



## **KMI EXCLUSIVE NEWSLETTER**

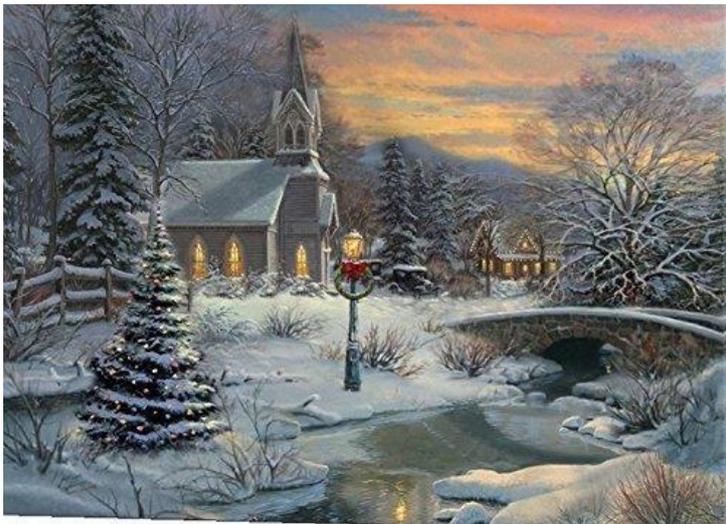
25th year of uninterrupted financial advice for the Expatriate Market

**December 2017**

**Dear Clients and Investors**

- 1. Brexit and the London Markets**
- 2. Overheating on the Stock Market – Where to next?**
- 3. Mrs Merkel's reign in danger? – Surely not.**

At any given second at this time of the year, there has to be at least 10,000 of Nat King Cole's chestnuts roasting on open fires and similar numbers of Bing Crosby's dreamy pleas for snowfall on December 25<sup>th</sup>. The deduction I make from this, my dear Watson, is that it must be Christmas.



In our tinsel touched bulletin for this December, we take a temporary break from our merry making and wassailing (whatever that is) to bring you the following financial thoughts to take us into the year ahead. 2018? Already?

## Brexit and the London Markets

Phone calls into the early hours, middle of the night flights, Brussels briefings at 6.30 am and politicians being brought inside by the removal of two words from an offending paragraph. It can only be the wonderful world of Brexit (London Stage Musical coming your way soon - full of showstopping tunes such as 'I lost my heart to an EU Commissioner.' Gotta pick a pocket or two' and David Davies's plaintive 'Gimme just a little more time').



Trying to make some sense of, and provide reasoned analysis of all of these shenanigans, would take a far better brain than mine and ultimately prove as futile as Boris Johnson's barber's attempts to get him to have a short back and sides, but we'll have a go.

Brexit progress boosts the pound with any scrap of positive news being seen as better than the uncertainty which has applied up to now. It doesn't necessarily have the same effect on the FTSE 100 which is packed with dollar earning companies. Conversely the FTSE 250 which is more domestically based can see some tangible gains.

The Banking sector has benefitted generally from this progress, particularly as it has happened at the same time as their headmaster at the Bank of England has reluctantly given them a pass on his end of year stress test to ensure they cope a lot better the next time a financial crisis threatens.

A small step forward then, with Brexit positives pointing the way, but as many have noted, the big arm wrestle starts now as we move into the muddy waters of trade deals, single markets and customs unions. To steal a quote 'Fasten your seatbelts. It's going to be a bumpy night.'

## Overheating in the stock market – Where to next?

Since February 2016, we have seen a stock market that has delivered straight gains. One thing we know from history is that nothing lasts forever and it is therefore wise to consider what pitfalls might lay ahead.

There are three main definitions to describe market downturns;

1 A Pullback – A decline between 5% and 9.99%

2 A Correction – A decline between 10% and 19.99%

3 A Bear Market - A decline of at least 20%

Using the S&P Index as a statistical guide, we see that since 1945 there is, on average, one pullback a year, that a correction happens around once every 2.8 years and that a bear market turns up once every 3.8 years. All of which would appear to indicate that a current run of 22 months without even a pullback is, at the very least, unusual.

To cheer ourselves up about these potentially gloomy portents, we need only look at the recovery periods to previous market levels after these falls have taken place. A pullback recovery averages about two months, a correction recovery takes about four months and the time taken to recoup after a bear market comes out at fourteen months. This final figure is inflated a little by the fact that the recovery period after the 2008 debacle was fifty-eight months.



Relating all this data to what the last seventy years of market analysis has shown us, we can surmise that we are likely to be within a few months of a 5% pullback, which should be shallow in nature and be followed by a strong rally, A bear market may then lay in wait, but seems unlikely until the second half of 2018 or early 2019.

The current market has high momentum, that momentum will slow eventually, but if we can believe in our stock market history lessons, investors should remain bullish.

### **Mrs Merkel's reign in danger? – Surely not!**

The stinging rebuke that German voters gave Angela Merkel in the September elections continues to erode at her heretofore seemingly impregnable power base. Three months on and there is still no coalition in place to enable her to continue not only the dominant situation at home, but also her position as one of Europe's major powerbrokers.

The pro-business Free Democrats (FDP) had been the favourites to provide the support she needed in conjunction with the Green Party, but now their leader, Christian Linder announced his party was withdrawing from talks citing 'irreconcilable differences.'

Undoubtedly, one of the key factors in her current problems, was the decision she made in 2015 to open (or more correctly not close) Germany's borders to refugees, bringing into play the right wing 'Alternative for Germany' (ArD) group and propelling them into being the nation's third largest party.



Merkel's options now appear to be, forming a minority government, calling a new election or returning to a coalition with her previous partners, the centre left Social Democrats (SPD). All of these must seem particularly unappealing to her. A minority government would be almost impossible to manage, given the polar opposite views of the other parties on so many of the major issues. Calling a second election at this time would probably see the ArD increase their vote from the almost 13% they received in September, whilst her old allies at the SPD have not only previously ruled out the possibility of a further alliance but are also completely at odds with Merkel's party's views on the approach to asylum seekers families.

A thorny path lies ahead, but as has been said many times before, 'politics makes strange bedfellows' and if her days are not to become numbered, a large dose of expediency may be the order of the day.

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Well that about wraps it up for this year, but I will leave you with a Christmassy thought. The component parts of the song 12 days of Christmas seem to me to have become a bit outdated and outmoded. After all where do you now go to see 'Lords a leaping' and how long has it been since you have witnessed 'maids a milking.' I think it needs a bit of a makeover, so here for what it is worth is my attempt.

- 12 Trump's re-tweeting
- 11 Kim Jungs Nuking
- 10 Bitcoins rocketing
- Nein Mrs Merkels
- 8 Celebrities groping
- 7 Brexit setbacks
- 6 Plastic Oceans
- 5 Amazon Deliveries

(Cont.)

- 4 Computer Hacks
- 3 Wikileaks
- 2 Black Shopping Days

And a Yankee in the Royal Family!



Merry Christmas one and all!

Happy Investing!

Mike Towning

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