long before you see the product, what's the benefit to buying wine like this? The answer is simple; you get very exclusive wines at much less than what their retail price would be once they're on the shelf – if indeed they'd ever get to the shelf. Sometimes, buying en primeur is the only way of securing an exclusive wine from a good vintage. And, some five or 10 years later you can crack open a bottle with friends, safe in the knowledge that if you were to find that same wine on a merchant's shelf, it could be twice the price – or more – than what you paid for it. Now I'd drink to that!

If you'd like more information on buying en primeur, we would be happy to introduce you to Rupert at Taurus Wines, he is one of those merchants who is able to taste and judge cask samples and offers en primeur as and when he deems a Bordeaux, Burgundy or Rhône vintage good enough. Rupert has spent over 20 years in the wine trade and holds the WSET Diploma and the professional certificate in spirits. He has judged for both the International Wine Challenge and the Decanter Magazine Wine Awards

KEYSTONE

www.keystone-capital.co.uk