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After holidays it is game time

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"If your plan is for one year, plant rice. If your plan is for ten years, plant trees. If your plan is for one hundred years, educate children" Confucius

I am often asked what my favourite investment book is. Boringly, I always say the one I read in the first few weeks of my first term as an Economics undergraduate student, too many years ago to remember - 'The Money Game' by "Adam Smith". The line in the book - talking specifically about the world of investing and financial markets - that struck me most all those years ago still has the power to move me, more than twenty years later: 'the real object of the Game is not money, it is the playing of the Game itself'.

Now don't get me wrong; money always matters, but Confucius informs us in the quote above (correctly as the new school year is just about to start) of the more bountiful benefits of understanding the bigger picture. Be aware of tactics at all times, but make sure your longer-term strategy is absolutely correct. That is the best way to build and maintain wealth at all levels.

Tactically, we all became much more aware of tensions in the Korean Peninsula during August. My own view would be that the diplomatic efforts and cash flow opportunities offered by South Korea and China will ultimately prevail, but as with all unlikely but extreme events - tail risks, as many market participants call them - to totally ignore them without analysis would be imprudent.

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Add in the holiday-influenced light August trading and it was no surprise that events around North Korea pushed market volatility levels in mid-August from one of the lowest recorded measures in a decade to levels approaching overt fear.

Unsurprisingly, safe havens such as utilities, staples and fixed income instruments were near the top of the pan-European performance charts in August. In the broader markets in addition to gold, the Euro too received support particularly against the Pound, which slumped to an eight year low against the Eurozone's single currency.

Strategically, we are on the cusp of a hugely important time for global financial markets. One summary of the last eight plus years of generally strong financial market returns would be that Central Bank largesse and stimulus in both slashing interest rates as well as expanding their balance sheets ('quantitative easing') have played a hugely supportive role.

Low interest rates appear set to stay, but quantitative easing will progressively be cut down in size starting with the Federal Reserve in the United States next year and - by our estimation - being followed by both the European Central Bank and the Bank of England in due

*An affiliate of Raymond James & Associates and Raymond James Financial Services course. However, as the world economy is not yet truly fixed - otherwise economic growth rates would be a lot higher - something else has to take its place. Step forward and take a bow, 'economic reforms'.

Economic reforms can take many forms, but typically are centred on improving the dynamism of an economy and are imposed by governments and not Central Banks. This can be via education and training, lower taxes, incentives to boost entrepreneurial thinking and business creation, infrastructure expenditures and/or labour market reforms that encourage flexibility and the creation of new job opportunities. However, the imposition of these policy changes actions some form of necessary change - and change cuts across interest groups and inevitably voter opinions. In short, economic reform is easy to talk about but hard to impose, as the last bout of significant reforms in the UK and US in the 1980s and in Germany in the 1990s showed. To paraphrase Confucius; it is far easier to plant and eat rice than educate your children fully.

However - as already observed - the time for holidays is over. If you look at Europe or America, China or Japan, the need for local policymakers to make clear and defined progress in their economic reform hopes before the end of the year is very apparent. And it is this progress which will offset the slow moving away from Central Bank stimulus and allow global financial markets to continue to offer attractive opportunities. This is the true focus of the investment game for the balance of this year and into 2018. It is game time for policymakers - and much more than their re-election hopes are at stake. The better news is that I think the penny - or cent, yen or yuan - has dropped with them - and this is why we look forward more from a perspective of opportunity than threat.

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