ROSSIE HOUSE
INVESTMENT MANAGEMENT

April 2020

After the tumultuous events of the last quarter we felt it would be helpful to set out some of our thoughts. We start with the usual market outlook, analysing what has changed in the markets, how inflation expectations have been heightened by government reactions to the crisis and how previous style biases may be susceptible to change. We also give a modest warning about the consequences of recent events on income which, we know, is of vital importance to many of you.

There are enormous ramifications that will emerge from this episode we are undergoing. One important issue is how the massive cost of supporting businesses and individuals through the shutdown will be met. Modern Monetary Theory is a novel economic idea whose popularity has been on the increase. Once considered very extreme and the province of certain radical left wing thinkers only, we now find ourselves in a situation where governments are actually using a derivation of it, at least temporarily. We examine it in more detail.

Those of us attending fund and company presentations over the past year notice a big change. It is now compulsory to have a section on being a good steward, operating sustainably with correct governance and in an environmentally friendly way. We believe this is here to stay but needs careful analysis. Thirty four pages devoted to "Sustainable Value Enhancement" in Volkswagen's 2014 annual report did not stop the diesel emission scandal! We add some of our thoughts on this topic and what Rossie House is doing about it.

Everything involves risk. At no time could this statement be more obvious. However, it is clearly not possible to protect client portfolios from everything. Even US Treasuries and gold fell at the height of the crisis in mid March. One rarely mentioned risk which we think is worth airing is how correlations within markets have risen; diversification seems to be getting more difficult. One reason may be the increased use of computer algorithms to manage money as well as indexed products. Another may be reliance on risk analysis software leading to a sense of complacency. One of the biggest risk analytics products available is Aladdin and we have written something about this.

Those of you who have children may have difficulty explaining what on earth is causing this disruption to their normal lives. The spread of Coronavirus is a perfect real life demonstration of compounding. Partly as an education piece and partly because, of

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course, it is such a powerful reason for holding investments over the long term, we have included something on this miracle phenomenon.

Finally, as a modest attempt to distract you from the relentless news about COVID-19 we thought we would draw to your attention a television series called *Belgravia*. Some photographs and observations conclude our Periodical.

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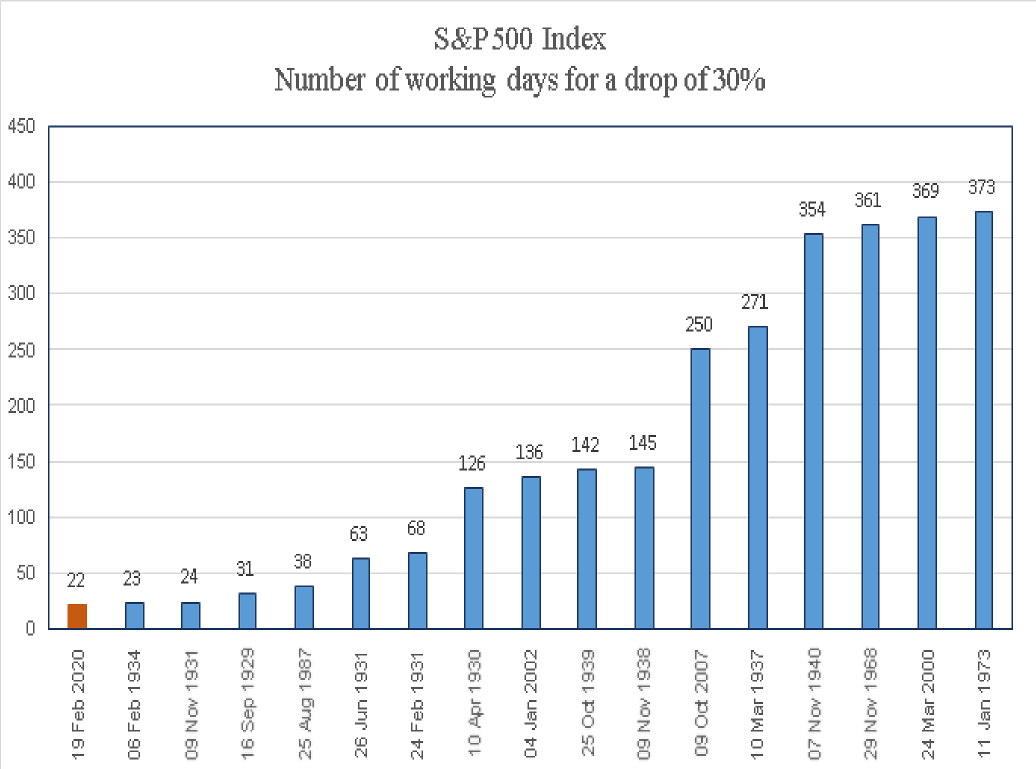
MARKET OUTLOOK

