



## PORTFOLIO MONTHLY REPORT – December 2021

**Wishing you a very Happy New Year**

### **Situation**

Inflation is now a fact of life in Western Europe and the USA and the central bankers have lost control. The expected annual inflation rate in Euroland is at 5% for December and 7% in the USA, the highest since 1982. Remember the target is 2%. However to see an example of a central bank that has really lost control look at Turkey. Inflation there over the last year was 36% and the currency fell by half against the US dollar. Their response is to now demand 25% of all foreign currency reserves held by exporting companies so the government can support the currency. It will be a disaster and simply bankrupt companies who need to import goods for further manufacture and then to export.

Of course the ECB, Bank of England and the US Federal Reserve have it all under control !

The expectation now is that the US interest rates will rise three times by 0.25% this year, from zero to 0.75% and a similar amount in 2023. The ECB has no plans to raise rates this year or next year. But inflation is much higher so they are saying live with negative real yields (yields after inflation) for at least the next two years. It is remarkable how central banks, an arm of the governments, have decided that their populations should get poorer over the coming years.

One person who is not getting poorer is Tim Cook the CEO of Apple. His latest salary has boosted him into the billionaire club as the company market capitalisation hits new highs. Apple Inc is now worth more than all the companies in the FT100. That is one hundred companies producing sales and profits in a wide variety of goods and services globally, are now worth less than one mobile telephone producer.

Their new iPhone 13 can be purchased for about US\$ 1,100 or Euro 900 and I am sure it is very good and they have sold many. (My old one, which was refurbished and cost Euros 250, is still in my pocket. I am a tech Luddite)

But as you might expect the central bank has a hand in this situation. In the USA the Federal Reserve started buying US corporate bonds in 2020 in response to the fears about COVID-19 and included Apple. It might seem odd that this huge profitable company got state aid but by buying its bonds the company could raise cash even cheaper, then use this cash to buy back its own shares, thus enhancing earnings per share and so the company's valuation rose further.

One of the less attractive features of Apple shares is its poor dividend at 0.5%pa. A selection of FT100 leading companies can produce a yield of 5%pa. That might not seem so attractive when the price of some tech shares keep rising but remember that a dividend is cash in your pocket and cannot be taken away. Share prices can fall.

With inflation rising and the outlook for it to continue the one asset class yet to wake up to this new reality is gold. Currently at \$1,800 it is as cheap as it was years ago and the companies that mine gold and sell it are even better value.

The famous investor Warren Buffett has three reasons for selling an investment and none of them are to do with the price paid. That is history.

Buffett's reasons to Sell

1. The industry has been impacted by a significant negative event eg. He sold out of airlines when COVID-19 struck.
2. A position has become too large for a diversified portfolio
3. He wants the capital for another investment that has better potential.

At the moment gold has huge potential and as inflation rises more and more investors will see this potential and will want to own it. Those in Turkey, who did so one year ago, are in a much better position than their neighbours.

Best wishes

Tim

12 January 2022