BPM Berlin Portfolio Management

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INVESTMENT

"West Side Story" or "Star Wars"?

World politics are currently playing out like a classic musical or film, where countries fight for supremacy in certain parts of the world, says Uwe Günther. Unfortunately, the actual developments are more serious, according to the founder and Managing Director of BPM - Berlin Portfolio Management GmbH.

In fact, the settlement of the US trade dispute with China seemed almost certain.But then US President Donald Trump suddenly stirred up the conflict again, at first verbally via Twitter. This was followed by real measures or the next bombshell: The United States increased the punitive duties on Chinese goods worth 200 billion Dollars from 10 to 25 percent.

At the same time, the exchange of blows in the media between the Trump administration and the Iranian government intensified. Here, verbal threats went hand in hand with specific sanctions. And finally, Washington announced that it is relocating the airplane carrier USS Abraham Lincoln and a bomber squadron to the Middle East.

With these developments, one could inevitably refer to the hits of the entertainment industry with the decisive difference that we are not talking about artistic enjoyment and good entertainment here, but about massive global risks that literally affect all of us.You can confidently say that the battle for global supremacy is being fought on the backs of the people and the financial markets. These latest events further increase the existing risks.

In this context **Torsten Slok, Chief Economist at Deutsche Bank Securities** in New York, recently identified five different ways in which the ten-year increase in valuations could end abruptly.

1) **A sudden explosion on the credit markets.** Key word: "BBB rating bubble"

2) **US consumption "will get tired".** The extreme levels of consumer credit, credit card debt and car loans speak volumes.

3) **The US trade war will intensify.** This could affect Europe in particular. With growth rates stagnating and even falling, it would accelerate the economic downturn.

4) **Damage to the credibility of the US Federal Reserve Bank (FED).** The chaotic approach of FED Chairman Jerome Powell has already put things on a dangerous path. Despite a growth in the US economy of more than 3 percent in the first quarter of 2019, the Chairman of the Fed announced a hold on interest rates.

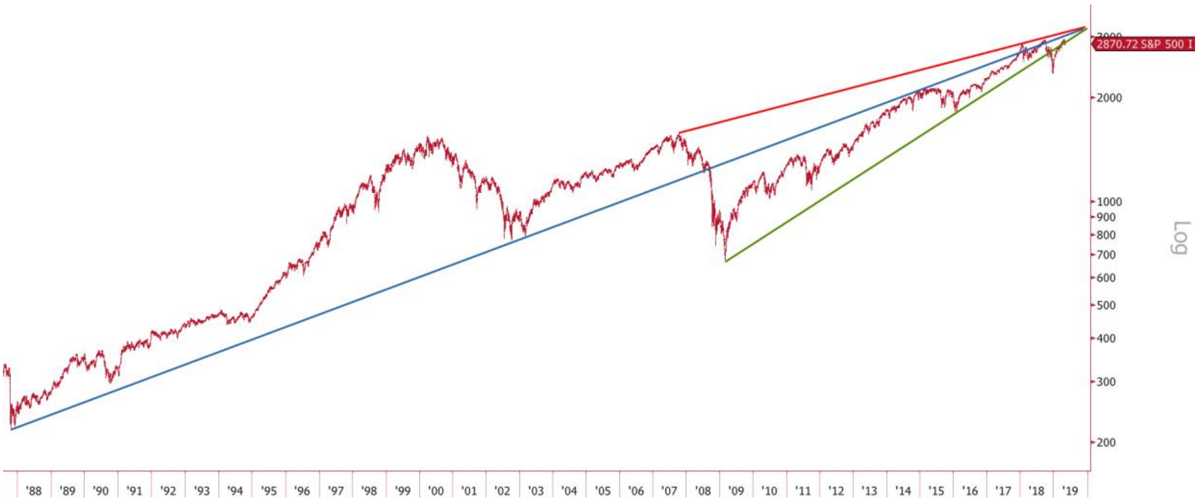
5) **China is developing a current account deficit.** The increasing dependence on foreign capital could lead to the liquidation of foreign currency reserves, in particular of US treasury bonds. The rise in yields that is likely to occur could then be a real show-stopper for the US - and thereby for the world economy.

For private investors, three factors are particularly noteworthy:

1) The global stock market growth which has been virtually unbroken for the last ten years and has been driven by global credit excesses, has led to a unique distorted perception and the fading of fundamental mathematical and economic relationships. Investors increasingly perceive rising stock markets as a normal state - almost a law of nature. For example, educational search terms on the Internet would be: "The dream of eternal youth", "cognitive dissonance" or even "mean-reversion effect".