We sent a "one-pager" to all of you on 20th March which turned out to be about the low point in the current market turmoil. The scale and speed of market moves (in both directions) were incredible. Indeed, this was the fastest fall of 30%, even faster than the 1929 Wall Street Crash.



Our initial judgement was that sitting tight was the best course of action. At that stage shares offered good value looking across the valley. So far, that seems to have been the correct course of action as stock markets have revived somewhat towards the quarter-end and subsequently. However, we are not sure we have seen the lows for this particular sell-off. Previous bear markets have often lasted longer and been punctuated with brief, sometimes violent, rallies. We remain open minded.

Inevitably, our views will change as the facts change but we hope not too much. Changes cost money and can create tax bills. We have found liquidity to be poor and the spreads (between buying and selling prices) large. We are the first to acknowledge that Rossie House has no epidemiological advantage. As COVID-19 is a new virus, we are sceptical anybody has much value to add except that it is going to be eye wateringly expensive, will undoubtedly take some time to overcome (we presume eventually with a vaccine or through herd immunity) but none of us quite know when and what path it will take before that happy day arrives. What we do know, unlike in WWII as one newspaper letter noted, is that we will eventually win and this helps us in our thinking. We have no idea whether the recession will be a "V" an "L", "U" or some other alphabetical contortion. We just know that we need to hold assets that can survive this most difficult period and not lose capital permanently.

As several weeks have passed we have had more time to decipher the many commentaries we have been reading, some new government and central bank policies, as well as a raft of company announcements. It has enabled us to form some updated views which we should like to share with you. Some of this is more technical than usual, for which we apologise.

Inflation?

The most major change, or perhaps evolution, in our thinking is on inflation. Even before the financial crash of 2008/09 we held inflation protection through index linked bonds. For most clients they were a core part of portfolios, offering modest positive, real (1) returns with minimal risk. After the great financial crisis (GFC) they became an even more important component of portfolios as we felt the chances of inflation were higher as a result of the quantitative easing (QE) carried out by central banks. Despite being generally wrong about that (2) – inflation has remained low by historical standards – index linked bonds have been successful investments as they benefited from falling interest rates. The current situation is deflationary in the near-term, but our view now is that the secondary consequences of stimulus measures to treat this economic crisis risk significant and widespread inflation of a meaningful magnitude – possibly above 5% - over the medium term.

Inflation is more likely to increase now because to protect lives, Governments have instructed non-essential businesses and livelihoods to shut down. In return, most western governments have offered to pay vast sums to subsidise jobs and guaranteed loans to keep businesses going. The sums are unimaginably large for peacetime. For example, in the US, the CARES (3) package costs £2,000bn, much of which will be funded through more QE as well as loans from the Federal Reserve. Such has been the loss of income that many companies have had to draw down their bank overdrafts.

As a result, according to research we take, deposits in the US banking system increased by almost 5% in just two weeks. Although this is unlikely to continue at such scale undoubtedly there is more to come. Research suggests an annual growth rate in money of 15-20% is possible. Unless the money stimulus is withdrawn (unheard of in a US election year) then the most likely outcome is a significant increase in inflation. The shut-down and economic shock will see the permanent destruction of some economic capacity, through business failures. This means that when demand returns price levels are likely to rise. More than ever we believe it will be important to retain our holdings in gold and the CG Real Return Fund, which holds mainly US index linked bonds. Our other defensive funds also carry these index linked securities in their portfolios.

(1) After inflation
(2) There is a strong correlation between increases in money supply and inflation. QE caused an increase in money supply but this was offset by a reduction in money supply as banks reduced their loans to shrink their vast loan books. The net effect has been only modest growth of money supply for an extended period hence why we believe inflation has remained low.
(3) Coronavirus Aid, Relief and Economic Security Act

Dividends and Your Income

We know this is vitally important to some of you. We have encouraged many of you to accept somewhat lower levels of natural income from your portfolio and to supplement this with a modest amount of capital. To take care of this, we hold a certain percentage of the portfolio in defensive assets to help cover these capital needs. These defensive assets have held up well through this crisis. Typically, these lower yielding portfolios have produced better total returns – income and capital combined – than those simply targeting a high level of income.

