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INSIGHT

ISSUE 7

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Achieving your goals by weighing the potential risks alongside the prospective returns

CREATIVITY IN FINANCE

David Bowie's estate planning could be a lesson to us all

Buckley Kiely Wealth Management
Heritage Business Park, Bessboro Road, Blackrock, Cork.
T: +353 (0) 21 4350777 **F:** +353 (0) 21 4350750
E: wealth@buckleykiely.ie **W:** www.bkwealth.ie

BUCKLEYKIELY
WEALTH MANAGEMENT
Independent Financial Advisors

WELCOME

Welcome to the latest issue of *Insight* from Buckley Kiely Wealth Management.

The Chinese New Year, also known as 'Spring Festival' in China, is China's most important traditional festival. The 2016 Chinese New Year, 'The Year of the Monkey', commenced on Monday 8 February. Monkeys in the Chinese zodiac are 'clever, mischievous and curious', so we'll have to see if this brings about a luckier year for Chinese financial markets. Certainly, fund managers investing in China are proving sanguine. The Association of Investment Companies (AIC) has collated views from investment company managers on China, and one consistent theme is that the spectacular growth story of the past should not cloud judgement on the China that we see today. Read the full article on page 06.

Successful investing involves making choices that meet your unique needs today and your financial goals for the future. On page 08, we look at how a well-defined investment strategy is one of the cornerstones of a successful financial life. Investing is about building wealth slowly rather than getting rich overnight. It's important to have a solid, dependable core to your portfolio and to consider an equity income strategy where reinvesting dividends compounds your returns over time.

It's fair to say there was no one else quite like David Bowie. He was truly one of a kind, and his music helped inspire generations of people throughout his illustrious career. However, as we highlight on page 03, it would now seem that he could become an inspiration when it comes to estate planning too.

The full list of the articles featured in this issue appears opposite. We hope you enjoy reading this issue and find it informative. To discuss any of the articles featured, please contact us.

Kind Regards,
Richard Fowler *QFA, Director*
Buckley Kiely Wealth Management

Buckley Kiely
Wealth Management
Heritage Business Park, Bessboro Road,
Blackrock, Cork.

T: +353 (0) 21 4350777
F: +353 (0) 21 4350750
E: wealth@buckleykiely.ie
W: www.bkwealth.ie

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CREATIVITY IN FINANCE

David Bowie's estate planning could be a lesson to us all

It's fair to say there was no one else quite like David Bowie. He was truly one of a kind, and his music helped inspire generations of people throughout his illustrious career. However, it would now seem that he could become an inspiration when it comes to estate planning too.

TAKING CONTROL

Very few musicians enjoyed lasting careers as diverse, colourful and successful as Bowie. He remained fascinating and cutting edge until the very end in ways that extended far beyond making music.

Bowie passed away from liver cancer a mere two days after the release of his latest album, *Blackstar*. Knowing that his cancer was terminal, many people believe Bowie intended his last album – featuring lyrics about mortality – to be a farewell. In fact, the song 'Lazarus' begins with the line, 'Look up here, I'm in heaven,' and ends with, 'Oh I'll be free, just like that bluebird, oh I'll be free, ain't that just like me?'

Throughout the 1970s and '80s, Bowie reportedly struggled financially, even coming close to bankruptcy. He hints at his financial difficulties, again through the lyrics of 'Lazarus', singing, 'By the time I got to New York, I was living like a king, then I used up all my money.' Bowie married his second wife, Iman, in 1992 and moved to New York soon afterwards. A few years after that, he took control of his financial legacy through a move now considered to be revolutionary.

BOWIE BONDS

With the help of investment banker David Pullman, Bowie sold a stake in his catalogue of music. Instead of selling the songwriting, performance and licensing rights to his many successful songs, Pullman helped Bowie create 'Bowie Bonds'. Through these, Bowie sold – for $55 million – a 10-year investment which operated like an annuity, providing a fixed-rate of return of 7.9%. The payouts were secured by all of Bowie's royalties and copyrights from his music.

