BPM Berlin Portfolio Management

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Successful in times of crisis

Facts are what matters - not words

A guest contribution from Uwe Günther

Refugee crisis, China crash and negative interest rates - nothing to worry about say government politicians, central banks and a number of commercial banks. But the facts speak for themselves.

Share prices have been falling on international stock exchanges for nearly a year now. Notwithstanding the recent upwards correction, the Dax is still 20 per cent lower now than it was twelve months ago. Despite this, most financial experts are ignoring their own advice and continue to recommend shares as the only form of capital investment to consider. But their recommendations don't fit the reality of the situation. It's time to have a look at the facts.

If you detect a mismatch between words and deeds, one question immediately springs to mind: "Who is likely to have the best information about the economic and political situation?" Where do all the international information threads lead to? The answer isn't difficult to find. They lead to the governments and central banks of this world, to banks operating on the world stage and to major international investors. These are precisely the "opinion leaders" that investors should have a good look at, to see just how closely their verbal utterances agree with their concrete actions, and whether there might just be the odd contradiction here and there. This opens interesting and and perhaps even fresh insights. A few examples:

1.) Governments and central banks never tire of publicly talking up the stability and - at least relative - health of their paper-money currencies and economic areas. Future growth is currently - if ever - administered only in small doses. At the same time, however, these very same people have been acquiring incredible volumes of physical gold as the currency of last resort. This is especially the case in Russia and China - but they are not the only states to be stocking up their gold reserves. Between them, the Russian and Chinese central banks alone bought around 400 tonnes of gold in 2015. That's equivalent to around twelve per cent of the production of every mining company in the world. Could this perhaps be an indication that the Chinese economy is preparing for a crash landing after all? Even though Chinese industrial production has fallen to its lowest level since the financial crisis and exports have recently plummeted, Beijing continues to stick to its official growth target of between 6.5 and 7.0 per cent. Its massive gold purchases raise doubts as to the accuracy of that forecast.

2.) Associations of savings banks, cooperative banks and pension funds continue to stress how stable they are and that they are on top of the current challenges. They say that deposits continue to be safe, of course, and that, despite the zero-interest-rate environment for savings and current accounts, your money is "in good hands". At the same time the Bayersicher Sparkassenverband (Bavarian Association of Savings Banks), for example, is attempting to withdraw massive sums of cash from accounts at the ECB, storing it in its own vaults, free from negative interest. Swiss pension funds tried much the same thing in 2015 but were prevented from withdrawing their cash. In an attempt to avoid penalty interest charged by the European Central Bank, the world's largest reinsurance company, Münchner Rück, has stocked its vaults up with gold and stashed away tens of millions of euros worth of cash. At Münchner Rück, at least, there is no discrepancy between word and deed ...

3.) Even though corporate profits are collapsing and firms are weighed down by mountains of debt, private client advisers at numerous banks are continuing to recommend that their clients buy shares. While on the other side of the equation advisers use threadbare arguments to deter investors from selling. The typical argument has it that strategic changes are totally unnecessary, that "what goes down must come up" or that right now the players with the strongest hands are staying cool (which includes the client they are speaking to, of course). At the same time, investment houses such as JP Morgan, UBS and Deutsche Bank have been warning their major clients very clearly over the last few days about a variety of stock market risks, advising them to reduce the amount of risk they are exposed to and adjusting the banks' own deposit holdings in line with that advice.

It's not so much the lips of the market-influencing politicians and financiers that investors should be trying to read - they should look at which buttons they are pressing. A strategy of purchasing precious metals, building up cash reserves that can be accessed at any time and reducing riskier holdings such as shares has already shown itself to be advantageous in recent months. This type of restructuring has proved to be extremely effective in crisis situations.

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