# KMI EXCLUSIVE NEWSLETTER

**January 2015**

Dear Clients and Investors

Welcome to the first of our 2015 newsletters; the agenda for this letter is:

1) The UK General Election May 2015
2) Direct access to a new fund offered by Britain's first dot com billionaire
3) A Property fund to take advantage of Britain's country areas that have missed the bubble
4) The Western economies

## The UK General Election May 2015

For investors the above election is of monumental importance, this for a number of reasons:

1) If Labour get elected then we will see a left wing government with huge tax rises to sustain their spending programme.
2) If the Conservatives are elected we will have a vote to leave Europe (EEC) which could easily be successful such is the disdain with European parliament costs and policies. Few UK voters believing in any economic benefit to being in the EEC.
3) If, as seems most likely a hung parliament is the result then either UKIP (Farage) or SNP (Salmond) could be king makers, the prospect is horrific!

So, investors should be aware as equity markets are likely to be negative given the choices. Europe too will have cause for concern as, if the UK leaves the EEC, Germany may suffer far more than the UK!
My apologies for not mentioning the Liberal Democrats.

## UK Enterprise scheme (fund) from the UK's first dot com billionnaire

It is rare that KMI offers a stand alone scheme that gives an opportunity for exceptional high profits, is very high risk and gives tax benefits to UK tax payers. However, on this occasion we have decided to do so following an interview with Andrew Rickman OBE and your Editor.

Mr Rickman, clearly a genius in modern technology, made his fame with Bookman Inc (Nasdaq OCLR, since acquired by Avenex Inc), founded 1988. Bookman became the world's largest fibre optic telecom component producer.

Mr Rickman has been involved with other successful optical component companies, Kotura Inc being one but is now launching a new company Rockley Photonics Ltd, based in the UK and USA.

The rationale, (a very much shortened layman's version as I understand it (**full 55 page detailed proposal is available on request**) is that the market for computer traffic (emails downloads etc) has moved to a state of density that enables newer fibre optic usage/replacement which in turn needs specialised optical switches (OCS) or more specifically "Optical Space Switching".

**Rockley Photonics** is already up and running but is at the next stage of expansion thus the opportunity for smaller investors in addition to the large corporate ones.

This scheme falls under the **UK Enterprise scheme,** thus giving an extra benefit for UK residents, however this should not put off Non UK domiciles as anybody can invest in what could be another huge success.

**Competition**
Clearly this "specialised switching market" is very competitive, however it is also a niche market with fewer true experts. The likes of Facebook, Google and others are investors (as they are with most new substantial techno initiatives) and indeed available as customers thanks to Mr Rickman's previous market expertise.

**KMI's Involvement with Rockley Photonics**
It is important to mention that Andrew Rickman is KMI's UK office landlord thus we had access to him and Rockley Photonics. This enables our clients to be able to invest directly under one KMI holding.

**How to invest**
Step 1. To request a brochure, these are confidential therefore supplied on a non reproduced basis.
Step 2. If interested, make a commitment of investment. Minimum £10k / US$15k /Euro 12.5k.

**The Mechanics and Costs**
Once KMI has collected all the commited investment pledges and completed the applications, 100% of clients funds will be transmitted direct to Rockley Photonics by the clients themselves as KMI does not handle clients funds.

There will be a 2.5% charge to each client's investment which will go to the credit of KMI.
KMI will invest into this project and hearby makes this confirmation.

There will, no doubt, be many questions regarding this investment; we repeat it should be viewed as very "high risk". Please contact your KMI consultant or Mike Towning in Prague (email/phone).

**Research**
Search Andrew Rickman OBE on Google
http://www.napier.ac.uk/alumni/graduations/honorary/Pages/Andrew-Rickman.aspx

http://www.rockleygroup.com/team.php

http://investing.businessweek.com/research/stocks/private/person.asp?personId=244170&privcapId=53564703&previousCapId=561001&previousTitle=EADS%20NV

## The Knightsbridge Management International (KMI) Properties Ltd

(A UK registered company)

**The concept;**
The UK Property market is currently split into two parts, London (which accounts for 80% of all the UK property values, and the rest of the UK.