Prudential Insurance Co. of America purchased the Bowie Bonds and was paid off in full during the ten-year time frame. This is despite the change in the music industry brought about by Napster and similar Internet-based music distribution, which dramatically reduced royalties available to songwriters and performers.

FINANCIAL CREATIVENESS

Pullman was recently interviewed about the financial creativeness that allowed Bowie to achieve security for the rest of his life. Pullman said Bowie did the arrangement not to protect himself but for the benefit of his family: his wife Iman; their daughter, Alexandria (who is now 15); and Bowie's son from his first marriage, film director Duncan Jones. Pullman said that Bowie was interested in estate planning at a young age and wanted to make sure that his assets passed on to his family. He did the Bowie Bonds transaction both for tax savings and so that his estate would benefit from his music catalogue.

According to reports, Iman will likely receive the lion's share of Bowie's financial empire, which is estimated to be in the region of $200 million, before factoring in the expected spike in sales that inevitably occur when an iconic singer passes away. Bowie's two children will also each receive substantial bequests.

MAXIMISING THE VALUE OF ASSETS

At the time of going to press, the details of Bowie's estate plan have not been made public. Given the reports about Bowie's advanced planning and financial foresight, it is likely that he used one or more revocable or irrevocable trusts. If so, not only could Bowie have maximised the value of assets passing on to his heirs in the most tax-efficient manner permitted by law, but also his assets could pass privately without the public scrutiny that goes along with probate court. In other words, the public may never know the specifics of how Bowie's assets will be distributed.

Many musicians fail to do proper estate planning, often relying only on a will, which becomes a public document once it is filed with the probate court after death. Or, even worse, many have no estate planning at all. The heirs of John Lennon, Jim Morrison and Kurt Cobain all went through messy estate battles that could have been prevented if those music legends had used the same foresight as David Bowie did. ■

WANT TO REVIEW YOUR SITUATION?

David Bowie's estate planning should serve as a lesson for us all. Follow his example and plan for your loved ones in advance – don't wait until it is too late. To arrange an appointment or to discuss any concerns that you may have in relation to making appropriate protection for you, your loved ones and your estate, please contact us – we look forward to hearing from you.

MARKET COMMENTARY

Estimates for global GDP growth are lower following publication of weaker data

Financial markets have tracked the oil price closely for the last three months, so reports of a Saudi-Russian production deal stabilised Brent crude at around $37 and helped equities rebound from mid-February lows to end the month flat.

The FTSE100 recovered 10% to close 13 higher at 6,096, while the S&P 500 gained 8 to 1,948. Asian and emerging markets rose 3%, but the FTSEurofirst 300 fell 35 to 1,313 and the Nikkei 225 1,330 to 16,188 after an unexpected reaction to the introduction of negative interest rates in Japan caused the Yen to strengthen. Sterling weakened further against both the dollar and euro to $1.38 and €1.27. Renewed fears of disinflation saw bond yields continue to decline with the UK 10-year gilt ending close to a new all-time low of 1.3%, having started the year at 1.9%. Euro and Yen yields are now negative all the way out to nine and ten years respectively – an unprecedented situation.

LOWER GROWTH ECONOMY

Estimates for global GDP growth are lower following publication of weaker data. The main reason continues to be China's transition from credit and investment-led growth to a better balanced but lower growth economy, and this is having a knock-on effect on global trade. Although we are accustomed to the Chinese and emerging economies surprising on the downside in the aftermath of the bursting of the commodity bubble, developed economies – even those with aggressive quantitative easing such as Japan and the eurozone – have started to disappoint. Industrial production is now contracting by around 1.5% year-on-year in the US, Japan, Europe and the UK, and, while this is not the major growth driver in these economies, it tends to be the cyclical swing factor. Manufacturing business surveys across the US, Europe and the UK suggest the coming months will also be tough albeit they are not pointing to a deep recession.