There have been a very large number of companies that have announced missed, cut or delayed dividends. The list grows by the day. One of the advantages of holding investment trusts is that they have "reserves" from which to pay dividends in difficult times. Although using these reserves is really equivalent to selling capital, we think it likely that many of the trusts we hold, especially in the UK equity income sector, will do so to supplement their diminished level of dividend receipts. Recent analysis of this sector show the minimum loss of income compared to the previous year is about 5%, the typical average is nearer to 15% lower and some trusts have lost over 30% of their income for the year ahead. We have seen a number of trusts where income is an acknowledged part of shareholder returns release public statements confirming they will maintain dividends. The long-term outlook for income will obviously depend on the length and severity of the downturn.

We are therefore quite hopeful that income from your portfolio should be relatively resilient and more so than a portfolio of directly held shares. Nonetheless, please do prepare for the possibility that income may decline this year and if you are worried contact us to discuss how we should react.

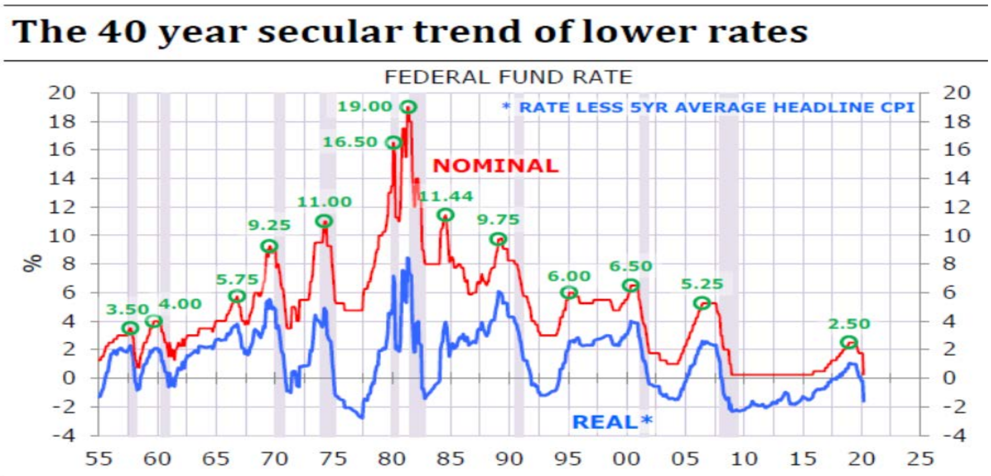
Investment Style – Growth or Value?

For the past five years, and longer than that in the US, growth companies have comfortably outperformed more traditional, value investments. We have all seen how labour intensive, asset heavy businesses – think airlines, cruise ships, hotels, pubs – have been hard hit by the recent crisis. In contrast, the new breed of digital companies, Amazon, Alphabet (Google), Microsoft have been able to operate near enough as normal. The current "lockdown" looks likely to intensify the trend for online shopping to the detriment of the high street and shopping centres. Environmental issues, exemplified by Extinction Rebellion protests, are increasing the speed at which society tries to replace fossil fuels. In short, growth assets have cemented their position of strength. On balance, this crisis has taught us we should have a greater bias to such assets.

On the other hand, we are reluctant to chase fads, especially after such a long period of outperformance. Maybe mean reversion (4) still counts for something? We are also cognisant of the current very low yields on bonds – see chart on next page – because they establish the discount rate by which future earnings from companies are valued. Low yields mean low discount rates and higher prices for shares, especially those that exhibit strong growth with more of the profit in years to come. If inflation returns, interest rates will likely rise (perhaps

