TriLake Partners
Wealth managers

The occasional viewpoint

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Why You Should Never Seek Relationship Advice from a CIO

Dear TLP Love Guru,

My husband of 20 years and I have been arguing all month about money—why he shouldn't resign his current job and "find something he finds more meaningful," why we just can't move somewhere with a lower cost of living, etc. I can't remember the last time we had a big fight but our thinking on this is so far apart that I don't see any chance for compromise. What do you think?

Signed,
Sleepless in Singapore

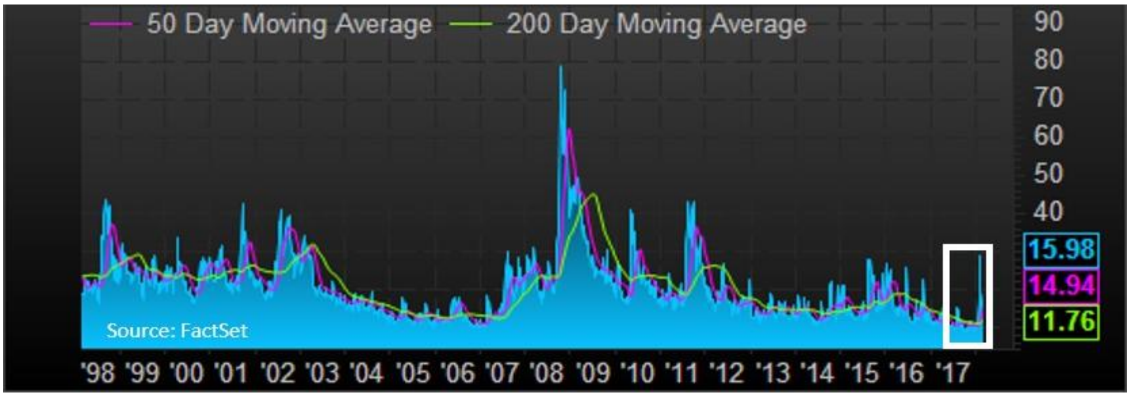
Dear Sleepless,

I know exactly how you feel. It's been quite a ride on the Volatility Roller Coaster the last few weeks after such a gentle ride over the last twelve months (see following chart):

Market Volatility Index, one year

Sometimes we can get so caught up in a highly emotional moment and find it hard to get out of it. In those instances, it's best to take a deep breath or two, walk away and see the volatility you're in from a different point of view.

Market Volatility Index, twenty years



The white box in the lower-right corner above shows where the first chart fits in the last 20 years of the Volatility Index. Yes, it was a violent launch from 11 to 37 with some intraday action at 50, the biggest jolt in over 6 years. But what was more unusual than the sudden reappearance of volatility was its virtual disappearance in the previous 12 months when the median VIX value was 10.74. Compare that to the 20-year median of 18.57. Many pundits have explained away the suppression of volatility by pointing at the accommodative policies of the major central banks as well as the synchronous recovery of global markets. They label it a Goldilocks environment, forgetting that her story didn't really end that nicely. Well, the clock is ticking on QE whilst global growth shows no sign of advanced age.

Besides, why do we call it Goldilocks? Shouldn't we call it a Baby Bear environment since it was Baby Bear's stuff that was always "just right"?

Dear TLP Love Guru,

But why? Why? Why did it go so wrong so fast? When I first met Sven, he was an uncouth lout whom I couldn't take to dinner parties because I was afraid he would get into a football argument with his mouth full. With time and care, he had become an urbane man-about-town equally conversant in Camus, chianti and Kurosawa. Why did he revert to the emotionally-stunted unpredictable troglodyte of his youth?

Signed,
Just The Way You Are

Dear Just,

Investments haven't really changed but the environment and how we use these investments certainly have. Through all the talk of The New Normal and "It's different this time," bonds remain instruments of indebtedness whose values rise and fall with interest rates and our appetite for credit. Stocks have always been about the myriad risks associated with the capital of a business and the rewards of owning a successful one. We shouldn't expect bond values to keep rising just because interest rates have kept falling for 30 years. That's like expecting an uncouth lout to act presidential just because he moved to a big white house. The market behaved like Dr. Jekyll because for a long time it did not receive the stimulus to behave like Mr. Hyde. *All else held equal*, prices of bonds and stocks react negatively to rising interest rates.