Weakness in China has largely concentrated on the 'old' economy. However, recent poor regional export data from Korea and Taiwan raises the possibility that this could be spreading to the 'new' service sector. This may explain why the authorities significantly eased liquidity and credit conditions, resulting in a sharp rise in loan growth. It may take several months to assess the impact of this move but it should provide a short-term boost to growth, even though it will not help overall levels of indebtedness or over-capacity issues. Active intervention costing around $100bn per month

has calmed the currency market and slowed capital outflows for the time being. Overall, our view continues to be that GDP growth of 3–5% is feasible over the next few years.

HIGH-PROFILE CUTS

Weaker global growth will make conditions more challenging for companies. Managements typically start their year in optimistic mood and guide analysts towards a 10% profits increase. As the year unfolds, these estimates are revised – and 2016 is no exception. However, revisions are taking place earlier than usual with the consensus estimate for global profits growth already down to 4%. This is consistent with global GDP growth of 2.5% – which would be higher than 2014 or 2015 – but the likelihood is this figure will fall further to reflect the impact of negative interest rates on commercial bank profitability. The prospect of another year of low growth is forcing companies to be more realistic about dividends, particularly in the resource and financial sectors but also where payments are not adequately covered by cash flow. There have been a number of high-profile cuts this year, and more are expected. Where companies are benefiting from lower energy prices and buoyant consumer spending, reasonable profits growth should enable dividends to be increased.

Central bank policy continues to be the 'wild card' for financial markets. Having been reliant on quantitative easing during the early stages of the recovery, markets are becoming increasingly sceptical about the benefits, particularly the move to negative policy rates and bond yields adopted by the Bank of Japan and the European Central Bank. The ECB is using them as a competitive devaluation tool with no defined target, and this is ultimately a zero sum game. The Federal Reserve is not expected to raise rates again in March, even though a number of the key indicators used (such as core inflation and employment) would suggest otherwise. The coming weeks could see another round of ever more creative ECB policy initiatives, but it is unclear how these will boost economic activity without complementary structural reforms. ■

UNCOMFORTABLE TRUTH

Like the US, the UK has one of the higher GDP growth rates thanks to buoyant consumer spending, but estimates are being trimmed on weaker export prospects and investment uncertainty now that the date of the EU referendum has been announced. It is highly likely that the UK will remain in the EU, but the danger is that the politically charged debate will distract from the uncomfortable truth that the economy remains structurally challenged in terms of the balance of trade, the residential housing bubble and overall levels of indebtedness – none of which are issues that can be resolved by Brexit.

In reality, the opposite could be the case given that the downgrades already hinted at by credit rating agencies are likely to push up bond yields and raise the cost of capital for business. Apart from the disruption to trade, weaker sterling would increase both inflation and costs and offset the potential for increased competitiveness. Higher bond yields would also increase the cost of servicing the high levels of government and housing debt. There is no reason why the UK could not be successful outside the EU, but it would require a cultural and financial commitment as well as structural reforms over an extended period.

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Certainly, fund managers investing in China are proving sanguine. The Association of Investment Companies (AIC) has collated views from investment company managers on China, and one consistent theme is that the spectacular growth story of the past should not cloud judgement on the China that we see today.

Dale Nicholls, Manager, Fidelity China Special Situations said: 'China continues to grow at a better pace than the developed world, and personal consumption is likely to outpace this rate of growth as the economy transitions towards a consumer-led market. I remain positive about the prospects for China. I consider it to be a market with great potential brought down by macroeconomic concerns over the short term. I would agree that the pace of reforms in China has been disappointing, and in some cases, such as currency depreciation, the timing and communication could have been better. Having said this, China's decision to move towards a more flexible currency is a long-term positive. In my view there is potential room for positive surprises going forward, and this prevalent sentiment creates opportunities in areas such as A-shares, where I am finding some large-cap strong businesses at reasonable prices.

