KMI EXCLUSIVE NEWSLETTER

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September 2018

Dear Clients and Investors

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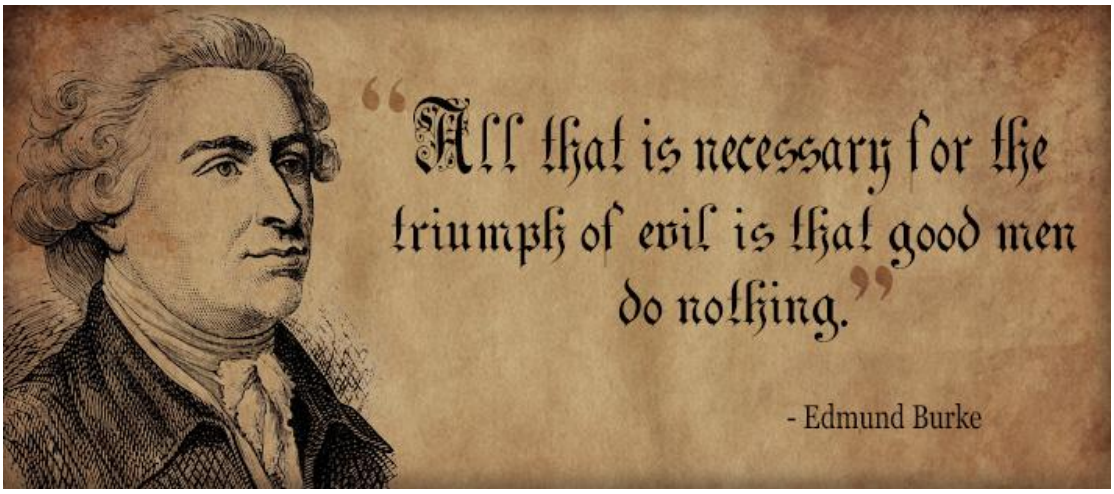
Welcome one and all to our September bulletin, an attempt to put out, what is referred to in far loftier circles than ours, as our Autumn statement.

In it, we start by surveying and reflecting upon a world where the so called superpowers appear to be marching to the beat of 'One man knows best', laying waste to the tried and tested methods of collective government.

We can but stand and watch open mouthed at the antics of these leaders, hoping against expectation that their short term extremes are not to everyone's long term detriment.

As a schoolboy, shortly after the fall of Mafeking, I was forced into sitting and suffering through a string of lessons on Philosophy, the one really forward thinking idea of a headmaster who, if he were teaching today, would be serving at least ten years in one of Her Majesty's prisons, because of the force with which he wielded a birch cane (at this point, I think I am expected to comment that it never did me any harm. Please excuse me if I don't). Anyway being a fairly shallow pupil, Philosophy, by and large, passed me by, other than one lesson where we discussed 18th century Irish politician and philosopher Edmund Burke and in particular one of his utterances which I've always remembered and, if I may, I would like to reproduce for you now as being relevant to our day and age.



"No man, who is not inflamed by vain glory into enthusiasm, can flatter himself that his single unsupported, desultory, unsystematic endeavours are of a power to defeat the subtle design and united Cabals of ambitious citizens. When bad men combine, the good must associate; else they will fall, one by one, in unpitied sacrifice in a contemptible struggle."

Whoa there Edmund, steady on! We do, however, get your drift. and today, more than ever, we need good men to step forward. My fervent hope is that we recognize them when they do.

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Pausing only briefly to stow my soapbox safely away until next required, let us move on to more traditional fare for our bulletins and start with a look at China.

China's Economy and a trade war

With the onset of tariffs to a further $200 billion of goods representing Mr Trump's latest broadside in the developing trade wars. The seemingly ever upward curve of China's economic growth is under serious threat.

As the sophisticated consumer markets of Beijing and Shanghai are threatened by rental increases for tenants of over 30%, the countries' economic well-being may be dependent on the confidence of consumers outside these two powerhouses.

This divergence between big cities and smaller ones (although in China's case the word smaller can be misleading as there are over 150 cities with a population of over a million) is being reflected in economic surveys which show so called second and third tier cities outperforming first tier cities in the most recent data.

Traditional forms of measurement such as the 9% year on year fall of retail sales may also be slightly misleading as a quarterly household spending survey carried out by the Chinese government (in whose every word we can surely trust) is still showing acceleration over the last year. As a further example, overseas tourism by Chinese residents rose 15% last year with over 70 million visits abroad from China (and who knows how many photographs taken.)

So while there is evidence to suggest that the effect of tariffs may weaken the nation's spending power in the short term, there is no sign yet that China's long term desire for its economy to be fuelled by consumption rather than exports and investment is under threat.

