

October 2020

## The Autumn and KMG's update for the future



By **Nick Matthews**

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### Expect some volatility!

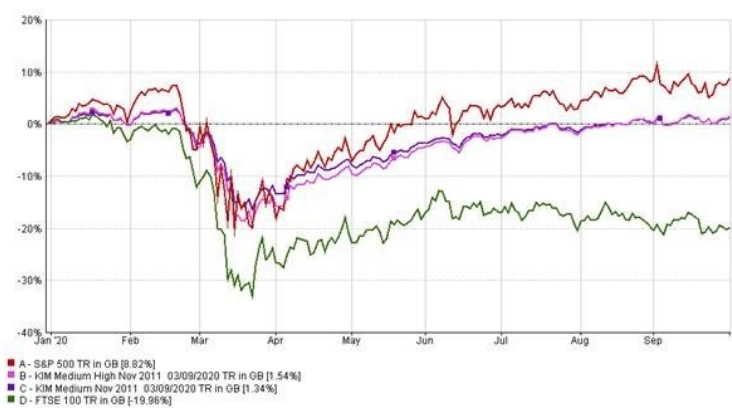
So, what does the future hold? What a question, and one without an answer! The Government is muddling through, with notable failures but also a certain degree of latitude because the dilemmas are so incredibly difficult to handle; and that is without thinking about internal politics and personal self-interest.

We are past the six-month mark for the virus in the UK, longer for some other countries, and with no discernible end game in sight. On the brighter side, the pattern of the disease we are seeing was forecast at outset, even if forgotten subsequently, and I don't think there is any doubt that the medical services are now both better prepared and have more tools available than back in March. However, it seems clearer that this is now endemic, and any easy solution unlikely to come through. Between the medical emergency, the development of a vaccine (if successful), the subsequent roll-out on a massive scale and then managing the changes to society, everything is going to take a considerable amount of time, and longer than most of us thought only a few months ago.

The media is full of stories of the moment. In July it was more positive, with unlocking of the UK and it almost felt as if we were getting there. Now, tales of gloom, with rising cases of infection and a slow rise in people in hospital brings back the shadow of the earlier emergency and all the fear that came with it. It is such a fine and difficult balance between limiting economic damage wrought through Government intervention, unfairness as some feel their liberties are being infringed upon, future injustices and damage that will be felt by those missing other medical treatments and also on those receiving possibly a sub-standard education.

Clearly there are examples of disobedience and there is only so long that the government can convince enough people to follow their instructions, meaning that all of these are balanced against the

### Year to date performance against FTSE100 and S&P 500



Government's responsibility to protect the population and prevent panic. Who would want to be in charge at the moment?

During all of this we meet regularly to discuss and review everything we can from as wide a range of experiences and information from as broad a range of sources as we can. This is the best way for us to get a feel for what is happening beyond our own bubble and to form an educated guess as to what is coming towards us, and therefore organise what we consider to be the most robust and well-placed investment strategy for you.

And in spite of the change in the mood of the media, with the increasing number of positive test results and the reaction from Government to impose further restrictions, it does not feel as if things have moved very much from where they were in the summer, possibly even in March/April.

We have a government providing perhaps the biggest package of support to millions of people that we have ever seen. We have new laws passed by a libertarian Prime Minister that severely restrict our movements and we have communication that is confusing and changeable, such that I felt embarrassed for a number of Ministers, including the Prime Minister, who were unable to explain the new rules the day they came into force.

*(Continued page 3)*

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# The digital future and security on line



By **Gemma Barker**  
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## What can you do to embrace our digital future?

Individuals and organisations around the world have adapted to new ways of working and communicating in the last six months, and the team at KMG have embraced the use of technology to allow us to seamlessly continue operations throughout the pandemic. In fact, looking ahead, we are prepared to continue as a largely home-based company for the foreseeable future. Whether or not home-working for the masses continues for the long term, COVID-19 has introduced some trends which I hope will be here to stay.

In a world which is increasingly aware of our carbon footprint and effect on the planet, the reduction of reliance on printing and physical post is bound to be an enduring trend. One piece of technology which helps us with this is our client portal, an online document store which has come into its own since the move to remote working because it is cloud-based and therefore accessible from anywhere with an internet connection.



While some of the providers with whom we work still require "wet" signatures on paperwork, many now accept digital signatures in some circumstances and KMG intends to introduce this in the future which will further help us to reduce our use of paper and ink.



Our clients' data security is of the utmost importance to us, and so another key reason why we offer the portal to is to allow us to quickly and securely share data with you, and vice versa. While email is fast and convenient, it is widely reported that communication over email is not always secure, and for this reason we at KMG do not share sensitive personal data such as bank details over email unless the data is encrypted.

Fraud is increasingly being committed online, with scammers taking advantage of the fact that more information is being transferred online this year while people have been unable to go into bank branches or meet face to face. The national crime agency reports that fraud cost individuals in the UK £7 billion in 2017, and this figure is likely even higher now.