'It is interesting to witness changes driven by increasing penetration of the Internet, particularly as a vehicle to reach previously untapped markets. For instance, while traditional retail networks have still to establish a rural footprint in China, e-commerce has already ensured that both goods and services are now accessible to a wider rural and middle-class audience. As people get wealthier, demand for better quality goods and services is also on the rise in areas such as health care and education. This is creating several opportunities for the fund.

'I also think there are fewer reasons to worry about the Chinese property market considering overall affordability trends – recent interest rate cuts only help this, and the Chinese consumer balance sheet is in good shape. However, I remain concerned about corporate balance sheets in China, where debt has grown substantially. I also remain cautious towards banks, as I maintain that the full extent of their non-performing loans is not fully recognised.'

Howard Wang, Manager, JPMorgan Chinese Investment Trust said: 'It's important for investors to acknowledge and be comfortable with China's slower growth. Many secular growth opportunities with strong multi-year prospects still exist across Chinese equities, especially in the "new economy" sectors of healthcare, Internet, consumption and environmental protection. We have long acknowledged the imbalances in China and the transition away from an industrial- and manufacturing-based "Old China" to a services- and consumption-driven "New China".

'Near-term sentiment will therefore remain volatile during this growth transition. While going through market corrections may not be a pleasant experience for investors, we do not believe the corrections are reflective of a wider deterioration in company fundamentals.'

Ian Hargreaves, Manager, Invesco Asia explains: 'I have just returned from a research trip to China and found nothing to suggest that the economy is deteriorating at a more rapid rate than we have seen so far. Neither did I find any evidence of new factors undermining the resilience of the consumer and service sectors.

'Concerns over renminbi (RMB) depreciation have contributed to recent market weakness. Unfortunately, the Chinese Government's decision to change the RMB pricing regime so as to measure it against a trade-weighted basket – which we consider to be a sensible change – was poorly communicated, allowing talk of declining FX reserves and capital flight to heighten investor risk-aversion. The People's Bank of China has now issued clearer guidance, although we should be braced for several months of large declines in reserves as Chinese companies seek to repay unhedged foreign debt. Furthermore, I expect that the RMB market will gradually stabilise, as China's external position appears sound compared to many emerging market countries – foreign debt/GDP is low at 10%, while its trade surplus is currently 5% of GDP.

'Of greater concern is the level of domestic debt-to-GDP in China, which is high and continues to rise. However, I believe we are still some way from reaching the banking system's liquidity limits. This is important as it should buy some time for the Government to begin to deliver on its supply-side reform agenda, which many are sceptical about given the lack of progress in reducing overcapacity in recent years. Such scepticism may be too pessimistic, as we are starting to see some positive developments such as: moves by the Government to prepare for the social consequences of capacity closures; acceptance that some companies will have to go under; and evidence of action in the worst affected sectors like steel, coal and cement.

'However, local governments have a leading role to play in this process, and there is still no clear way for them to be incentivised. Furthermore, progress in reform will do nothing to aid growth in the near term, although if the market believes action to be far-reaching enough then that could be positive for share price valuations. The challenge, as I have found with India in the last 18 months, will be judging what constitutes significant reform and what doesn't.'

Mark Mobius, Executive Chairman, Templeton Emerging Markets Group and Co-Manager of Templeton Emerging Markets Investment Trust said: 'We think the type of market volatility we have seen is likely to continue this year, and not only in China. Volatility is increasing in many markets, and it's something investors will likely need to learn to live with. We view periods of heightened volatility with the lens of potential investment opportunities, allowing us to pick up shares we feel have been unduly punished. In the case of China, the Government's efforts to maintain stability on the one hand and to allow a freer market on the other is a difficult balance to achieve.

