

The Tortoise and the hare

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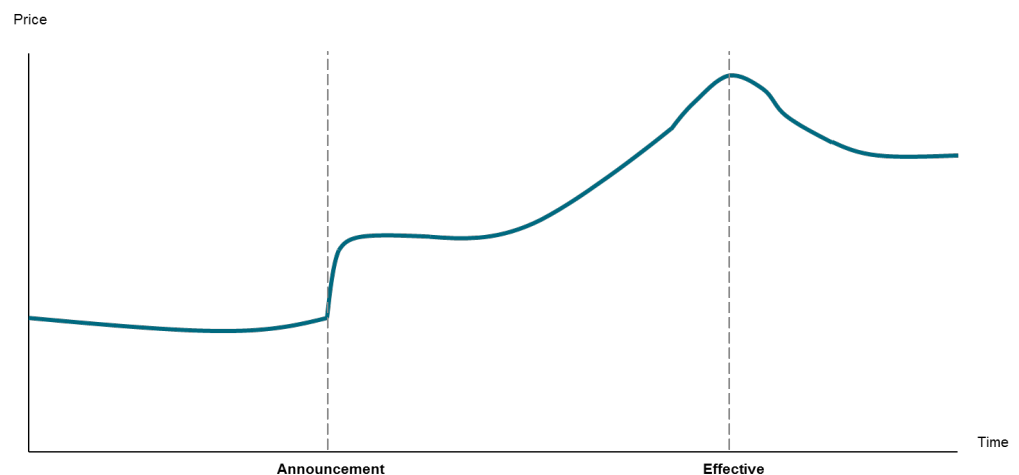
Avoiding Rush-Hour Traffic

The last business day of May is among the busiest for share traders around the world. It is one of the days that MSCI, a large index provider, rebalances many of its indices; restating the companies it believes to be representative of a particular market.

For investors who track one of MSCI's indices, this is important because they have to buy or sell shares to reflect the changes. Some trades will be fairly small, as minor adjustments are made to individual weightings, but in some cases, entire holdings need to be dropped or acquired.

This activity creates a spike in the volume of shares traded as some of the world's biggest fund managers are motivated to go into the market at the same time. The volume of shares traded on the German and UK markets on the last day of May was around 60% higher than on the day before and the day after¹. This can have some interesting consequences for share prices.

Here is an illustrative example of what can happen when a share enters the index, requiring index trackers to buy.



Source: Dimensional. For illustrative purposes only.

Avoiding Rush-Hour Traffic

The index provider announces the index changes some time before the effective date. This causes an initial spike in volume and price, followed by a longer run up in the share price. On the effective date there is a bigger spike in trade volume and price. In some markets, much of this activity occurs in the last few minutes of trading as fund managers enter the closing auction to ensure they get the same price as the index – whatever that price is. After the effective date, the price generally settles a little lower.

Funds that track an index are a sensible way for some people to gain exposure to a market, but there are trade-offs to be managed. This is one of the reasons investors use investment managers that, among other things, have more flexibility and are able to trade stocks whenever the expected benefits outweigh the potential costs. It's the trading equivalent of cutting your journey time to work by having the freedom to avoid rush-hour traffic.

The differences on each individual trade might be small but, as is so often the case with investing, over a lifetime these small differences add up.

Indicators

Real GDP Growth Projections (%)			
	2014	2015	2016
US	2.4	2.5	3.0
UK	2.9	2.4	2.2
Eurozone	0.8	1.5	1.7
Japan	-0.1	0.8	1.2

Source: IMF, World Economic Outlook Update, July 2015

Inflation Projections (%)			
	2014	2015	2016
US	1.6	0.1	1.5
UK	1.5	0.1	1.7
Eurozone	0.4	0.1	1.0
Japan	2.7	1.0	0.9

Source: IMF, World Economic Outlook, April 2015

Equity Summary (%)						
Index	2015 YTD	2014	2013	2012	2011	2010
S&P 500 TR USD	1.2	13.7	32.4	16.0	2.1	15.1
MSCI EAFE Value NR USD	4.1	-5.4	23.0	17.7	-12.2	3.2
FTSE 250 TR GBP	10.5	3.7	32.3	26.1	-10.1	27.4
FTSE 100 TR GBP	1.4	0.7	18.7	10.0	-2.2	12.6
Russell 2000 TR USD	4.8	4.9	38.8	16.3	-4.2	26.9
Russell 1000 Value TR USD	-0.6	13.5	32.5	17.5	0.4	15.5
MSCI EM NR USD	2.9	-2.2	-2.6	18.2	-18.4	18.9
MSCI EAFE NR USD	5.5	-4.9	22.8	17.3	-12.1	7.8
MSCI Europe Small Cap NR EUR	20.2	6.5	33.4	27.0	-17.5	29.9
MSCI Europe NR EUR	12.8	6.8	19.8	17.3	-8.1	11.1
MSCI EAFE Small Cap NR USD	10.1	-4.9	29.3	20.0	-15.9	22.0
MSCI Europe Value NR EUR	9.9	5.6	21.3	16.4	-9.5	4.1
MSCI ACWI NR USD	2.7	4.2	22.8	16.1	-7.3	12.7

