ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

MARKET COMMENTARY

April 2019

The Eighth Wonder

Following the sharp sell-off at the end of 2018, equity markets bounced back strongly in the first quarter of 2019. Comments from the Federal Reserve, hinting that interest rates would not rise in the US this year was a major factor, helped by a growing perception that trade relations with China were improving. Technology shares fared particularly well, and at the time of writing the NASDAQ index is very close to reaching new highs. Despite the Brexit saga taking countless twists and turns over the period, the UK rose broadly in line with global markets helped by some big moves in names such as Next (+40%), Rio Tinto (+35%) and Lloyds Bank (+24%). Continental Europe also made good progress, despite weak growth numbers and Italy slipping into recession. The March reading of the Eurozone Purchasing Managers' Index is indicating a contraction, lending weight to the ECB's comments that the 'risks surrounding growth have moved to the downside'.

Asian shares enjoyed a very strong quarter, boosted by a strong rally in China as investors anticipated new government measures including tax cuts in an attempt to counter the softening GDP data. India was volatile as elections and conflict with Pakistan rattled nerves, but the main SENSEX index ended comfortably higher as confidence returned in March. Emerging market nations such as Russia and Brazil benefitted from a firmer oil price in the quarter (+32%) although Turkey went back into recession following a period of questionable policy decisions.

Fixed-income markets have generally enjoyed a strong start to the year too as prior expectations of higher interest rates have been reined back. After moving sideways for two years, index-linked gilts jumped almost 6%, with UK corporate bonds not far behind. The high yield bond market in the US has fared even better, up nearly 7.5%, although this comes from a low base after the asset class lost around 5.5% last quarter.

Elsewhere, metals were mixed, with gold flat and platinum soaring 15% on talk of a supply crunch. Most agricultural commodities were in positive territory for the quarter, notably lean hogs up over 60% due to an outbreak of swine flu, however despite a bounce in March, wheat was still down 10% for Q1, and now down by a third since August. In the foreign exchange markets, sterling recovered from a December low of $1.25 against the dollar, to briefly touch the $1.33 level. Despite the Brexit drama of late the pound has been no more volatile than most other currencies.

Our investment position on Brexit remains unchanged. We believe that a valuation discount has been forced on UK companies as a direct result of the uncertainty and fear largely generated by the media. Overseas investors appear particularly sceptical, but we regard this as a misunderstanding and an opportunity. If any progress is made, there is scope for a very sudden return of favour, prompting a rush back into UK equities. In short we believe that the real risk for investors is to be out of the market right now.

The end of March and early April is the busiest time of the year for us at Albert E Sharp. For those requesting it, we need to check that all ISAs have been fully subscribed and that taxable accounts have used up their allowances, as the tax year comes to an end. This is very time-consuming work, yet it is not always very obvious what has been done and sometimes may be totally imperceptible. Nevertheless, tax management within the portfolio is arguably one of the most valuable elements of the service that we provide, given the significant long-term ramifications.

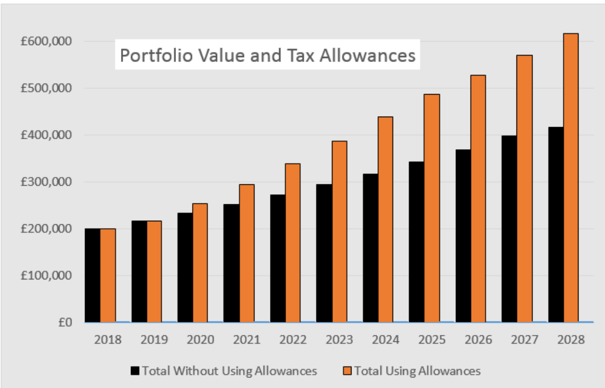
It is easier to appreciate this by way of an example. Imagine a higher-rate taxpayer, who has a portfolio worth £200,000. Half of this is held in a general investment account (GIA) which will face a tax on dividend income, interest and, potentially, capital growth and the other half is wrapped up in an ISA, which faces none of these taxes. Let's assume further that the investor intends to cash in everything in ten years in order to buy a holiday home; this type of scenario is fairly common. It is to be invested entirely in UK equities and, for ease, the return tracks the FTSE-100 Index's 50 year average of 8.2% comprised of a 5% capital return (due to share prices rising) and a 3.2% income return (dividends).