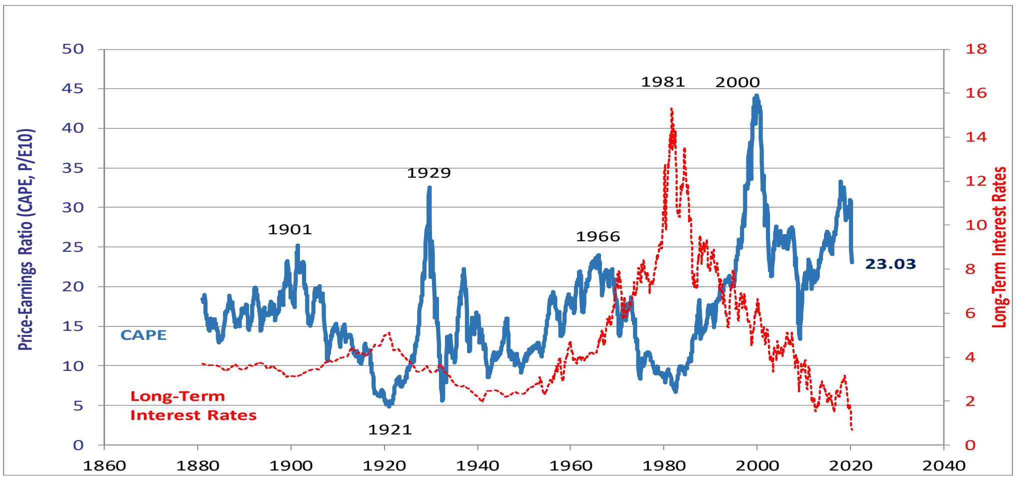
(4) Mean reversion is where economic trends or prices often move back to average levels established over long time periods. Higher prices give incentives for greater supply which increases competition which drives prices back to normal levels.

not as much as they should due to financial repression – see below), therefore discount rates will rise and growth equities may suffer. This could also affect companies who have reliable and increasing dividends, especially the so called fast moving consumer goods companies such as Unilever or Colgate etc.. Again, their steady, long-dated cash flows may be seen as less valuable with higher interest rates. Our approach will be to continue with a mixture of growth and value managers.



Geographical Differences

The US has been the standout major equity market for many, many years. It has also been the most expensive, arguably justifiably so due to the dominant growth / technology stocks that are prevalent in the US. The (10 year) Shiller P/E [5] – see chart below – has been at elevated levels and it has been a good inverse measure of expected future returns from equities. In other words, the outlook for US shares is less attractive. We have been saying this for some time which is why we have had less exposure (wrongly) in portfolios than our common benchmarks. We feel the direction of travel may begin to turn in our favour.



Source: Robert J Shiller

[5] Shiller PE is a cyclically adjusted price earnings ratio. Created by Professor Shiller from Yale University, he uses the ten-year average, inflation adjusted, earnings to iron out the economic cycle and compares it with the price of the S&P 500 index.

At the current time, and bear in mind we have no special epidemiological expertise, we suspect that the US could experience some quite difficult short term outcomes. It seems to us that the Federal government has not taken the virus seriously enough, letting it spread widely before any lockdown. The oil price fall is also creating real pressure for the shale oil industry which is a big employer and has a lot of debt. The US has huge capital markets which means that more financing of companies is done through the bond markets than with traditional banks. These are contractual arrangements and may be less flexible at a time like this where human relationships with a bank (few and far between these days in our experience!) may help extend credit, thereby giving greater resilience. There also seems to be a far larger private equity (more debt) industry in the US and stock buybacks / financial engineering seem more prevalent than elsewhere.

However, we acknowledge the US is an innovative country with some of the world's strongest and fastest growing business. It is also the centre of the global biotechnology industry and hopes for vaccines and treatments for the novel Coronavirus look very much to the US. On balance, given the concerns expressed above - and ultimately still high valuations - we remain invested in the US but somewhat under exposed relative to the indices we compare our performance against. (6)

Rossie House portfolios have historically held a large exposure outside our domestic UK equity market. We notice that most competitors have lowered their UK weightings to meet us. We had begun dipping our toe adding to the UK, believing that the post Brexit world was perhaps not as dire as predicted and, in any case, quite well reflected in lower valuations. We shall now need to consider currency implications more carefully. Our previous position was partly predicated on the fact that the Pound had fairly reliably depreciated against other major world currencies for the past hundred years. That may very well continue but the likely winners (those with strong currencies) will be those who minimise the use of their printing presses. We need to watch this carefully as it is a relative game. We come back to gold as being potentially attractive.

Debt…Too Much!

The biggest single issue that will have to be addressed after this crisis ends is too much debt. We have mentioned this as a problem for many years. The virus has caused this issue to intensify as governments have had to increase debt at an alarming rate. To control borrowings we believe governments around the globe will become a more imposing factor in the investment landscape.

