KMI EXCLUSIVE NEWSLETTER

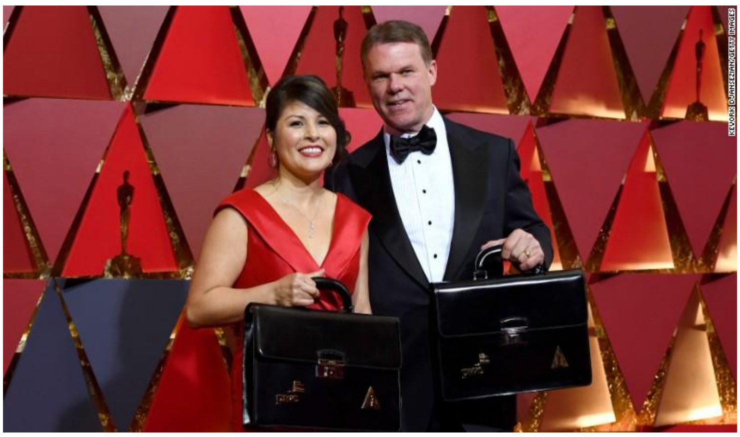
25th year of uninterrupted financial advice for the Expatriate Market

March 2017

Dear Clients and Investors

1 Risk Investing in Retirement
2 The Euro –Sink or Swim
3 Offshore Structures Holding UK Property

Following on from the success of my first two newsletters. Twitter, Instagram and Facebook in meltdown, denounced as a fake newsletter by the current incumbent of the White House and reported to have been mildly enjoyed by the husband of the lady in my local cake shop. I have been let loose once more to cast my all seeing eye on the world of personal investment. I do so emboldened by the fact that if all else fails, I can always apply for a job as an envelope filler at the Oscars, a skill I mastered as a 11 year old at my local fruit and veg show. I'm guessing my services will also come a little cheaper than the previous occupiers of the post.



Onto matters financial and this month we are discussing Risk Investing in Retirement, the future of the Euro (we may have to call in Poirot, Miss Marple, Maigret and Columbo to help us with that one) and some important news for those holding UK property through Offshore Structures.

Risk Investing in Retirement

Income from investments has increasingly become the mantra for a large number of retirees. Many of them are faced with the challenge of whether to go with higher risk or higher volatility in their portfolios. We need an adequate definition of both to understand this puzzle more clearly.

Risk can be defined as the potential for a permanent loss of capital brought about by the reduction in the value of an asset that is not expected to be recovered within the natural duration of the Investment.

Volatility describes the average deviation in asset prices and whist relevant for income focused investors, is perhaps not so important as a significant decline in prices that may occur in a high risk investment,

This risk appears to be highest in fixed income markets and as a result the asset class landscape for investors has been turned upside down, as we now regard equities and more volatile credits such as local currency emerging market debt as a lower risk source of income than the more traditional government and investment grade bonds, where we find the latter now priced to provide negative real returns over the next decade.

It would seem therefore that the way forward is a valuation driven approach that focuses on under-priced assets whilst looking to avoid those perceived to be over priced. Many clients will be unable to generate sufficient income without drawing down some capital each year and advisers need to be able to factor that in to their strategies for their clients.

Investors need to be realistic with their withdrawal levels and current market research has identified 2.5% as a safe level of starting income for retirees. These income needs in retirement are seldom constant, with the levels of income required in early years when activity and therefore cost levels, are shown to be higher. Again the planning of the portfolio should reflect this, and it thus becomes clear that it is in this planning and in the ability to distinguish between risk and volatility that the portfolio manager can greatly assist in providing the retiree with the best value opportunities.

The Euro – Sink or Swim

Speculation about this troubled currency, which let's not forget, has only been with us for a mere 18 years, is never far away from the headlines. Here below we look at some possibilities for its demise and for its survival.

Three ways the Euro could break up

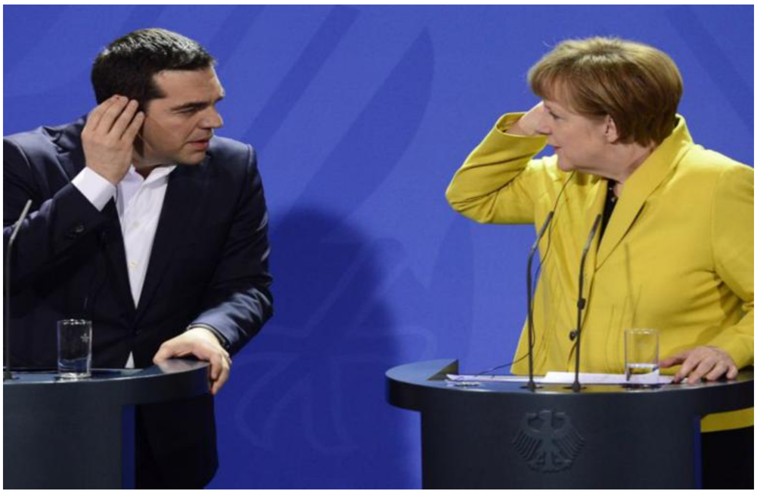
1 In France, Marie Le Pen confounds her critics and succeeds, where her father so often failed, in gaining power. Once in office, she calls and wins a referendum on leaving the Euro. Capital disappears from not only France but also near and troubled neighbours Italy. The Franc is re-introduced and pegged to the remnants of the Euro. This proves not possible to manage and sees the value of the new franc plunge. Chaos ensues in financial markets, the Euro flounders.