	Value today	10 years later, assuming 8.2% growth p.a. ➔	Value without using allowances	Value using allowances
GIA	£100,000		£183,050	0
ISA	£100,000		£219,924	£616,104
Total	**£200,000**		**£416,649**	**£616,104**
		Dividend tax paid	£8,348	£781
		Capital gains tax paid	£11,877	£0
		Total Taxes Paid	**£20,226**	**£781**

Source: Albert E Sharp®

NB Excludes any management fees and commissions, assumes higher marginal tax rate and no change in tax rules.

The table above and chart below illustrates that if no allowances are utilised, the portfolio would double in value to £416,649. However, if the allowances are used, the portfolio finishes entirely in the tax-free ISA and more than trebles in value to £616,104. The near £200,000 difference comes partly through paying lower taxes but mainly from the compounded effect of the growth in the saving.



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What this really demonstrates is the importance of long-term thinking. Small actions today make a big difference tomorrow. These tax savings effectively boost returns and can be thought of as earning interest on interest. This is the magic of compounding and reportedly described by Albert Einstein as 'the eighth wonder of the world, the greatest invention by mankind'.

Nevertheless, short-termism is a pervasive human condition. Whether it is managers of Manchester United or Marks & Spencer, fans and shareholders alike want to see them deliver results today. Although fund managers face the same issues, those with the ability to resist these myopic demands often fare best. Warren Buffett is a great advocate of thinking long-term and this is borne out by the returns of Berkshire Hathaway, his listed investment vehicle.

Since March 31st 1988 he has returned the annual equivalent of 15.5%, compared to the benchmark S&P-500's 10.4%. This 5.1% annual difference means that £1,000 invested in the index over the period would have turned into £21,610 compared to £87,946 for Berkshire Hathaway. The difference in returns was only £50 in year one, but 31 years later it had grown to more than £66,000. It should therefore come as no surprise that one of the key factors that we look for when buying a fund or shares in a company is the management's ability to demonstrate long-term planning and an ability to ignore short-term distractions.

Tax management at the portfolio level is inextricably linked to maximising portfolio returns and so investors should always take advantage of CGT allowances. In addition, tax-efficient vehicles such as ISAs or pensions, increase returns. That way they can enjoy the benefits of compounding; as Einstein also said, 'he who understands it earns it, he who doesn't, pays it'.

BERKSHIRE HATHAWAY - 31 YEARS OF COMPOUNDED GROWTH

BRK/A US Equity | 97) Settings | Comparative Returns

Range 03/31/1988 - 03/29/2019 | Period Daily | No. of Period 11320 Day(s) | Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	BRK/A US Equity	USD	8694.60%	8694.60%	6633.28%	15.53%
2)	SPX Index	USD	994.83%	2061.32%	--	10.42%
3)						
4)						
5)						
6)						

1M | 3M | 6M | YTD | 1Y | 2Y | 3Y | 5Y | 10Y

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P.
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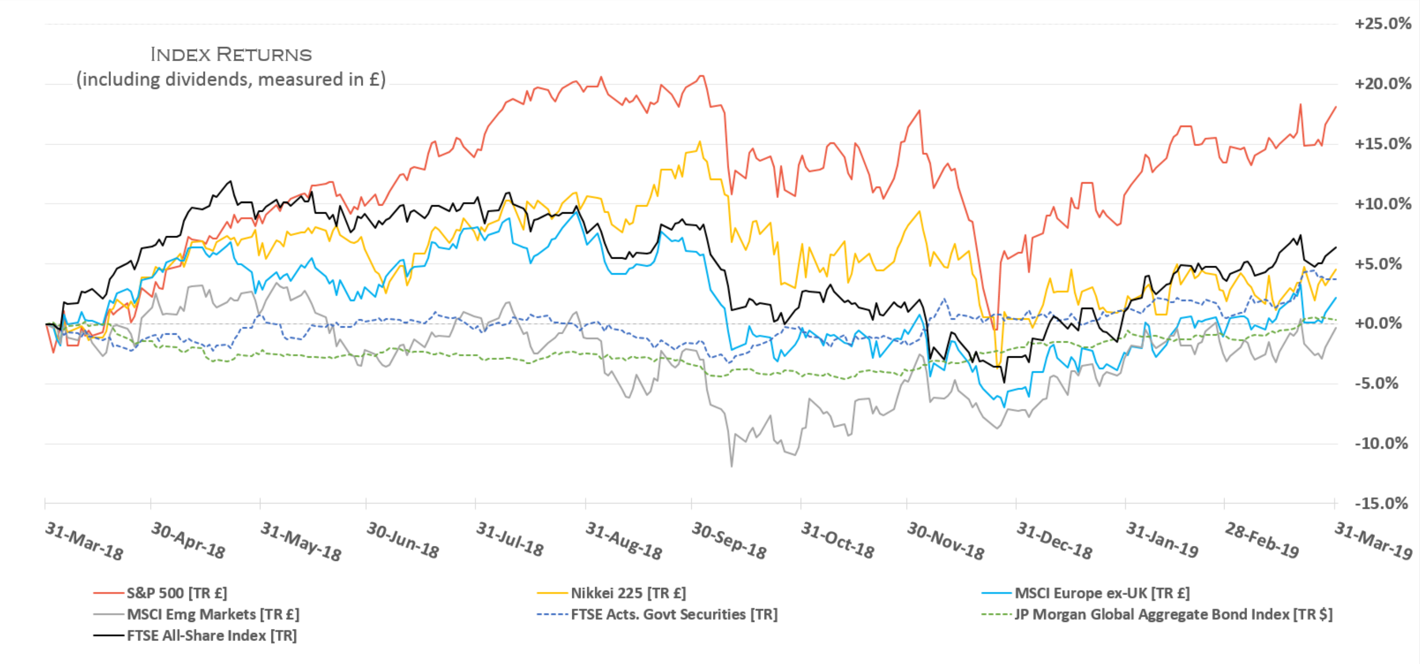
Index Returns