At a recent conference the keynote speaker, Russell Napier, explained that, in his view, financial repression is coming. Indeed, it has been a glowing ember since the banking crisis. He described this concept as "governments stealing money off rich people". He thinks the ember is about to ignite as economic forces compel a more active strategy from authorities. The aim will be to drive inflation higher than risk free returns (for example bank interest rates) for an extended period to reduce the real value of debt outstanding. Quite possibly, governments will have to regulate to force financial companies (possibly individuals as well) to hold unattractive government bonds until the debt can be reduced in real terms. Capital controls may be required. This is thought provoking stuff and highlights the potential challenges ahead.

(6) The US equity market, especially when translated to Sterling, has been a massive outperformer relative to other major equity markets. The US exposure in private client indices is well over 20% compared to usually 5-10% maximum direct exposure in Rossie House portfolios.

MODERN MONETARY THEORY (MMT)

The prestigious Racquet Club in Chicago has some afternoon nap beds for their members. However, it was after an hour in the steam room in this club that Warren Mosler formulated his ideas for his book "Soft Currency Economics" in 1993. This was perhaps the germination of a new economic theory which has been gaining widespread attention in recent years. It is called Modern Monetary Theory (MMT).

In the US, the youthful Alexandria Ocasia-Cortez as well as Stephanie Kelton, who was economic adviser to Bernie Sanders, have both been loud proponents of the theory. Here in the UK, influential economic supporters of the Labour party have given it credibility. More and more politicians are looking at MMT as it offers a seemingly easy way to solve many prevailing problems.

MMT is radical and contradicts many verities of established economic thinking. It is not a precisely defined economic doctrine and the views of its proponents are not all exactly the same. The theory turns upside down the conventional view that government spending is financed by either tax or issuing debt. MMT is also known as 'Neo-Keynesianism' as MMT's commitment to using government spending to stimulate demand and employment is viewed as aligned to traditional Keynesian demand-side economics. It is however radically different from Keynes' economic theories in one important respect, his were aimed at using government stimulus to offset cyclical weakness, rather than envisaging a permanently unbalanced budget.

In essence it states that Governments can borrow from the banking system and use the funds to spend on whatever they like. Crucially, it relies on countries controlling their own currency. If money is a creation of the State, a country with its own currency can always create more money to pay off the debts. MMT does not work for foreign currency debt or countries with a fixed exchange rate. MMT gives Governments unlimited flexibility and the objective is full employment as well as the ability to finance huge investments in public goods such as healthcare, green initiatives and so forth. Budget or trade deficits, austerity and creaking public services are things of the past!

Perhaps the only limit to this is potential inflation. Kelton, for example, would argue that it is only when an economy hits physical or productivity constraints or when there is full employment that inflation is likely to occur. At that point it is possible to control inflation by raising tax to withdraw money or reduce spending.

MMT gains respect by association with previous and current economic heavyweights. Though it is unlikely he would have approved of MMT, Milton Friedman published an essay[(1)] in 1969 talking about a "helicopter drop" of money. Back in 2002, Ben Bernanke, a governor of the Federal Reserve, gave a famous speech re-visiting this idea of distributing cash (from a helicopter) so as to put money into the hands of the population as a way to increase demand and prevent deflation. Ever since he has been nicknamed "helicopter Ben". As recently as 2019, ECB chief Mario Draghi suggested the central bank's governing council should look at untested ideas such as MMT.

[(1)] The Optimum Quantity of Money

MMT provides answers to the huge problems we face at the moment. How do we pay for the "lockdown" of most of the world's economies, improving healthcare, moving to a fossil free world, repaying the huge debts built up since 2008/09? Also, Kelton would point to Japan. Huge deficits have been happily financed by the authorities without interest rates rising or a collapse in the currency. Debt sustainability hasn't been a problem. As we speak, it looks as though the US, Europe, the UK and Japan are all indulging in a version of MMT even if there is generally an unspoken [(2)] belief that this will all be funded by conventional means later.