Kudos to our central bankers who have largely been successful in reflating our economies after the Global Financial Crisis but nobody believed it could or should be sustained. We stopped hearing predictions of "lower for longer" and we were all waiting for some signs, any sign, that the end was nigh. What, the Fed rate hikes and the ECB announcements weren't enough of a sign?

In the latest market turmoil, human investors and algorithm-led machines appear to have reacted to the same set of stimuli: rising interest rates, a fear of wage inflation and maybe the odd geopolitical event or two. But how many machines are out there now? In a way, passive ETFs are like machines. They are designed to track an index or some other rule. When that index goes down, these emotionally-stunted ETFs will dutifully go down with it.

Never in history have we had so much money in passive index funds and ETFs than now. We don't knock ETFs; we invest in quite a few. If we are not convinced of finding sustainable alpha or excess return through careful selection of securities, sectors or managers, we are happy to invest in an ETF. But what a passive ETF cannot do is to reduce total exposure to its market when it's time to do so. It cannot convert to cash. It cannot hedge. It cannot switch to another asset. It has to stick to its guns as required by its prospectus and follow the index down. As of year-end 2017, global ETFs held USD 4.6 trillion, including USD 649 billion in new assets. That is a whole lot of money sticking to its guns.

Active portfolio management is no guarantee that investors will be protected from market downturns but it certainly provides the tools to mitigate market risk. We acknowledge the evidence on both sides of the argument but we will always want the tools and the potential to protect our clients during these episodes.

Dear TLP Love Guru,

I've long known of my husband's penchant for serial and simultaneous liaisons even before he married me. Far be it for me to try to change his stripes, I thought. But now that it's become public, it's become truly bothersome since I still have to make public appearances with him. I'm very unsure on how best to react to this new situation.

Signed,
Not Melania

Dear Not,

Investors are reacting to the change rather than the level of inflation and interest rates. Unless you live in Venezuela, the latest median estimates from FactSet look quite benign:

Estimates of interest rates and inflation

	10-Yr Government Bond Yield			CPI Inflation		
	CY '17	CY '18	CY '19	CY '17	CY '18	CY '19
China	3.88	4.00	3.85	1.6	2.3	2.2
Germany	0.47	0.90	1.23	1.7	1.8	1.8
Japan	0.05	0.10	0.10	0.5	0.8	1.1
Switzerland	-0.10	0.20	0.40	0.5	0.7	0.9
United Kingdom	1.25	1.60	2.00	2.7	2.6	2.2
United States	2.40	2.95	3.15	2.1	2.2	2.2

Source: FactSet

The problem may be that many investors were positioned for a continued lack of volatility and absence of inflation. But these interest rate levels are not destructive to asset prices. Wage inflation accompanied by sluggish labour productivity would be a great concern but the argument over how productivity should now be measured is not over. In any case, the inflation levels above are right where we want to be anyway.

Dear TLP Love Guru,

You are the world's worst relationship advice columnist! Last night my girlfriend threw a glass of chianti in my face and dumped me after receiving your so-called advice. Worst of all, she did it during a special Kurosawa screening and I ran out with wine stains on my shirt and missed the ending. So tell me, did the movie end happily?

Signed,
Uncouth Lout

Dear Uncouth,

People often invoke the Rashomon Effect when different observers offer divergent recollections or interpretations of the very same thing they all saw. That's the beauty and frustration of financial markets. Arguments and counter-arguments fly, nobody ever admits they were wrong, every guest on Bloomberg begins their sentence with the word "So" and we'd like to believe we all live happily ever after except the ones who disagree with us.

For our clients, we try to emphasise that their portfolios should be less about market information and more about client information. No two portfolios under our management are the same simply because no two clients are the same. Clients have different return requirements. They have varying capacity and tolerance for risk which happen to change over time. Some may retire to costly locations whilst others may be more concerned about preserving assets for the next generation. Their singular total portfolio should be a reflection of this and not a reflection of financial markets.