Whilst London has been very buoyant due mainly to foreign buyers, in many parts of the UK prices have actually fallen over the past two years. There are a number of reasons for this however lack of mortgage funds available from major banks is by far the most pertinent.

In particular the South West and West of London (Berkshire, Surrey –outside the M25, Wiltshire, Gloucestershire) have suffered and these areas have before been considered prime, as they are either striking distance to London and/or areas of good employment. The property price range of particular interest is £1m to £2m.

This price range of properties is particularly badly affected because banks, to satisfy the UK governments requirements (in return for QE) and for their own public image have reported their giving considerable amounts of mortgages however these have been to first-time-buyers (small cash amounts) and to smaller lenders mostly under £500k. Even then these mortgages have often only been given on a 65% loan to value basis.

It follows that if a non-London property, say around the £1.5m would have to have a buyer with over a 50% deposit or very exceptional income given the new lending requirements.

The opportunity therefore is to purchase these properties at discounts of 10% to 20% as many have been waiting a sale for some months.
These property values will of course recover as the general economies get over the financial crises but a period of five years investment is thought sensible if a real profit is required.
Meanwhile these properties can be rented as they are in excellent condition in the best locations, thus they provide immediate income for investors.

There are two schemes, one for income, another for growth.

**Mortgages**
A 50% mortgage would be available on properties where investors wished to **gear** their investment. This would increase potential profits but also double the risk.

## The Income Scheme

Income, a 6% gross annual income is paid (quarterly in arrears from outset) to investors in the Income Scheme. Capital repaid in full after five years.

## The Growth/Equity Scheme

No income paid, however 95% of the property sale price (or share therein) of the respective property is returned to the investor after five years at the property sale.

**The security**

All investments will be allotted directly to a property, the maximum of the total investments will not exceed 90% of the property purchase price, the remaining 10% will represent the investment by KMI, thus KMI will invest 10% into each property purchased.

Since each property will be purchased at a minimum 10% discount from the considered market value, in effect the property security for investors (not KMI) is 125% of their investment, or put another way, after the five year term the property would need to have dropped by 20% before investors lose any money, and at that stage **they would have had 30% by way of income.**

**Questions**

Can I lose my money?
***Yes if property price fall by more than 20%.***

Can I convert to the Equity/Income version?
***No not by right however KMI will try to accommodate any client that wishes to sell out of a scheme or switch schemes during the five years.***

When is my income paid?
***Quarterly in arrears immediately the property is purchased***

Why have KMI allowed use of their name?
***KMI wish to be involved with this scheme and be an investor. KMI's reward will be the 5% deducted at term end from the property sales. However no rental fees will be taken by KMI neither will their be any administration fees during the five year term charged by KMI.***

When do I get my money back?
***After five years unless client experiences hardship in which case KMI will try to provide an interim purchaser.***

Can I roll over into another scheme?
***Yes subject to availability.***

What's different about this Property Scheme?
***The investors are actual owners of a property through the company, therefore full security.***

What Fees are there?
***Apart from the 5% KMI (1% per annum) exit fee there are no other fees charged by KMI who will administer the scheme. External fees for providing rental services / Tenants will be charged at cost only.***

***It is hoped that Carter Jonas Partnership will provide rental services (to be discussed and fee negotiated)***
***Normal UK Stamp duty will be charged and debited at cost.***
***KMI Lawyers in Hungerford will be engaged, Dickins Hopgood Chidley LLP, who will provide annual statements to each client regarding their respective property***

The process:

1) Clients should first indicate their respective investment level (Minimum £10k / Euro 12.5k / US$15k)
2) The above firm offer buy the client is only paid, direct to the lawyers, once a property has been secured and searches completed.
3) All properties will be purchased on a buy to let arrangement, with or without a mortgage.

For more information regarding this scheme, please email, Secretary@kmiconsultants.com

## The Western Economies

The big economic question for 2015 is will the western economies ever rid themselves of their debt mountains? If they do then the emerging economies may well return to growth, however the signs are dismal!

The downturn in the oil price has further unsettled markets during the 4$^{th}$ Quarter of 2014, but then with China on the decline (due to the western economy's recessions) this should not have been a big surprise; China being a major user of energy commodities especially OIL!

