BPM BERLIN PORTFOLIO MANAGEMENT

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What does "secure" actually mean?

Emotions are the essence of human nature. People, including investors, rarely behave rationally. Property owners' longing for liquidity and security has been particularly intense since the start of the global financial crisis. It's more than understandable, under the pressures of constant turmoil in the Eurozone and the unparalleled activities of the US Federal Reserve Bank. No capital loss is the motto of the time…. Institutional investors are already on the search for "safe havens" in finance markets and loans.

Only large pension funds with long-term future payment liabilities which are well planned continue to rely on the highest liquidity and guarantee of nominal capital when it comes to new investments! Obviously, not everyone is aware of which risks they expose their customers' assets to as a result of this.

Financial investments with fixed interest payments statistically reduce the volatility of a portfolio. As a result, however, such papers are no longer secure. This also applies to one of the most important and popular financial investments for pension funds, Family Offices and insurance policies - government bonds.

Even negative returns - i.e.: guaranteed loss of purchasing power, do not deter the "impulsive investors". Afterall, the nimbus of the actual bankruptcy protection of US and German government bonds guarantees the repayment, even if the debt of these countries too has existed for a long time, according to pure balance sheetfigures.

And in fact: The nominal security is more than guaranteed through the control over the monetary press, new bank notes are simply created again and again. The English Central Bank has currently bought almost one third of the British government bonds and thus fresh money is pumped into the market without any real countervalue.

During the major global economic crisis approx. 100 years ago, the German Reichsbank finally had almost 100 percent of the German bond debts on the records. As a result the disaster could not be avoided.

Only the real value of the capital investment counts

Even if the debt crisis is set to weaken through a combination of moderately positive growth, unlimited guarantees of the Central Bank and inflation of government debts at the expense of investors, savers who are relying on interest-bearing securities are at risk of missing the most important goal of financial investment: maintaining the real purchasing power of their assets.

Government bonds, from which investors are expecting a risk-free return, are changed to securities, which create a profit-free risk. In this respect, we believe we face four simultaneous risks today:

1.) Should the economy develop better than expected today, hundreds of billions of dollars and euros would be set to flow into the real economic cycle (wage-price spiral)
2.) In due consideration of politics, the Central Banks should find it difficult to again reduce the huge amount of money through interest rate hikes, for example
3.) Inflation has increased dramatically several times in the past, although the economic framework conditions completely didn't show this - sentiments became reality!
4.) Major currency and economic blocks do not have the flexibility to manage inflation effectively. Germany can tolerate somewhat more inflation, Greece and Co. need deflation.

And something else is also making some observers very concerned: in comparison to similar economic phases in past cycles in the USA, today we are observing a considerably higher "underlying rate of inflation".

The inflationary seed has been sown

The real devaluation of the fixed assets is therefore anything but an abstract risk. **The triggering factor for significantly higher inflation rates can even be an improvement in the global economic development, as we are experiencing in the first half of 2013.** The real devaluation of financial assets, which had previously been largely unnoticed, is already in full swing.

Governments will manage to free themselves of debt at the expense of the citizens over several years with **"Financial Repression"** (interest rates far below inflation rates). And unfortunately, excesses are eventually approved in doing so: <u>The prices for government bonds can almost be defined as the "mother of all price bubbles".</u>

The biggest losers will be investors who are solely focussed on interest and therefore paper currency. In larger family assets, the achievements, in the truest sense of the word, of ancestors is more at risk than ever before. Scaremongering? Certainly not! It is an expensive lapse of thought to only see the risk of a financial investment in its volatility: An investment with low volatility can entail enormous risks of loss.

Withstanding volatile stock prices and subordinate bonds

There is, however, one piece of good news: You can protect yourself against the slippery devaluation of assets. Whoever wants to maintain the purchasing power of their capital, must knowingly take risks and re-allocate assets. For example, purchasing shares or hybrid bonds of businesses with good international standing, whose products are proven to be indispensable. They must therefore accept the volatility expected with productive capital, which demands many to radically re-think as a result of their fear of volatility. After-all, what is really that bad about volatility? Should we not be happy about the fact that we have a stock market barometer which shows us the market value and the liquidity of an investment in realtime? However, those who rely predominantly on interest-bearing investments, look for security exactly where the biggest risks for the purchasing power of their asset lurk.

Without a distinct focus on the value of assets or commodities (shares, precious metals, specialist real estates, raw materials) of financial investments and the conscious acceptance of price risks, the real preservation of capital will not be achieved. For an “income-boutique” such as BPM, there will no longer be a way round involvement in entrepreneurial product assets in a national economy, primarily through assets or investment vehicles which hold out the prospect of sustainable profits through inflation rates.

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