TLP Love Guru

Market Update

		Annualised percentage return for periods ending: 27/2/2018			
Asia Indices	**Last**	**YTD (non-annualised)**	**1 Year**	**3 Years**	**5 Years**
Nikkei225 (Japan)	22389.86	-1.59	19.37	7.98	16.81
KOSPI Comp* (Korea)	2456.14	-0.46	17.77	7.34	4.15
S&P/ASX200 (Australia)	6056.90	0.52	10.58	5.29	8.44
Hang Seng* (Hong Kong)	31268.66	4.51	30.69	8.00	6.73
Shanghai Comp*	3292.07	-0.46	1.96	-0.18	7.31
TWSE Taiwan	10815.47	1.62	15.27	8.14	10.33
STI Singapore	3540.39	4.21	17.60	5.02	5.15
MSCI Malaysia	1330.80	3.54	13.78	4.45	6.21
MSCI Indonesia	2542.42	3.49	23.73	6.10	6.78
MSCI Thailand	2293.11	5.14	24.63	9.72	7.20
MSCI Philippines	1982.58	-0.27	15.17	3.48	5.86
MSCI Vietnam	921.79	11.15	73.63	17.40	11.86
Sensex India	34346.39	0.94	20.74	7.03	14.04

*Price return only. All unmarked indices show gross total returns.

		Annualised percentage return for periods ending: 27/2/2018			
Global Indices	**Last**	**YTD (non-annualised)**	**1 Year**	**3 Years**	**5 Years**
DJIA (US)	25410.03	3.18	24.79	14.72	15.32
S&P500 (US)	2744.28	2.96	18.10	11.55	14.97
Nasdaq100 (US)	6900.35	8.09	30.45	17.22	21.79
VIX (US Volatility)	18.59	--	--	--	--
MSCI Latin America	1380.08	7.67	23.16	13.96	7.62
EuroStoxx50	3458.03	-1.12	7.08	1.30	8.67
SMI* (Switzerland)	8992.52	-4.15	5.54	-0.08	3.74
DAX (Germany)	12490.73	-3.30	5.65	3.09	10.23
FTSE100 (UK)	7282.45	-4.63	4.31	5.68	6.82
CAC40 (France)	5343.93	0.63	13.79	6.06	11.35

*Price return only. All unmarked indices show gross total returns.

		% change for periods ending: 27/2/2018		
Commodities	**Last**	**1 Month**	**6 Months**	**1 Year**
Gold	1325.75	-2.02	3.15	5.45
Silver	16.61	-4.54	-2.41	-9.43
Brent Crude Oil	66.60	-4.97	27.05	21.87
WTI Crude Oil	62.99	-4.95	31.59	16.56

10-Year Benchmark Yield	Last	1 Month Ago	6 Months Ago	1 Year Ago
USA	2.9062	2.6210	2.1956	2.3650
UK	1.5580	1.4178	1.0558	1.0783
Switzerland	0.1380	0.0941	-0.1126	-0.1963
Euro	0.6740	0.6059	0.3767	0.1970
Japan	0.0414	0.0751	0.0137	0.0413

Currencies	Last	1 Month Ago	6 Months Ago	1 Year Ago
EUR/USD	1.2239	1.2433	1.1872	1.0613
USD/JPY	107.55	108.59	109.26	112.11
USD/CHF	0.9403	0.9352	0.9584	1.0056
GBP/USD	1.3881	1.4183	1.2879	1.2469
USD/SGD	1.3235	1.3075	1.3558	1.4018
EUR/SGD	1.6198	1.6257	1.6096	1.4876
CHF/SGD	1.4075	1.3982	1.4147	1.3939
AUD/USD	0.7809	0.8094	0.7940	0.7689
NZD/USD	0.7243	0.7340	0.7246	0.7217
USD/KRW	1071.25	1063.90	1128.25	1133.70
USD/HKD	7.8260	7.8178	7.8219	7.7615
USD/THB	31.35	31.36	33.31	34.84
USD/IDR	13675	13304	13346	13343
USD/INR	64.87	63.58	64.04	66.76
USD/PHP	52.03	50.84	51.09	50.28
USD/TWD	29.20	29.08	30.24	30.72
USD/CNH	6.3219	6.3282	6.6440	6.8565

Source: FactSet financial data and analytics.