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FINANCIAL ADVISORS

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Oakwood Financial Advisors

Market Update

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Market Review - I

Mirror image – strong gains

2019 was, in many ways, the mirror image of the previous year. Following a miserable end to 2018 which led to negative returns across all asset classes, 2019 turned out to be the reverse with strong gains in many areas of the market. 2019 was an exceptionally good year for the market – with the average managed fund up over 20%.

Action from Central Banks

The year transpired to be one where equity markets (company shares) climbed a wall of worry. Headlines over trade and geopolitics proved largely irrelevant. Central banks acted globally to stimulate economies, prevent a global recession and propel financial assets higher.

Market highs and fears of lows

These three successive waves of new highs in 2019 seem to have attended upon a slowly growing realization that widespread fears of major disaster - trade wars tipping the global economy into recession, a significant downtick in earnings, continued Brexit uncertainty and a U.S. constitutional crisis regarding impeachment - were overblown. The table on page 4 details the 2019 returns for a variety of markets for euro-based investors.

Market Potential – will 2020 match 2019?

The question now is whether there is potential for good returns again in 2020 or have risks become too high? It is overwhelmingly probable, as financial journalism has been shrieking of late, that 2020 will not match the returns of the past year. Few years ever do; that is both manifestly true, and wholly irrelevant.

Upward trajectory – three stimuli

2020 has begun with little talk of a global recession. Global economies look set to be on an upward trajectory, supported by three powerful tailwinds: Central Banks' Quantitative Easing (flooding the market with money), a ceasefire in the US-China trade war, and the initial signs of fiscal stimulus taking hold.

Market Review - II

FTSE World Index
The FTSE World Index delivered a return of 29.8% for euro-based investors. The strong performance was again driven by US equities which represent circa 58% of the index. We can see from the table on page 4, the S&P 500 Index generated a total return of 31.5% over the year in euro terms with dividends included.

US Equities – an outperformer
Over the last ten years, US equities (as measured by the S&P 500 Index) have significantly outperformed other regional equity markets. A dramatic divergence in the performance of US equities and the rest since the Global Financial Crisis has been driven by a variety of factors. These include technology leadership, the huge reduction in US corporate taxes in 2017 and a much quicker and stronger recovery in the US banking sector and the general US economy following the Crisis.

Europe – unusual change
In Europe, the lack of progress reflects the slow restructuring of banks following the crisis which remain moribund in a near zero interest rate environment. In addition, the more cyclical oil & gas industry represents a larger proportion of European equity markets, while technology is under represented. Interesting, however, the Euro Stoxx 600 Index did break above a 400 ceiling in late 2019 which has held for over 20 years offering the potential for further gains.

Brexit Uncertainty
The ISEQ was one of the worst performing equity markets in 2018 (-22.4%). It delivered a return of 33.7% in 2019 as investors finally began to see some resolution in terms of Brexit. The uncertainty has been overhanging UK and Irish equities for some time now. While trade negotiations between the UK and Europe are still to come, investors are guessing that the outcome will be pragmatic.

Government Bonds
Eurozone government bonds delivered positive mid-single-digit returns, but only because short and long-term interest rates went negative. As such bonds mature at par (their issue price) these returns will be taken back as the bonds mature in the years ahead. In that regard, such returns are not real unless you sell the bonds in question to crystallise a capital gain.

Money Flows – bonds into equities?
There is also the potential for 2020 to be the year when money flows back into the equity market and out of the bond market. 2019 saw inflows of over €700bn into bonds and outflows of €180bn from global equities. With Fixed Income (bonds) investors nursing losses since August, it begs the question could 2020 be the start of a rotation from bonds into equities?

2020 Outlook

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Caution advised

In summary, it's hard not to be concerned with current equity valuations. Overall, markets are still positive but the warning light is flashing. The low deposit rates and gradual withdrawal of Central Bank monetary stimulus will eventually be an issue, as they have fuelled the rise in equity values. This has poured petrol on equity flames and one has to question the current value in the market. An exposure to gold in light of this is a prudent move.