How far can a 1 million Pension Pot go?

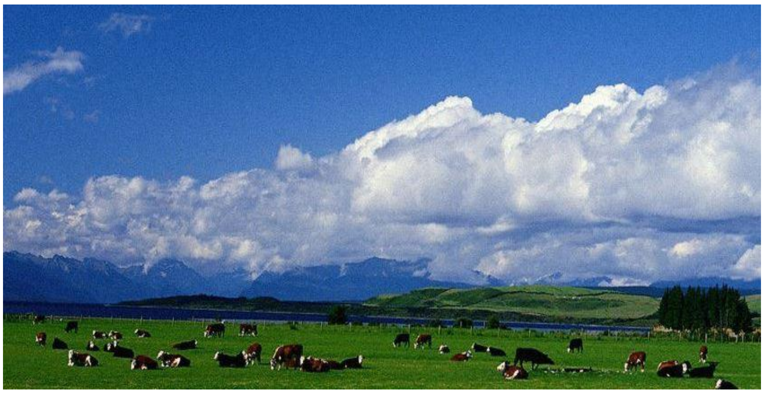
Given the above question many of you will have immediately said, "Depends what the currency is."

Indeed it does dear reader. Disastrously sad though it is, to a Venezuelan, a million Bolivars shortly before the recent introduction of the sovereign Bolivar would not have seen much more than a loaf of bread for their money.

So let's deal with places where the widespread plundering of a nations assets has not sunk to the level of that benighted country.

In Britain, a million pounds has long been seen as a figure to aspire to. We remember the film ‘The million pound note’ with Gregory Peck trying hard not to spend it. It also used to be the top prize in our now lost and lamented football pools, only to be superseded, replaced and blown away by the national and international lotteries where many of us now don’t enter unless there’s at least a hundred million to be won. Fat chance of course if my recent 45 Euros 80 prize for getting over half the numbers right is to be believed.

Does, therefore, a million pound pension pot in the UK guarantee you a VIP (including backstage) entrance pass to the land of milk and honey?



Dream on! A 65 year old retiring with that level of pot and buying an annuity for a lifetime guaranteed income can expect to achieve around GBP 45,000 annum, but if that same 65 year old wants to include whistles and bells in the shape of inflation protection and provision for a surviving spouses pension, then he will have to settle for the greatly reduced figure of GBP 21,000. Add in to this mix the wildly escalating costs of healthcare for retirees and your long awaited nest egg is beginning to look decidedly threadbare.

Another factor to consider is your geography, even in such a comparatively small island like Britain, the cost of living can greatly impact your spending power depending on what side of the Watford gap you live in. And if you think Britain is bad, America, where of course a million dollars is around 77% currently of a million pounds, takes it all to a new level. Your million dollar pot could last you up to 25 years if you happened to live in Tennessee, but that term drops to 18 years in California and a measly 12 in Hawaii (and that’s not even taking the volcanoes into account.)

Whilst then being a completely laudable goal, and let’s face it the average retirement pot is a lot less, a million of anything doesn’t solve all problems nor guarantee an easy life, and it seems that the only answer to that is to set higher goals, and therefore by implication start saving earlier or commit more of your available income. Failing all that of course, you could always just work until you drop!

Property v Pensions

Having established that there is no easy ride on the pension front, let's look at an alternative way of funding your retirement. Property; and more particularly the perceived benefits from using it as an investment

Firstly we need to understand that property and pensions are two entirely different entities. Property is an asset class and a Pension is a tax wrapper. Property demands considerable initial investment and has the extra costs of funds for renovations and upkeep together with management fees should you decide to pass on the responsibility for day to day liaison with the renter. Pensions give you the advantage of saving for retirement at manageable levels over a longer period of time.

Property owners who go down the buy to let route will point out that, if property replicates performance of the last 20 years over the next 20 years, an average price UK property (GBP 235,000) will be worth GBP 1 million by the year 2038. To equal that a pension investment over the same period would need GBP 1200 per month contributions to be added to a start up lump sum of GBP 90,000.

However, whilst property may be likely to show that sort of outperformance over a pension, potential additional cost factors such as increases in stamp duty or taxation rises must also be taken into account, and if debt is taken on to assist purchase then the risk factor is increased further.

One undoubted benefit that property does have however, is that people readily understand it as an investment, but try to give a detailed explanation of the ins and outs of pensions and annuities and you would probably have more luck getting Meghan Markle's father an invite to a Buckingham Palace garden party.

As ever the probable solution to the dilemma lies in diversification, with at least some property in your investment portfolio seeking both income and capital growth to complement the bedrock of a pension providing a monthly income, designed for the days of wine and roses that we all like to think lie ahead.

Happy Investing!

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