Remember that if you receive an email with regard to your investments that you are not sure about, please let us know. In turn, if we receive an email from you that we are not sure about then we will pick up the phone to verify that the instruction has come from you.

If you have not yet been registered to use our portal, shown as Papercloud Client Portal on our website, then please do ask a team member at your next point of contact, and if you already have an account but need any technical help please do let us know and we will be happy to help you. You can find our Papercloud Portal Guide on the "resources" section of the KMG website, and if you encounter an issue which is not covered in the guide then we would like to know about it! With your support, KMG will continue to embrace the future of technology, and we hope that you will too.

# The Autumn and KMG's update for the future

(Continued from page 1)

So, what are KMG doing and what is it that we are most concerned about when we are looking to preserve the funds you have entrusted to us?

It seems clear, following capitulation within Europe so that they are now following the rest of the World, that central banks have thrown in the towel and will continue to print as much money as is needed to prevent a collapse of the system. But in no way does that imply smooth sailing. However, it does mean that Brexit and the US election, along with other political issues, are currently much less important to the next months than the amount of money being printed and how different governments are going to spend it. This is direct counterbalance to the impact of government policy as they try to do what they think is right for society, and I am afraid that only time will tell where they were successful.

Print enough money, especially if there are simultaneous problems with supply chains (whether from climatic change causing droughts, fires, or floods that impact harvests) or because factories are closed, and the end result is likely to be inflation. Suddenly you have more money chasing fewer

Figure 1: Real GDP fell by a revised 19.8% in Quarter 2 2020, the largest quarterly contraction on record

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 2 (Apr to June) 2020



Source: Office for National Statistics – GDP quarterly national accounts

goods and in a market economy prices will go up. This is important for several reasons. Partly this is because inflation has the ability to destroy wealth over a number of years in an insidious manner, particularly where interest rates are pinned to the ground as inflation increases. For example, a comfortable but fixed income in 1970 would have led to real financial stress by the middle of the decade as inflation rose by double-digit numbers each year. This is fine if you have a decent job, and keep it – since with costs rising, economic activity is

likely to fall away – and even better if you have debt. However, it is catastrophic if you do not, or you have retired and don't have the benefit of an inflation-proofed pension, or other assets that benefit.

So, it is our general view that inflation is on the horizon but is an issue for a little further ahead.

A little bit of inflation is a good thing, and really while governments are building up the most enormous debt the most likely outcome is that the debt won't ever be paid back, but will be eroded by inflation over the next twenty, thirty or maybe one hundred years until the debt is deemed affordable and manageable. If this works out as hoped, governments really do not need to raise taxes as some would suggest now. Debt will simply become smaller in comparison to the economy. But if that does not work then we are in more trouble – see the dot.com bust, what happened in 2008 and of course, for those old enough, the economic effect on wealth in the 1970's.

In the more immediate future, the danger of having so much growth in just a small number of US technology stocks is a conundrum. Tesla has now become the posterchild for what is happening and for the excessive fuelling of technology stocks. The share price rose from \$215 to \$498 in just two months. The value of the company was moving up and down by \$100billion almost daily! I mention this not because technology stocks are bad, but to highlight that the stock market seems to have diverged from what is happening on the ground. It is remarkable to me that despite the upcoming millions of people about to become unemployed and the impact that will have ripping through the economy, from coffees bought to holidays un-taken to housing repossessions, that the stock markets and certainly the portfolios we have, are higher in value now than they were at the start of the year.

This means that what the central banks are doing is more important than anything else. They are going to keep interest rates low, pump in the money and this should lead to rising asset prices, and investors want to be a part of it. Perhaps it is from fear of missing out, but it is also the need to try to get an income in the years ahead that is proving greater than the minuscule return of interest on offer from cash.

This is our view but watch for volatility. There are all sorts of things to worry about, but the power at the moment is in the hands of the central banks and governments in how they spend the money created, and while that remains the case we are in the right position for your money, even if it gets uncomfortable at times.

# KMG update, seminars and COVID-19



By **Jenna Duffett**

We were very disappointed this year to not be able to host our annual seminars which have become a fixed event in our calendar.

We will miss seeing you all this year, but it is important that we all abide by social distancing measures and stay safe and well. As an alternative this year we will be recording an "In conversation with our Investment Committee economist Julian Jessop", which will be



uploaded to our website. When available we will let you all know.

Our team remain predominately home-based with a rotation of the team in our office. We continue to enjoy virtual catch ups as a team and with our clients, and we look forward to more face to face meetings in the future! Stay safe and well!

## Cock-ups, conspiracies, convenience and creativity



By **Patrick McIntosh**  
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### Conspiracy theory?

I wrote this article before Trump announced that he contracted COVID. Then, of course, I had numerous clients asking if I believed that he either deliberately infected himself or was not infected but was simply trying to create a sympathy vote and/or manipulate the electoral system.

