

# Bulletin

Autumn 2023



Yet again the Financial Times confirms KMG as a top



100 UK financial adviser. We are very proud of this achievement and enjoy the privilege of looking after your financial needs (and to be a listening ear for other matters!). Our team continue to gain more and more qualifications, and some are in touching distance of Fellowship and Chartered Status, increasing

our breadth of knowledge and experience all the time.

## Systems Thinking and Beyond...

We were delighted to welcome so many clients to Denbies on 11<sup>th</sup> October 2023 for our annual seminar. The videos from the day are available to view on our website.

Patrick McIntosh, Ben Kumar and Julian Jessop gave insightful presentations, and the question-and-answer session provided a thought-provoking ending. You may wish to have another look at the slides on the website, particularly the Cognitive Bias Codex chart, which was very detailed and needs to be reviewed more closely.

Jenna Duffett has returned to her role as Managing Director following her recovery in health, joining us for the day and was delighted to see and speak to many clients. Jenna's back to work rehabilitation has taken most of this year and so returning to advising clients will require a further period of retraining and time.

For those who were unable to join us at Denbies we hope you enjoy the videos, and your financial adviser will be pleased to answer any questions as they arise.

Patrick kicked off the seminar with information on KMG's performance, which showed that although growth has not been as high as we would have hoped we are actually doing better than our peers. To understand this more clearly Patrick explains our performance against benchmarks which you can watch online.

Patrick's talk was on "Systems Thinking" explaining why this was fundamental to our investment approach and reminding us that whenever there are new inventions this brings uncertainty. The microscope and telescope back in 1665, were described by Robert Hooke as the "adding of artificial organs to the natural".

When U.S. President Dwight Eisenhower established the agency that created the internet it was feared this could usher in a potential apocalypse. Yet these developments all bring prodigious benefits; researchers explored previously inaccessible realms and discovered new things. The internet allows everyone to connect, collaborate and learn.

Artificial Intelligence is the new scientific tool kit poised to shape the future of humanity across nearly every industry in the coming years with world changing results. Yet again, there is fear about the dangers it could bring.

The answer to our challenges is not to slow down technology, but to accelerate it as the faster we have it in our hands, the better we can solve our problems. Our corresponding investment themes are relevant to the future as we take 3 steps forward and 2 steps back. We are moving in a positive direction just faster today than ever

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61 years ago, Rachel Carson's book "Silent Spring" foretold of the climate challenges we now confront. The good news is that we finally get the message and understand the reality. We have no choice, but to pursue a far more responsible, balanced and realistic program in all sectors of humanity to bring about change so that we can strive for generations to come. We do not need to dig up as many minerals because we've got plenty all around us. We need to upcycle, recycle and use everything more efficiently so growth in the future will be more natural.

We are all becoming wealthier as we consume less, enjoy more and realise that the price is what you pay but the value is what you get, and value is so much more important, especially when it comes to food. Bad food leads to poor outcomes. Better food makes you healthy, wealthy, and wise.

### Ben Kumar from 7IM



Many of you are familiar with 7IM as one of our preferred Platforms where many of your investments are held. The 7IM Platform is competitively priced with a vast range of investment options allowing us access to funds across the whole of the market and they have an efficient and helpful administration team. We were delighted that Ben Kumar, Head of Equity Strategy for the Investment Team at 7IM was able to speak at our seminar on behavioural biases and I know a lot of you enjoyed his session.

Ben reminded us that as humans we don't act rationally and can base decisions on instinct which is why plain economic modelling can fail. Ben simplified this into 'Lizard Thinking' and you will understand more when you view the seminar slides!

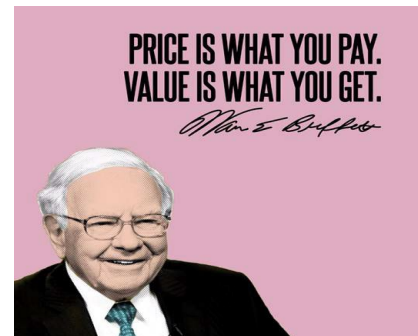
The reptilian part of our brain is really good at keeping us alive! Therefore, Systems Thinking is all about stopping the pretence that we are all rational all of the time and acknowledge that we can be a bit lizard like!

The lizard thinks quickly, is greedy and it doesn't worry about too much noise or information overload as it just ignores them!



In terms of a behavioural bias which is common in the real-world, people want incentives; they want to make twice what they lose - which is called loss aversion. Every time something is taken away from us it hurts more than when something is given to us. When we own something, we put a much higher price on it. With housing we have an emotional attachment. We invest time and effort in home improvements and make memories - but these have zero economic worth although emotionally they make us think our home has a higher worth.