Market Returns	Returns
Index	Returns (€)
Global Equities (MSCI World)	27.42% ↑
Eurostoxx Equities (MSCI)	27.7% ↑
Emerging Markets Equities (MSCI)	21.0% ↑
S&P 500 Index	34.1% ↑
UK FTSE 100	24.4% ↑
ISEQ (Ireland)	8.95% ↑
European Government Bonds	6.30% ↑
Eurozone Corporate Bonds	6.2% ↑
Gold	21.6% ↑
Irish Commercial Property	4.7% ↑
USD/Euro	2.2% ↑
Sterling/Euro	5.8% ↑

Gold Price

The gold price broke out of a medium-term range during 2019. It rose above $1,350 which had acted as a ceiling since 2013, beginning a new uptrend with gold delivering a 21.6% return in 2019. Global interest rates fell back in the main markets below the rate of inflation so it costs nothing to hold gold, while the continued growth in government debt levels will likely lead to a undermining of currencies. Owning gold offers protection against this along with the diversification from equities.

Fund Name	1 Year	5 Year	10 Year
Irish Life Gold ETF	23.26&	26.50%	N/A
Zurich Gold Fund	20.56%	34.55%	70.73%
Friends First Gold	20.63%	38.12%	N/A

Commercial Property Update

Record Year

The Irish Commercial Property market had its best year on record with over €7.2bn in transactions in 2019, surpassing the previous high of €4.6bn achieved in 2014.

International Investors

It is worth noting that over 55% of transactions were funded by international equity as international investors showed a vote of confidence in the strength of the Irish economy. This robust economic performance is underpinning a healthy commercial property market.

Interest rates

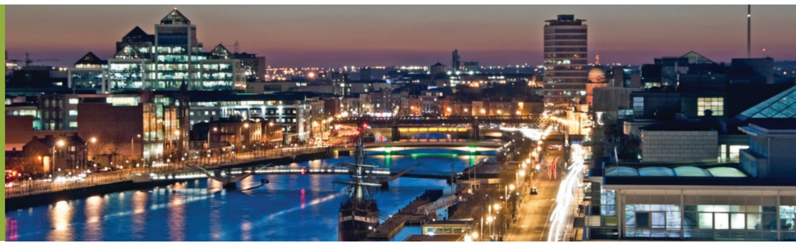
Eurozone interest rates reduced again during the year and indications are that they will remain low for the foreseeable future. Favourable economic conditions such as positive GDP growth, full employment and low interest rates are likely to be key drivers of performance for the year ahead.

Risks remain

Geopolitical risks remain, including a long and unchartered path to the UK's exit from the EU. Most Brexit questions remain unanswered and a clear view of the outcome and impact still eludes us. Uncertainty of this nature undoubtedly weighs on consumer sentiment, however, for the first time on record, Irish consumer spending has decoupled from consumer sentiment and retail spend is in fact increasing.

Brexit impact

No doubt when Brexit ultimately happens there will be a negative impact on the Irish economy, the severity of which will remain unknown for some time yet. More than likely this negativity will not be solely for property investments, as it will influence the general economy, and therefore impact all asset classes.



Irish Commercial Property Fund Performance 31st December 2019

Fund Provider	1 Year	2 Years	3 Years	10 Years
Irish Life	4.92%	20.42%	67.33%	195.43%
Friends First	8.70%	23.34%	60.39%	69.38%
Aviva	5.17%	23.13%	67.1%	145.94%
Zurich Life	9.11%	-	-	-
New Ireland	4.07%	17.89%	41.61%	114.44%

Looking Ahead – word of caution

Historically Irish Commercial Property Funds have provided strong returns in excess of inflation and will remain a good long term investment. However, Property Funds need to be well positioned to future-proof against any future market threats. Here, at Oakwood Financial Advisors we have invested through well diversified Property funds focusing on the financial strength of the tenants, the business mix (office/commercial/retail) and a blended income (lease duration, yield, rental levels etc). In light of the strong performance of Property funds in the last 8 years we would suggest that now may be an opportune time to start reducing property exposure within your portfolio.