I am afraid I am firmly in the camp of cock-ups and incompetent mismanagement driven by humans' insatiable desire to resist change, while at the same time desperately seeking an excuse for their own behaviour. It is an absolute fact that humans across the world will always seek to blame somebody else for just about everything!

In the matter of conspiracies, which I do not believe in as a transparent form of management, I do think that by coincidence and opportunity politicians constantly allow circumstances to dictate outcomes. This was best demonstrated by the TV series "Yes Minister" which allowed the public to think it was conspiracy and not complete political incompetence which ran through the series from beginning to end.

### Positive change

I am constantly overwhelmed to receive from our clients stories about how convenient the pandemic is turning out to be in terms of addressing enormous issues that would normally have taken months, years or even decades to resolve, and which have been sorted out in a matter of days or even hours.

Here are a few simple examples: Wills can now be signed and witnessed remotely. Can you imagine pre-pandemic how many committee meetings, arguments, discussions, lobbying groups, special advisers, or any another interested party meetings that would have had to have been involved? The legal system has been dramatically unbundled with numerous court functions now happening remotely, as was pointed out to me by senior legal barristers this week. The chances of moving this change through the system in under five years in a pre-pandemic world would not have been possible.

The speed at which cash is being eliminated from the system and the extraordinary development in the digital world is unprecedented. This, of course, very conveniently enables Government to track far more of what we are doing and how we are spending and makes sure they get their fair share. We all knew the change to a cashless society was going to happen over the next 10 to 15 years, but now this is happening over the next 10 to 15 months.

Humans hate change! We hate disruption and we constantly refer to the rosy warm sunny days of the past when it never rained, and life was so much happier. This is simply because change, disruption, evolution, and creativity for most people takes a long time to assimilate, understand and get used to. This is, of course, unless it is blindingly obvious.

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# Cock-ups, conspiracies, convenience and creativity

(Continued from page 4)

Here are some examples:

- wearing a seatbelt was initially resisted by many, and yet who now would think that wearing it is anything other than blindingly obvious?
- The evolution of video to DVD to streaming, records to CDs to downloads, moving into the extraordinary digital age of Alexa and Siri, and everything else we now so often take for granted, has massively reduced our costs of purchase, insurance, storage and physical ownership.
- the remarkable convenience of on-line shopping, especially in the middle of a pandemic, has been transformational for just about everybody in all walks of life; and I don't think we will ever look back.

## Creativity

What amuses me about creativity is the speed at which humans, being extremely conservative with a small c and resistant to change, automatically adopt systems that instantly provide benefits once they understand them. And then become incredibly creative in making them work even more efficiently and beyond the original idea and beyond our wildest imaginations!

Take low-cost air travel and the abuse that humanity appears to be prepared to put up with from Ryanair and others so they can go to places quickly and cheaply beggars belief. By the same token, the advantages taken by low-cost airlines because they know they can get away with it also beggars belief. But is there anybody reading this who does not know someone who hasn't been prepared to suffer the indignity of low-cost travel in order to achieve their objectives?

## REMINDER - Tax returns

Tax returns for the year ending 5th April 2020 are now due to be submitted to HMRC. Whilst the deadline for these is not until 31st January 2021, we would encourage all clients to ensure they have all their relevant documentation ready.

All providers now issue straight to you all the reports you should need. KMG will therefore no longer be duplicating those reports to you.

## Cock-ups with good outcomes

Government in my opinion, is behind the curve and therefore is probably creating far too much liquidity and far too much physical stimulus to cope with human intransigence. This in turn has led to scope for fraudulent abuse of the furlough scheme, the bounce-back loan scheme etc. However, by the same token, this is money that has gone into the system and it is money that will be used to keep the global economy afloat. The problem that may manifest itself is inflation. But is it wrong for governments to do this? I do not think so because the liquidity will shelter society through the pandemic. It will help huge numbers of people to change their careers, apply for training and move towards the new age of technology, artificial intelligence and all things digital that we will now live with whether we like it or not.

The massive monetary and fiscal stimulus will also expand the global economy beyond our wildest expectations, and this in turn will create massive economic activity. This activity automatically creates money in circulation, and it is that money that gets taxed and provides the revenues for governments to meet all of the debts and fiscal stimulus that they are generating at the moment.

A combination of global economic expansion, inflation, and some increased taxation with a better division of wealth between society is inevitable.

## Positive outcomes, one of a million examples

I end this article on a positive note about climate change. The fact of the matter is that governments across the world, even the Chinese, think they will be carbon-free by 2060. I suggest it will be 2040! They can do this because they have the freedom to create the mountain of fiscal and monetary resource required to re-engineer the infrastructure required for a new carbon-reduced energy world. So, whether you believe it is a conspiracy or a simple mess created by leaders now, the long game looks brighter!



Please check the paperwork that you have and if you believe that you are missing any data, then please do let us know as soon as possible.

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