Somehow, to us, this all seems a little too good to be true. Other doubters include Larry Summers, an influential adviser to President Obama. He points to emerging markets who have tried and ended with very high rates of inflation following a collapse in the currency. Nobel Prize winner, Paul Krugman, has been strongly opposed to the theory and warned the U.S. would see hyperinflation if it were put into practice. *"Do the math, and it becomes clear that any attempt to extract too much from seigniorage [(3)] - more than a few percent of GDP, probably - leads to an infinite upward spiral in inflation."* Rossie House would side with this view and this is one reason why portfolios are well represented by holdings of index linked bonds. After years of false alarms about inflation we feel we are nearer to this becoming a problem.

(2) Governor of the Bank of England, Andrew Bailey, stated that it will not resort to printing money to pay for the government's recent economy support measures.
(3) The profit made by a government by issuing currency. The difference between the face value of notes or coins and their production costs.

EVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

<u>Sustainable Investment – Millennial fad or here to stay?</u>

We have been witnessing a major new trend towards sustainable investing. This is something that we increasingly hear about and we feel that it is both very important and here to stay. It makes sense to us that any investor worth their salt should be concerned about the ability of their investee companies to be in existence in 10 years' time. If a business operates in such a way that it damages the natural world, exploits customers or employees and ignores the best interest of stakeholders then there is a much higher chance that it will not survive, let alone flourish in the long term. Thus, sustainable investing is a fast-growing area of the market and rightly so.

Being a fairly new part of the investment industry, in relative terms, there are still a lot of differences in approach between managers. Jargon that has yet to be streamlined and incorporated into user-friendly, recognisable terms. Environmental, Social and Governance (ESG) investing does what it says on the tin and a manager would consider these three aspects when choosing which stocks to buy. Socially Responsible Investing (SRI) can focus on companies that promote a number of different sustainability themes. Impact Investing will tend to invest in companies that address one or more of the UN's 17 Sustainable Development Goals (SDGs):

As you might expect, within these three types of sustainable investing there is a broad spectrum of funds. The more unsatisfactory of which could simply be an existing global equities fund with the letters ESG appended, perhaps after negative screening (filtering out of any non-ESG friendly companies) has been applied. Others, such as one we had a conference call with recently, are actively looking for the market leaders in industries that will benefit from the move towards decarbonisation. They are investing in companies that are helping to save the planet while taking market share from those that are not. This seems admirable. However, another fund manager that we met claimed that Coca-Cola's bottling company was a sustainable investment as it is now using more recycled plastic. Clearly some ESG funds are more convincing than others.

This is where Rossie House can add value. A key part of our day to day business is meeting with fund managers to assess whether they possess the right attributes that we require for investment; honesty, intelligence, ability, skin in the game, the correct investment structure, perseverance and consistency to name but a few. Although we feel that we have always selected managers with good principles alongside the aforementioned attributes, we have not historically evaluated funds dedicated to sustainability. To get the ball rolling we have commissioned a knowledgeable external researcher in this field, to perform preliminary analysis on several of these funds, evaluating both their investment merits and sustainability credentials.

Perhaps due to the complexity of this area of investment (it can be very difficult to scrutinise the environmental credentials of a company when incorporating all factors, such as its suppliers, its energy usage, the origin of that energy, how far its employees have to commute, etc.) a number of ratings agencies such as Sustainalytics, Morningstar Sustainability and 3D Investing have emerged with the aim of providing a sustainability rating for each fund. We are naturally sceptical of such ratings due to their reliance on generic data as the input and their tendency to produce over simplified outputs (e.g. 4 out of 5 stars). Companies can manipulate their information to produce more attractive data, which in turn can be consumed by these rating agencies with little attention to detail or common sense applied. For example, some oil majors score very highly due to their research in biofuels. To investigate these ratings further, we are contributing financially to partner with a highly respected retired fund manager with a particular interest in this area. We hope this will improve our understanding and lift the bonnet on some of the external sources available.

The primary reason we are exploring this area is that some of our clients have asked if we can offer an investment service that incorporates their environmental concerns. While it is difficult for us to have any influence over what companies are included in the funds that we currently hold for clients, we can of course add a number of sustainable funds to our list of preferred holdings. Sentiments are changing – it is vital that we are able to offer what our clients want in an effective way. They are not alone. Socially responsible and impact investing accounted for over 25% of new assets under management in the US in 2018. Clearly this domain is not exclusive to sanctimonious millennials.