Investing in alternative assets

Diversification
In building an investment portfolio diversification is a key requirement in order to reduce risks. Equities should make up the main part of your portfolio but their performance is usually dependent on a healthy economic backdrop.

Changed Scene
In a normal world, we would be able to buy risk-free government bonds and obtain a return over inflation. But, today, we cannot. Alternative assets tend to be less dependent on the economy and can provide diversification of risk within a portfolio.

Improved return, lower risk
Alternative assets are assets that can produce a return above inflation, but without the same risks as mainstream equities. Examples of alternative assets are renewable energy such as infrastructure, hydroelectricity, wind farms and wave energy. They offer diversification and hence the potential to reduce risk.

Low returns
Short-dated government bonds (similar in nature to bank deposits), long-dated government bonds and inflation-linked government bonds are all risk-free alternative assets as the returns they normally deliver to an investor are not dependent on a positive economic backdrop. In today's unusual world, however, and particularly in the Eurozone, none of these risk-free assets provide any return.

Lower level of risk
There are many different fund options which can offer exposure to alterative assets. It's important to point out that alternative assets, as with equities, have their own risks; it's just that they are not the same risks as general equities. Alternative assets offer return opportunities that are (mostly) uncorrelated to general equities.

The long-dated nature of infrastructure investments may be a good match for an investor's longer-term objectives.

Investing - Points to note

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Compounding Works Miracles

Start early and invest regularly.

Compound interest has been called the eighth wonder of the world. Its power is so great that even missing out on a few years of saving and growth can make an enormous difference to your eventual returns. Starting to save at the age of 25 and investing €5,000 per year in an investment that grows at 5% a year would leave you with nearly €300,000 more by the age of 65 than if you started at 35, even though overall you would only have invested an extra €50,000.

Cash Underperforms Over The Long Term

Cash left on the side-lines earns very little over the long run. Investors who have parked their cash in the bank have missed out on the impressive performance that would have come with staying invested over the long term. However, the anomaly here is that having missed out on the growth in markets in recent years, now may be a good time to hold cash due to current equity values.

Diversification Works

The last 10 years have been a volatile and tumultuous ride for investors, with natural disasters, geopolitical conflicts and a major financial crisis. Yet despite these difficulties, the worst-performing asset classes have been cash and commodities. A well-diversified portfolio, including stocks, bonds, property with some alternative assets, has returned above 8% per year over this time.

Reliable Guidance

Guiding investors through the inevitable ups and downs along the journey is part of our job as advisors. Having a disciplined investment strategy is key.

Making a Will

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Ease the financial and practical issues

Death is not something we like to think about or tend to plan for. A little thought and planning now could help ease the financial and practical issues which your family and dependants may face at that time. The absence of a will can lead to significant problems after our deaths. It can create difficulties in providing appropriately for young children or vulnerable adults. When significant assets are involved it can lead to rifts between families.

Tax efficient passing of assets

While a will enables you to decide who can inherit your assets when you die, it allows you to ensure that your assets will pass to the next generation in the most tax efficient way. The rate of inheritance tax has risen from 20 per cent to 33 per cent over the past few years. The tax-free threshold available to children, which was previously in excess of €500,000, has now been reduced to €335,000. As a result, even quite modest estates could give rise to significant inheritance tax liabilities.

Tips to help

- Consider including the wider family.
- Consider putting assets in joint names.
- Obtain legal advice from a trusted source.
- If Business Assets involved tax advice is recommended.
- Review your Will periodically to consider changes if circumstances or tax laws change.
- Open lines of communication with your family as this can assist in formulating a prudent estate plan.
- Consider drafting a letter of instructions outlining people to contact along with your burial or cremation wishes.

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