### Warren Buffett – The World's Greatest Investor



In line with our seminar thinking, 7IM have sent out an email reminding us all that Price and Value are two different things. If you look at the returns based on price that investors in the FTSE have received over the last 23 years it is only 14%, or 0.5% a year which isn't impressive. It is only when you look at the dividends that have been accumulated then the picture changes and returns are then closer to 170%, or 4.5% per year. Don't just look at the price, look at the value you are getting!



## Last year's seminar predictions

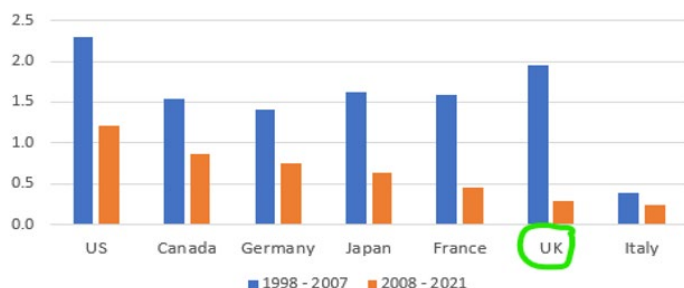
Last year we predicted interest rates may rise to 5%. Currently they are 5.25%, so pretty close to our prediction. We were worried about too much money in the system, and this allowed inflation to take off. We thought energy costs would come down with increased wind power and decarbonisation. There are indications that prices have started to decline, and the energy price cap announced in October will see household bills drop on average by 7%. But the conflict in Israel could send oil prices rocketing and although we are doing well producing offshore wind with Scotland's biggest wind farm currently at full capacity, we still have a way to go.

We still see AI as a positive for the future. The structural problems we mentioned in China remain and Julian thought we would avoid a deep recession - and so far we have.

## Julian's Current Economic View

Julian did reassure us that modern economists are thinking about behavioural economics and not just abacus economics! Such as: if we raise corporation tax will companies locate elsewhere and will revenues drop, or if we cut income tax might that increase people willing to work and boost taxes? The big current global themes are; will there be Stagnation or Recovery? The average growth rate in every major economy has had a significant slowdown since the financial crisis in 2008. Nobel prize winner Paul Krugman said "Productivity isn't everything, but in the long run it's almost everything".

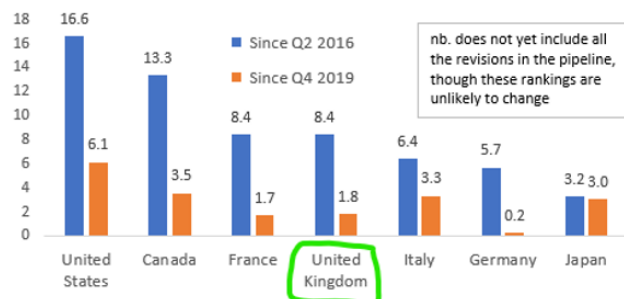
Average annual growth in output per hour worked (%) (Source: ONS)



Productivity is the best way to boost wages. It's great for the planet, growing without using more resources, making more from less so you can improve living standards and still protect the planet. Economic growth is the best way to increase tax revenues and so fund vital public services.

Productivity will come from the gains from IT and AI and new ways of working from home and the use of apps such as Zoom for meetings. The near-term outlook is poor in Europe and the UK, but growth wise, post-Brexit Britain hadn't done quite so badly as many feared.

Cumulative Growth in Real GDP up to Q2 2023 (%) (Data sources: ONS, OECD, Istat)



To boost growth interest rates need to come down, but they are unlikely to fall very much as they are nearer to where they should be. Inflation must come down and this is likely over the next couple of years.

Whichever political party wins the next election there is no money in the pot, but both parties are committed to net zero in different ways. Labour are more ambitious particularly on housing and the reform of the NHS.

In conclusion – there is the danger that central banks have done too much, and we end up in a recession with huge fiscal challenges and the climate emergency.

But there are reasons to be cheerful with new ways of working, interest rates at more normal levels, and a massive potential for growth so we can close the productivity gap. Through human ingenuity we can adopt new technology, produce the growth we need and save the planet.

At KMG, we continue to "Think in systems" and invest in the future, which appears to be so blindingly obvious even if it takes some time for the outcome to materialise into your portfolios and produce the investment returns that ultimately must become available.

**Terms of Business**  
**Downloadable Copy**

Please visit our website for our updated Terms of Business Document: <https://www.kmg.co.uk/>

