THROGMORTON

Year in Review

January 2017

"Each night, when I go to sleep, I die and the next morning, when I am wake up, I am reborn." (Mahama Ghandi 1869-1948).

In the cult classic 1993 comedy film "Groundhog Day" the Bill Murray character, TV weatherman Phil Connors, is forced to live the same day over and over again until he gains some understanding of his life. As I sit to write this summary of the year ended, and the prospects for the year ahead, I find I have much in common with that character. We are now eight years on from the financial crash and the pace and general background to the recovery continue along the same course set some six years ago and look set to carry on for a few more years yet, so the content of this note is almost identical to the last five years.

Economists and politicians talk about "Normalisation" of the economy. By this they mean about 2 ½ % per annum increase in the GDP, 2% inflation and a base rate of around 3%. The USA is probably the closest to achieving this but it is still at least 2 years away. The UK is possibly 18 months to 2 years behind America and Japan and Europe are probably around 2 years behind the UK. So my groundhog day moments look set to continue for some while yet as the "experts" stumble towards their goal.

"I don't make jokes I just watch the government and report the facts" (Will Rodgers, 1879-1935 Actor and newspaper columnist).

You will see from the valuations you have been receiving that the last year has been a productive one in respect of investment returns. It was, as ever, a year beset with economic worries (the slowdown in China, Brexit et al) but the continuing lack of any meaningful return by way of interest on deposits kept money flowing towards equity markets and kept them advancing. A further fillip arrived with the election of Donald Trump with his plans to reinvigorate the US economy and renew much of its infrastructure, and we must now hope that he can deliver on these plans in order to justify the markets expectations.

"One of the problems today is that politics is such a disgrace, good people don't go into government." (Donald Trump, 1946-)

"It is enough that the people know there was an election. The people who cast the votes decide nothing, The people who count the votes decide everything" (Joseph Stalin, 1878-1953)

"A fool and his money are soon elected" (Will Rogers, 1879-1935)

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One thing is easy to predict for the coming year and that is the continuing volatility for investment markets, for in the end that is how the markets have always progressed. Unlike last year where volatility was driven by economic concerns it is more likely that the coming year will concentrate more on various political concerns. These concerns will mainly emanate from Europe where impending elections in France and Germany will no doubt show a continuing rise in popularity for anti-establishment parties but also the unresolved Greek debt crisis (remember that?) will reappear as will the attempts to cobble together a fresh government in Italy. Whilst this is going on business will continue. Companies will trade and generate profits, they will pay dividends to shareholders and we will all get on with our lives much as we have always done and if things go reasonably well investors will enjoy further positive returns.

Clearly from our point of view the great danger is complacency. We have had so long on this current economic cycle with low inflation, low interest rates and low growth being the "new normal" and we could dangerously assume that this will be unchanging for the foreseeable future; but we know this is not the case. Indeed the Chair of the Federal Reserve in the USA, Janet Yellan, is predicting up to three interest rate rises in 2017 and if delivered this could mean US base rates of around 1.5% by the end of the year. Similarly if delivered this could represent the opportunity for the UK to begin the process of normalisation and to finally tick up UK base rates. Although this is far from certain as both the Europeans and Japanese continue to flood their moribund economies with further quantative easing cash in a desperate bid to generate growth. Despite this there is no prospect of higher interest rates in these two regions for the foreseeable future. Notwithstanding this it is clear the tide is, on interest rates, close to turning.

You may rest assured that we will be vigilant on your behalf.

"Be vigilant, for nothing one achieves lasts forever" (Tahar Ben Jellon, 1944- novelist and poet).
Statistics would tell us that the world is the safest that it has ever been, but the availability of 24 hour "in depth" news bulletins from every corner of the globe would seem to make a lie of this fact. The world looks a very scary place with indiscriminate terrorists on the loose everywhere and curtailments of freedoms in force. This background can colour ones view of the world and the prospects for our future and that of future generations. If, however, we are keen to learn anything from history (and there is a great temptation to think we don't) it is that mankind is both resilient and innovative. Our educational system, although not what is was, continues to produce bright enthusiastic and able young people who fit this mould and who are capable of addressing modern problems using modern technology.

As we have alluded to in our formal annual report we, as a company, intend to strengthen our technological proposition and increase our headcount of younger members of our company to ensure that we are able to deliver to you a service you deserve both efficiently and effectively for many years to come. We are mindful to avoid

"Men have become the tools of their tools" (Henry David Thorean 1817-1862 Essayist)

But will concentrate on

"What new technology does is create new opportunities to do a job that customers want done." (Tim O'Reilly, CEO O'Reilly Media 1957-).

As ever, even in an environment when I have nothing to write about, I have managed to fill a couple of pages – let's hope the next 6 months is equally uninteresting.

Best wishes for the new year

Yours sincerely

Frank McWilliams