2 In Italy, a planned 20 billion euro government lifeline to their failing banking system is deemed to be state aid and disallowed by EU regulators. Italy- Germany bond spreads hit record highs, there is a run on the banks and another Italian government resigns after failing to impose capital controls. A new election brings in the Euro sceptic 5 star party in coalition with the Northern League with a declared policy aim of bringing back the Lira. Banks are nationalized, a Euro membership referendum follows – Italy’s 18 year membership of the single currency ends. Good news for no-one, particularly the health and welfare of the Euro.

3 In Greece, creditor led downward pressure on pension levels leads to the resignation of the Government and a snap election. Prime Minister Alex Tsipros rolls back into power on the back of an end to austerity pledge. Sympathy from other European governments is in short supply, and they take a harder line with Greece. This time there is no back down - Greece defaults on its debts at the European Central Bank which responds by pulling the plug on Greek Banks. Deposits become promissory notes. The Greek government is forced to introduce bartering for goods and services whilst awaiting the set up of a new currency at Zimbabwe like levels of exchange. Greece departs the Euro zone and guess what? The Euro bombs.

Three ways the Euro could flourish

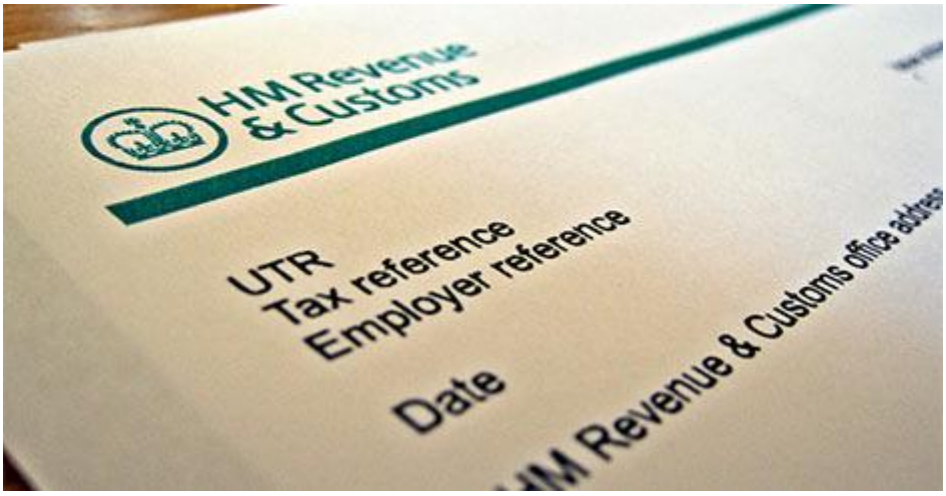
1 President Trump leads a trade war with Germany, whilst President Putin applies renewed pressure on NATO borders. As a result of this threat to European security, Germany comes fully in line with the rest of Europe and agrees a fiscal union with the rest of the Euro zone in return for German budget discipline. Financial treaties are signed ending years of uncertainty about the financial bonds that hold the currency bloc together. The Euro soars.



2 Angela Merkel's policies fail to find enough favour to give her a fourth term. Social Democrat Schulz prevails at the ballot box and sets out with a looser fiscal policy. European creditors relax Greece's austerity targets. Greece returns to the bond market. The domestic policies of Schulz results in the trade surplus with America reducing, thus setting up better relations between the two. A modest European fiscal union comes into place, Herr Schulz is welcomed to Athens and is credited with saving Greece and the Euro, which both move out of the intensive care ward.

3 Le Pen loses out, Greece doesn't default, Italian banks stagger on and Ms Merkel wins again, cementing her status as the de facto leader of Europe. Important decisions on a financial minister for Europe are deferred in time honoured political fashion. Greece's economy improves, albeit at a glacial rate. The frailty of the Euro banking system encourages completion of a banking union and the introduction of a common deposit guarantee system. Everybody (reasonably) happy then, and the Euro improves as much as is possible on such negligible foundations.

Offshore Structures holding UK property



All parties who fall into the above category should be aware that from April 6th 2017, all non-UK domiciled individuals holding residential property in the UK through an overseas company in which they hold shares or beneficial interest, will become subject to UK Inheritance tax at 40% of the property value upon their death.

KMI can assist relevant parties through our contacts with companies that provide strategic planning and can advise on restructuring. Please feel free to contact us for further details.

Happy Investing!

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