'That said, we are not terribly concerned about growth in China, nor its long-term investment prospects. We would dub current 2016 projections of about 6% in gross domestic product growth as quite strong, given that the size of the economy has grown tremendously in dollar terms from that of a few years ago when growth rates were stronger but with a smaller base. This is an aspect we think many investors may be missing when they see growth slowing. The fundamentals in China are still excellent, in our view. It is one of the fastest-growing economies in the world, even if the growth rate has decelerated.'

Ewan Markson-Brown, Manager of Pacific Horizon said: 'China is amidst its great transition from an investment-led economy to a service-led economy, with services growth accounting for 80–90% of recent GDP growth (Sept 2015), which is being driven by the smartphone revolution that is allowing the online economy to boom. However, the cost of this technological disruption is severe and is creating permanent relative price destruction within the industrial and commodity sectors of the Chinese and the world economy. Currently, the market is focusing on the losers of this transition where the majority of the recent growth in Chinese debt has gone; we expect in time the market to turn back its attention to the long-term service-oriented winners.' ■

REVIEWING YOUR PORTFOLIO ANNUALLY WILL ENSURE YOUR HOLDINGS ARE STILL RIGHT FOR YOU

It's important to monitor or review your investments, especially if your personal circumstances or the nature of the investments themselves have changed. Reviewing your portfolio annually will ensure your holdings are still right for you and that they are performing as expected. It may also be appropriate to look at rebalancing – taking some profits in asset classes or sectors that have performed well and topping up those that have lagged. If you would like to review your particular situation, please contact us for further information.

INVESTING FOR SUCCESS

Achieving your goals by weighing the potential risks alongside the prospective returns

Successful investing involves making choices that meet your unique needs today and your financial goals for the future. A well-defined investment strategy is one of the cornerstones of a successful financial life. Investing is about building wealth slowly rather than getting rich overnight.

It's important to have a solid, dependable core to your portfolio and to consider an equity income strategy where reinvesting dividends compounds your returns over time.

TAKING A LONG-TERM VIEW

An investor who puts money aside over the long term for the proverbial rainy day is far more likely to achieve their goals than someone looking to 'time the market' in search of a quick profit.

The longer you invest, the greater the potential effect of compound performance on the original value of your investment. Many investors will be familiar with the term 'compounding' from owning cash savings accounts. The term refers to the process whereby interest on your money is added to the original principal amount and, in turn, earns interest.

SPREADING RISK - THE IMPORTANCE OF DIVERSIFICATION

Shares, bonds, property and cash react differently in varying conditions, and opting for more than one asset class can help to ensure your investments won't all rise or fall in value at the same time. Holding a portfolio of investments with a low level of correlation can help to diversify your investments when investing in individual assets and markets, as well as protecting you from less visible hazards such as inflation risk.

DON'T JUST GO WITH THE FLOW

As we saw to great effect in 2008 following the collapse of US investment bank Lehman Brothers, unexpected or adverse newsflow can have a significant effect on stock market performance. More recently, the crisis in Greece may well present broader opportunities in European stocks for investors willing to take on a certain level of risk. The same goes for China. Indeed, there have been times when highly cash-generative, defensive businesses capable of creating value in a range of market conditions have been subjected to the same negative sentiment that has driven down the price of stocks more sensitive to economic cycles and those that are poorer quality.

FOCUSING ON THE REAL RATE OF RETURN

Inflation and taxation are factors that can affect the real rate of return on your investment. There are certain options that can reduce costs including the use of tax-efficient pension plans. There are also inflation-protected instruments, such as index-linked bonds (interest-bearing loans where both the value of the loan and the interest payments are related to a specific price index – often the Retail Prices Index), NTMA State Savings investments or commercial property holdings, where rents can often be increased in line with the rate of inflation. ■

MAKING THE RIGHT INVESTMENT CHOICES

To make the right investment choices, you need to ask the right questions. And when it comes to answering those questions, we can help you find the best way forward. If you would like to get a sound point of view about what may be right for your unique situation, please contact us. We'll review and discuss your financial situation, help you set goals, suggest specific next steps, discuss potential solutions and provide ways to help you stay on track.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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