Index	Region/Asset Class	31 Mar 2019	Year To Date	1 Year Change	2 Year Change
UK 100	UK	7,279.2	+8.2%	+3.2%	-0.6%
UK Mid Cap	UK	528.1	+9.8%	-0.2%	-3.0%
UK Small Cap	UK	5,466.4	+5.6%	-2.3%	+0.7%
Dow Jones Ind Avg	USA	25,928.7	+11.2%	+7.6%	+25.5%
S&P 500 Index	USA	2,834.4	+13.1%	+7.3%	+20.0%
NASDAQ Comp.	USA	7,729.3	+16.5%	+9.4%	+30.7%
Nikkei 225	Japan	21,205.8	+6.0%	-1.2%	+12.1%
Euro Stoxx 50	Europe	3,351.7	+11.7%	-0.3%	-4.3%
CAC 40 Index	France	5,350.5	+13.1%	+3.5%	+4.5%
DAX Index	Germany	11,526.0	+9.2%	-4.7%	-6.4%
Milan Index	Italy	21,286.1	+16.2%	-5.0%	+3.9%
MSCI Emg Mkts (£)	Emg Mkts	561.3	+7.4%	-0.3%	+11.0%
IBOVESPA Index	Brazil	95,414.6	+8.6%	+11.8%	+46.8%
IMOEX Index	Russia	2,497.1	+5.4%	+10.0%	+25.1%
S&P BSE SENSEX	India	38,672.9	+7.2%	+17.3%	+30.6%
Shanghai SE Comp.	China	3,090.8	+23.9%	-2.5%	-4.1%
Hang Seng	Hong Kong	29,051.4	+12.4%	-3.5%	+20.5%
UK All Property	UK Property	134.0	-0.7%	+1.0%	+9.0%
UK Conv Gilts	UK Gilts	3,731.7	+3.4%	+3.7%	+4.2%
UK Index linked Gilts	UK IL Gilts	5,183.5	+5.9%	+5.5%	+6.1%
JPM Glob Agg. Bond ($)	Global Bonds	577.3	+2.3%	+0.3%	+6.8%
iBoxx Non-Gilt	UK Corp Bonds	348.9	+4.1%	+3.7%	+5.0%
WTI Crude ($/barrel)	Oil	60.1	+32.4%	-7.4%	+18.9%
LMEX	Base Metals	3,056.7	+9.1%	-4.6%	+6.9%
Gold Spot ($/oz)	Commodities	1,292.30	+0.8%	-2.5%	+3.4%
S&P Agri & Livestock	Agriculture	693.50	-1.8%	-7.2%	-12.7%
£1 = US$	Currencies	1.30	+2.2%	-7.0%	+3.9%
£1 = €	Currencies	1.16	+4.5%	+2.1%	-1.3%
£1 = Yen	Currencies	144.44	+3.3%	-3.0%	+3.3%



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