However, at present with the debt mountains just getting bigger in money terms if not by GDP comparison (nonsensical way to express debt as % of GDP given huge fluctuation in GDP during recession and recovery) any economic change unsettles stock markets.

On a KMI note, the current crop of Corporate bonds we hold are so much stronger thanks to the QE (Quantitative Easing) from major governments shoring up banks, thus if corporate bonds were the way to go in the 2008 crisis, they certainly must be now as they are healthier than ever at present.

**The problem for Obama, Merkel et Al in trying to govern**

The reality, at present, that is making markets so nervous, is that effectively, a number of former safety valves are **being denied to governments** in the running of their respective economies.

1) Interest Rate rises to control inflation
2) Exchange Rate flexibility
3) Inflation to devalue debt
4) Availability of credit - Banks to invest into small businesses to sustain and instigate growth, to stimulate employment.

## Interest rates

The cost of their respective debt for countries is taking some 15-20% out of tax revenues and these revenues themselves are falling as companies find it ever more difficult to make profits, Tesco is but one example in the UK.

Accordingly, interest rates have to be kept low (under 1% per annum, any more and the system closes down), to allow the debt mountain to be serviced. Cheap existing mortgages are also a useful factor (one of a very few useful repercussions of the financial crisis) here offsetting price rises for the middle classes. If not for this, a wage explosion would already have happened.

The huge downside of the current interest rate bind is that increasing interest rates for any reason such as controlling inflation is out of the question, thus one government safety valve not available.

## Exchange Rate Flexibility

This useful tool is critical to the good running of economies. This is already being denied to the European Union thus their problems. Unemployment for example in the weaker states such as Spain, where if they were able to have a weaker currency than say Germany, their economy would be revitalised and start eradicating their massive unemployment. The EEC will now consider more QE, more debt to try to offset their problems; sadly tax payers' money down the drain!

There are other states such as the USA and UK that are not tied to a fixed exchange rate however, their respective debt mountains mean deflating their currency further, would only damage their economy as their currencies have already been devalued and further devaluation may even cause a collapse. The currencies against which they may like to devalue are also debt ridden themselves, so no advantage would be gained.
The Swiss Franc has benefitted hugely during the financial crisis years since 2008 in an increased currency value. Why? No debt!
Thus from the above the exchange rate, a safety valve is no longer an option.

## Inflation

Whilst we all understand the dangers of inflation (kills the value of savings) we are not all terrified of it as with Mrs Merkel. Inflation can also be a government tool for devaluing debt and if ever we needed this, it is now!
**Wage inflation will without doubt be a huge issue in 2015**. Domestically, people are poorer in the major western economies, Europe and in particular the UK.

Cheap labour from the EEC has reduced wage costs and it's these cheaper wage jobs where we have seen expansion. The down side is immigration agitation; this has already become a major issue in Europe. The effects we will see in elections to come. Unrest due to low inflation, low wages and cheap jobs will fuel further unrest in stock markets. Unless governments learn to use inflation to devalue debt then this could be the final loss of a safety valve that sinks the ship.

## Availability of Credit

This tool is not just a safety valve for putting money in the system when money supply dries up, but it is the only tool that actually promotes real growth in the economies.

At present all the major economies have used QE to solve the huge shortage of capital adequacy in major banks (effectively they were all bust in 2008 due to toxic assets).
What they have not done in Europe including the UK, is to ensure this flow of tax payers money went to small business, to building new homes, to generate growth for all in the economy. The banks had it and in return did, and do, nothing except give their toxic assets to their governments!

In the USA however they have ensured the flow of cash has gone deeper into the economy, as a result the Dow Jones is in record territory, albeit a touch down this month.

## Conclusion

Whilst governments in Europe continue to look inwards, downsize, cut education, health and social budgets and try to muzzle wage rises and increase debt funded by increased taxation. Then we will be stuck with economies that suffer, stock market volatility and so 2015 will be full of strife.

In the above scenario fixed interest will be the best and certainly the safest investment vehicle. Higher rated corporate bonds will continue to be the way forward with minimum risk for a decent return.

From all of us at KMI we wish a very healthy, happy and prosperous new year to all our clients.

Lee

Lee R.J. Green *Cert.PFS*