2) Many private investors look intensively at so-called chart analysis before making investment decisions. They expect to identify and exploit repeating trends and historically profitable exchange rate patterns. The long-term chart of the S&P 500 provides some interesting homework for these investors, as the following diagram shows. In simple terms, the US index is facing a strategic chart-technical decision.

S&P 500 since 1987

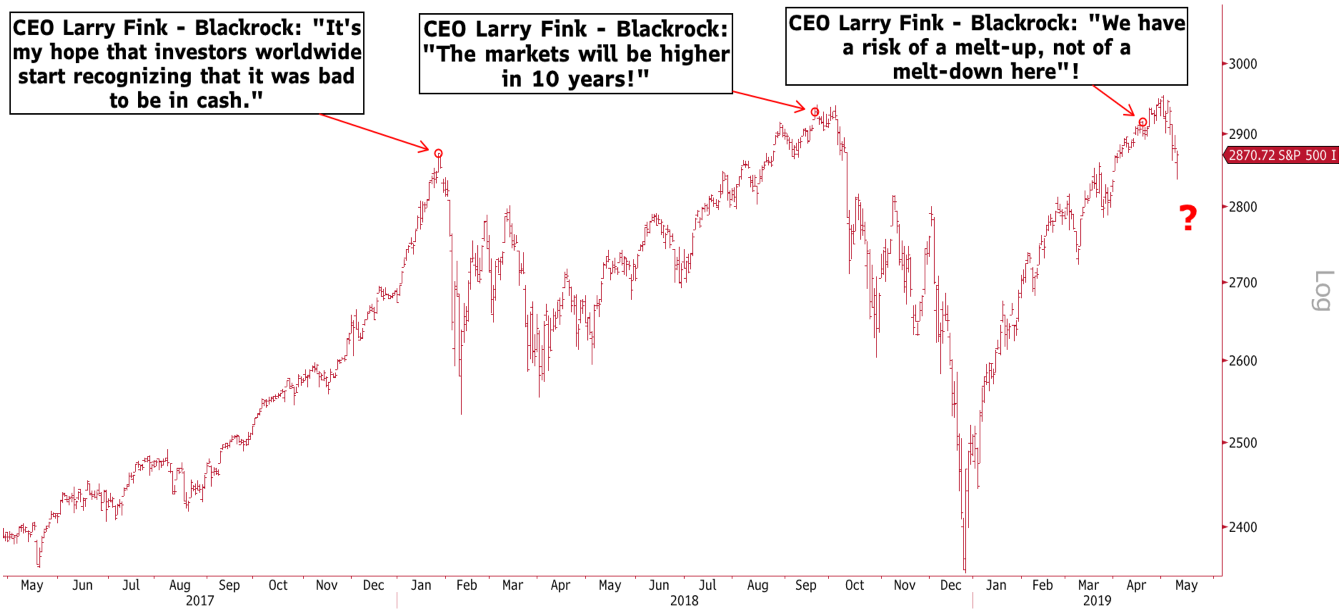


Source: Bloomberg

3.) Another group of investors, and an extremely large one, consciously read articles and recommendations from often prominent and, in recent years, largely successful investment or fund managers, former stock brokers, chief economists or other specialists. This is a legitimate and important component of the opinion-forming and learning process.

Nevertheless, the question of "Cui bono?" should and must always be asked - what is the goal, benefit and purpose of a publicised article. It is often not easy to recognise the underlying sales intentions of certain financial products such as "buying shares is always a success". And some statements even have the quality of tactical counter-trend-indicator. Lots of money can be earned with the opposite of an implicit or explicit recommendation. So we should conclude this serious, complex issue, with a grinning:

Larry Fink, Manager of Blackrock, the world's largest asset manager:

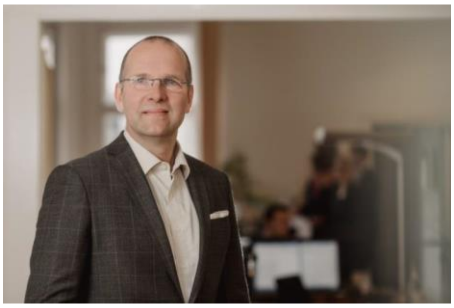


Sources: FOX Business, Yahoo Finance, CNBC, Bloomberg

There are of course always attractively-valued investments and excellent strategies, but most of them are usually not in the daily newspapers. The purchase price is the key to profitability, both in the long and short term.When evaluating the long-term charts of S&P 500, DAX 30, MSCI World & Co. this becomes evident very quickly, even to a critical analyst. In addition, investors should always keep in mind: To make up a drop in assets of 50 percent, you need a subsequent performance of 100 percent. That is why the motto for the second half of the year is: losses prevented today are the profits of tomorrow".

All the best and good luck in all your present and future endeavours!

Uwe Guenther and the BPM Team



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