While managing investments that are reflective of our clients' social values is very important, we must also achieve positive returns from those investments. Of course returns will vary but a large number of these funds have been outperforming their less ethical counterparts and there is evidence to suggest that company management teams who take notice of ESG concerns are more likely to possess additional beneficial management traits, giving their companies greater longevity and profitability.

Thankfully, this appears to be an enduring trend that might have beneficial results for us all, as well as the world in which we live. We look forward to reporting back on this in due course, once we have completed our research.

ALADDIN

In 2008/09 the financial world fell to pieces. Clever dissecting of mortgage bonds, re-packaged into so called, safer tranches caused a lot of the damage. Most investment banks had endless "risk committees" (they still do) peering into every possible angle that could damage their trading books and client assets. VAR (value at risk) was one well known metric they used to quantify potential losses. Credit rating agencies, Moody's and Standard and Poor's, were also heavily relied upon. But none foresaw the correlations, the inter connectedness of financial institutions where predictions of maximum loss seemed to rapidly unwind. Reliance on these metrics became an Achilles heel.

As commented on in the Market Outlook section we are not able to predict whether the recent falls are mostly behind us or perhaps just the beginning, with more to come. An area we do worry about is where financial firms have "group think". Aladdin, the very widely used risk analytics tool, may be one such case in point.

Aladdin is provided by BlackRock, a $74bn market capitalisation fund management company that managed over $7 trillion of client assets at the end of last year. Their own funds use this risk analytics tool but it is also licensed to 900 clients in 68 countries and 55,000 other fund managers according to BlackRock. Estimates show that it has influence over $20 trillion of assets representing more than 10% of all financial assets globally.

Around 2,000 employees of BlackRock are involved in servicing the software. It is based on a massive series of historical data and uses "Monte Carlo" methods to produce a large, randomly generated sample of possible outcomes for equities and bonds in different kinds of environments. Portfolios can be stress tested by putting them through simulated market turmoil, such as changes to interest rates, reductions in QE and, apparently, a global flu pandemic.

Our concern is that so many assets using the same software causes unintended risks. First, if you buy in such software it is unlikely the clients have a full understanding of what it all means. More worrying to us is that too many firms, as well as regulators and public bodies, all rely on the same assumptions. In turmoil conditions they may all be holding the same type of assets and if they start to decline in value this can lead to a herd mentality to ditch them. Passive investment and algorithmic trading intensify these trends. We have also heard of firms who engineer products that score well on Aladdin software - i.e. are reverse engineered to be sellable to users of the software … such behaviour never ends well.

Maybe we worry too much but to paraphrase Donald Rumsfeld it is important to understand "known unknowns". Here at Rossie House we don't use Aladdin, recognising that it could be a source of instability. Our conclusion is that we want to own funds, especially investment trusts, which we understand and which have the characteristics to come through whatever lies ahead. We find it reassuring that many have long pedigrees, some over one hundred years, of doing just that. We also console ourselves that however scary the immediate future might be – almost exactly 50 years ago (April 17th to be exact), the astronauts of Apollo 13 were desperately trying to return to earth – we will get through this.

THE EIGHTH WONDER…?

There is an old Asian legend[1] involving a sage and an Indian King. The sage presents the King with a beautiful chessboard and the King asks the courtier what he would like in return. His response seems very modest, just a grain of rice on the first square, two grains on the second, four on the third and so on. The King readily agrees and asks for the rice to be brought. As he counts out the grains and reaches the last square of the second row (32,768 grains) he knows he's in trouble. A doubling of the number of grains each square (64 in total on the board), if you follow it through to its logical conclusion, requires a total of 18 quintillion grains – enough to cover the whole of India in rice, one metre high!

Compounding or exponential growth comes in many guises, from Captain Tom Moore's NHS fundraising appeal to the ghastly spread of COVID-19. It is a mathematical phenomenon that leaves few of us untouched. We have all read or heard phrases such as "going viral", "network effects" or in finance, "compounding returns" - phraseology matters little, far more important is understanding the phenomenon itself.

So, how does it work? Compounding, or its real world equivalent, exponential growth, is when the rate of growth of something remains constant over each period observed. In our Indian legend above, the number of rice grains increase in each period (every square) by the same 100%. The key point being that although the growth rate remains the same, the absolute size of each increase grows with each period. The power of this mathematical law can be difficult for our linearly inclined brains to take on board, as the fabled King sadly discovered.

