



## **KMI EXCLUSIVE NEWSLETTER**

25th year of uninterrupted financial advice for the Expatriate Market

**January 2017**

**Dear Clients and Investors**

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### **A New Beginning**



In this, our first KMI newsletter of the New Year, we herald a small change, in that Lee has taken his courage in both hands and allowed me to take over the writing of our regular correspondence to you all. Doubtless, if you look very carefully you will find his disclaimer, disassociating himself with any controversial comments that I may have been harbouring over the last seventeen and a half years, that he has had to put up with me.

So into 2017 and all that may entail. Anyone dusting off their crystal ball this time last year would have been hard pressed to come up with even the smallest amount of the events that were about to unfold.

The investment research and management company Morningstar, probably summed it all up best with their quote, “What a fascinating and fundamentally interesting year 2016 has been. If an investor ever wants a reminder why we should ignore the political noise, they need to look no further than Brexit, Donald Trump and the rise of equities. These events will continue to shape our lives in many ways, but they can’t defy investment fundamentals or economic gravity.”

Reason enough, you would think, for this humble scribe not to dip his toes too deeply into the muddied waters of predictions for the next twelve months, but instead stay in the relative shallows of what we attempt to do best, that is, looking at current financial trends and trying to unscramble and decode the often contradictory pronouncements of that benighted bunch of soothsayers, the economists!

Nevertheless, in this, our first newsletter of the year, two of the items tread that rocky path of forecasting what 2017 has in store for us. The third item reflects on a milestone of our own, as we begin the 25th year of KMI Consultants providing financial services to our clients across the globe.

## **Annual Outlook**

One bulletin I read at the start of this year, when giving their financial predictions for 2017, started,

“Things didn’t go as expected for 2016.”

Well you can say that again Buster!

For a start I didn’t win the lottery - again.

My football team were promoted as champions (nobody predicted that).

Another Death Star the size of a planet got built (who finances these things?) and inexplicably a small design fault pre-empted its destruction (strictly this was 2015 but I didn’t get to see it until this year).

Oh yes and a man with no political experience, ‘a bright golden haze on the meadow’ on his head, allegedly small hands and more golf courses than I have clubs, was voted in as President of the United States.

All this in addition to a little local issue in the UK where the now ex Prime Minister Cameron thought it would be a frightfully good leap year wheeze to put his troublesome back bench colleagues in their place by holding a Euro referendum with all the dice loaded in his favour!

As a result of all this mayhem, we now have a whole new game on our hands. It’s almost as if there is a new sheriff in Dodge City and he and his weird bunch of deputies have wandered into the local saloon bar and kicked over the poker table.

Whereas before you knew the guy with the fancy waistcoat, Miss Kitty by his side and a full whisky glass in front of him was going to win every hand against the hapless trailhands. Now we have a new table, an unmarked deck, a whole new bunch of players and its anyone's idea of a winner (even Miss Kitty is having to re-assess who she should be standing next to).



However, our 2017 predictors therefore are hedging their bets bigtime. However taking a consensus view from those brave enough to put their heads above the parapet. They are expressing relief that in the initial post apocalyptic, sorry, election period, Armageddon came and went without need of any destruction assistance from Bruce Willis and that there is a possibility that the all important US treasury yields can remain in an acceptable range between 1.7 and 2.5%, with the result that investors would not need to worry unduly about rates rising enough to pressure valuations and liquidity or alternatively dropping enough to raise recession fears.

So that's ok then and we can all rest easy and not even spare a thought about our old friend inflation making a comeback or the trifling matter of \$19 trillion of US debt being increased (after all what's the difference between 19 and 25 trillion) by the combination of new government spending and tax cuts. Likewise, we need have no sleepless nights about China's growth and its financial systems ability to absorb local debt or whether the policies of those austerity doom-mongers, the World Bank, the IMF and the European Central Bank could continue to hamper some much needed economic growth. All this of course without even mentioning Greece, where I am sure everything is just fine and dandy.

What should be said of course, it that all this is the view on January 1<sup>st</sup> and the world could seem a far different place by January 21<sup>st</sup>.

## Pound Sterling Forecast



The malaise of sterling during 2016 continued early into the New Year as the diplomatic hiatus caused by the resignation of the UK Ambassador to the EU saw it dip to below 1.17 to the euro. This, after previous positive news from both manufacturing and construction sectors had at least enabled the pound to start the year in positive territory.

As is often the case however, it is the market makers perception of the situation that fuels these markdowns and so it was here, as this latest news further vindicated their view that the UK will be pursuing a “hard” Brexit which the markets see as a high risk strategy for the currency.

We will not have to wait too long before the next major currency influencing event arrives, as during the next two weeks, the UK Supreme Court will give its ruling on allowing Parliament a vote on triggering Article 50; an occasion rapidly assuming such importance, that when it finally happens, one can only assume that street parties, a national holiday and a Magna Carta style tapestry will be the order of the day.

When the Judicial Court made their original decision in November, there was a strong rally in sterling. With most commentators expecting that decision to be upheld, one should perhaps expect a mirroring of that strength.

If Brexit holds the key to sterling movements in the first part of the year, then perhaps the various European elections that will take place, starting with the Dutch in March, will be the key factors later on. If nationalism in the EU is at the level that many believe, then we may well see the GBP/Euro swing back during the year, with the UK being seen as the loose thread that may start to unstitch the EU.

Throw into all this maelstrom the Trump effect from the USA and quite frankly at this time who knows where this is going to take us? Perhaps we should fall back on the old Bette Davis quote from “All about Eve” in 1950. “Fasten your seatbelts, it's going to be a bumpy ride.”

## 25TH Anniversary of KMI Consultants

It was September 1992 when Lee Green stepped off the plane in Jakarta, dressed, I like to think, in an immaculate cream linen suit and matching fedora (the pith helmet having had its day by then), looking every inch like a character from a Graham Greene novel. In his hand luggage would have been what passed in 1992 as the very latest financial news, figures and reports of the day – a well thumbed copy of the financial times. And so KMI Consultants was under way.



Fast forward to 2017 and as we move towards the 25<sup>th</sup> anniversary, we look back at those intervening years, the peaks and troughs of the financial markets, the quantum leaps in information technology, but mainly at all the hundreds of clients and friends we have made all over the globe and look forward to the next 25 years, although for some of us our main aid for part of that time may have to be the zimmer frame and the yeast tablets.

Whatever, we will continue to do our best for all our investors and please keep watching this space where we will be announcing a special surprise for one lucky client to help us celebrate our anniversary in style.

Happy Investing

Mike Towning

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