Source: Morningstar as of 30th June 2015

Fixed Income Summary						
Index	2015 YTD	2014	2013	2012	2011	2010
IBOXX Liquid Investment Grade TR USD	-1.3	8.7	-2.4	11.8	9.1	9.4
IBOXX Liquid High Yield TR USD	1.6	2.1	5.9	14.1	5.9	12.6
IBOXX GBP Corp TR	-0.9	12.3	1.9	15.6	5.4	8.7
IBOXX EUR Corp TR	-1.5	8.2	2.2	13.6	1.7	4.7
JPM Global Emerging Market Bond Index	1.8	5.5	-6.6	18.5	8.5	12.0

*Annualised Return

Source: Morningstar as of 30th June 2015

Risk Warnings

Past performance is not a reliable indicator of future results.

The illustrations are in US Dollars unless otherwise stated. Currency fluctuations may increase or decrease the returns of any investment.

There can be no guarantee or assurance that a client's portfolio will not incur a loss over any particular time period.

Fees and charges do not apply in respect of any index, indices are unmanaged, do not incur fees and cannot be invested in directly.

Pro forma results such as those shown do not represent actual trading; returns will be affected by advisor and fund management fees, trading costs, and other applicable charges.

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Foreign Exchange			
	31/12/2014	30/06/2015	2015 YTD
USD/JPY	119.7	122.5	2.3%
GBP/USD	1.56	1.57	0.6%
GBP/JPY	186.4	192.4	3.2%
GBP/EUR	1.29	1.41	9.3%
EUR/USD	1.21	1.11	-8.3%
USD/CHF	0.99	0.94	-5.1%

Source: FT.com as of 30th June 2015

Real Assets (%)						
Index	2015 YTD	2014	2013	2012	2011	2010
London Fix Gold PM PR USD	-2.9	0.1	-27.3	8.3	8.9	29.2
Bloomberg Sub WTI Crude Oil TR USD	0.0	-41.7	6.8	-11.8	-3.6	3.8
S&P GSCI TR	-0.2	-33.1	-1.2	0.1	-1.2	9.0
S&P Global REIT TR USD	-4.1	22.8	2.8	23.7	1.7	23.4

Source: Morningstar as of 30th June 2015

Economic Indicators				
Index	Unemployment rate (%)	Current A/C Balance*	Budget Balance*	Industrial ** Production (%)
US	5.3	-2.6	-2.5	1.5
UK	5.6	-4.8	-4.4	2.1
Euro Area	11.1	2.5	-2.1	1.6
Japan	3.3	2.4	-6.8	-3.9

*% of GDP 2014 estimate
 **change on 1 year ago

Source: Economist (16th July 2015)

Interest rates (%)				
	1 month	3 month	24 month	10 year Gov't
US	0.02	0.02	0.67	2.38
UK	0.41	0.48	0.63	2.13
Euro Area (DE)	-0.28	-0.35	-0.22	0.81
Japan	-	-0.05	0.01	0.45

Source: FT.com as of (16th July 2015)

Volatility Index (%)				
Index	Current	1 year change	52 week high	52 week low
VIX	12.22	20.27%	31.06	10.85
VDAX	19.51	54.35%	27.09	12.64

Source: FT.com (16th July 2015)

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Having spent a combined total of over twenty years at one of the largest US banks looking after the needs of expatriate American clients, the MASECO partners identified a gap in the provision of sound, practical and creative advice for US expatriate and in-patriate clients from the UK.

We decided to use the expertise we gained at large institutions to create a partnership that bridges this gap and provides a first class service within a wealth management firm – without the often conflicting demands of ownership by a large institution.

With this philosophy at its core, MASECO Private Wealth is focused, forward-thinking and, most importantly, puts its clients first.

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Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

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distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

The prices of real assets (for example, precious metals) tend to fluctuate widely and unpredictably, and have historically experienced periods of flat or declining prices. Prices are affected by global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

REITs investing risks are similar to those associated with direct investments in real estate: lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

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International investing entails greater risk, as well as greater potential rewards compared to investing in your local stock market. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economics.

Investing in smaller companies involves risks not associated with more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Interest on municipal bonds is generally exempt from US federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence; if applicable, local exemption applies for issues within one's city of residence.

The initial interest rate on an inflation-linked security may be lower than that of a fixed rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur.

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