There is a second, equally mind bending example[2] which is perhaps more relevant to Rossie House clients and their families, this is included below. Here we show two investors, A and B, who are prepared to invest £2,000 each year in to their Self Invested Personal Pensions (SIPPs). The assumed return from the SIPP is 10% each year…..this is critical in determining the results.

Investor A starts early aged 19, making contributions each year until she reaches the age of 25, she then stops. Investor B starts a little later – perhaps paying off his student debts(!) – and makes his first £2,000 contributions at aged 26 and continues through to his retirement at 65. To state the obvious, that is 40 yearly contributions from SIPP Investor B versus just 7 from A – take a look at the results :

	SIPP Investor A		SIPP Investor B	
Age	**Contribution (£)**	**Value (£)**	**Contribution (£)**	**Value (£)**
19	2,000	2,200	0	0
20	2,000	4,620	0	0
21	2,000	7,282	0	0
22	2,000	10,210	0	0

1 The Rice and Chessboard Story
2 Example adapted from Just One Thing – Rich Man, Poor Man by Richard Russell. It assumes the contributions are made as lump sums at he start of each year.

23	2,000	13,431	0	0
24	2,000	16,974	0	0
25	2,000	20,871	0	0
26	0	22,958	2,000	2,200
27	0	25,254	2,000	4,620
28	0	27,779	2,000	7,282
29	0	30,557	2,000	10,210
30	0	33,613	2,000	13,431
31	0	36,974	2,000	16,974
32	0	40,671	2,000	20,871
33	0	44,738	2,000	25,158
34	0	49,212	2,000	29,874
35	0	54,133	2,000	35,061
< Ages 36 to 59 have been removed to help shorten this table >				
60	0	586,516	2,000	596,245
61	0	645,168	2,000	658,070
62	0	709,685	2,000	726,077
63	0	780,654	2,000	800,885
64	0	858,719	2,000	883,174
65	0	944,591	2,000	973,691
Money contributed		£14,000		£80,000
Total Return		**£930,591**		**£893,691**

Incredibly, Investor A ends up with more money than Investor B due solely to her seven earlier contributions. This example shows the advantages of investing early and how powerful this can be with compounding on your side. 10% annual returns may be considered a tall order in today's climate but the principle still stands.[3]

To benefit from compounding an investor needs patience to allow time to do its work. There is also the sacrifice of giving up what you could have now. However, we would all be wiser and perhaps a lot wealthier, following in the footsteps of our Indian sage and taking full advantage of the benefits compounding has to offer.

[3] Those with an inquisitive persuasion may be interested to know that at a 9% annual growth rate A fails to beat B. There is not much in it though – A = £617,016; B = £656,576. As the rate of return increases above 10% A's advantage also increases.

FAMILY MATTERS

Many of you are aware of Charlie's and Jean's imminent retirement at the end of this month. The planning for this started five years ago and we are pleased with how you, as our clients, have reacted to the change this has meant. Charlie and Jean have amassed considerable trust and respect through the years and we are incredibly keen to keep this, and if possible, strengthen it further. We will miss them a great deal although ties shall continue to be strong as they remain owners in the partnership.

On a separate matter, and partially related to the above, we have decided to close our Forgandenny office. This decision was taken with a heavy heart. Upon Charlie's retirement, it will be just Scott Baikie, Susan Fenton and occasionally our book-keeper, Jane Laird ,working from this office - down from five just a few years ago. Scott and Susan will join the rest of the team in Edinburgh when normality resumes. We shall miss the tranquillity of Rossie House gardens and as David Nichol was fond of saying, the best views in Scottish fund management!

BELGRAVIA

Most unexpectedly, a casually dressed media executive popped into our office some time ago and showed interest in using it as a film location. This was well outside our comfort zone and initially we were hesitant; a low profile and unswerving attention to client privacy being our preferred modus operandi. However, after some investigation and discussion, we decided to allow it and some of us have been avid watchers of the series on ITV at 9pm on Sundays. Some photographs of the making of the series are shown below, including a laptop demonstration of how the stone work of central Edinburgh was turned into the white stucco of "SW1 London" through digital editing in India.

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(i) the value of investments and income derived from investments can fall as well as increase and the investor may not get back the amount invested,

(ii) past performance is no guide to the future, and

(iii) the levels and bases of, and reliefs from, taxation can change.

As the issuer, Rossie House Investment Management LLP has approved the contents of this publication.

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