Swiss banking with a mission

GlobalanceBank

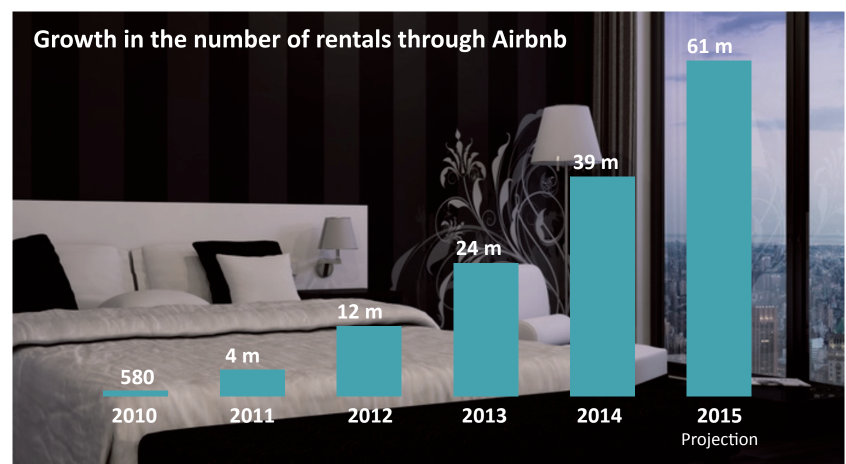
Wealth cockpit

Third quarter 2015

The sharing economy: a wave is gathering

Why sharing is the business model of the future.

Companies in the sharing economy are creating new opportunities. Uber is the world's largest taxi company but doesn't own a single taxi. Airbnb offers the most overnight accommodation in the world but doesn't own a single hotel room. And Facebook is the world's largest platform for social contact but produces no content of its own. The success of these businesses is evidence of a profound paradigm shift.



Source: Piper Jaffrey, March 2015

Creative companies seeking new ways

After its formation, Airbnb took only a few years to overhaul Hilton. The company, founded in 2008, offers overnight accommodation in around 34,000 towns and cities in 190 countries. Customers can choose from among 1 million offers. Last year, almost 40 million overnight stays were booked through Airbnb. By contrast, Hilton, the world's largest hotel chain, offers «only» 680,000 rooms in 91 countries.

Similar developments are evident in other sectors, such as mobility, car sharing and food sharing. Many platforms adopt the P2P (peer-to-peer) model, but more and more offers are being made on the basis of the B2B (business-to-business) model.

It is the internet which facilitates and drives the emergence of new business models and markets. Sharing, not owning, is becoming the new paradigm. Both «owners» and «users» of a product or service benefit from this innovative concept. This new way of doing business is set to radically impact numerous businesses and entire sectors. The sharing economy will thrive due to:

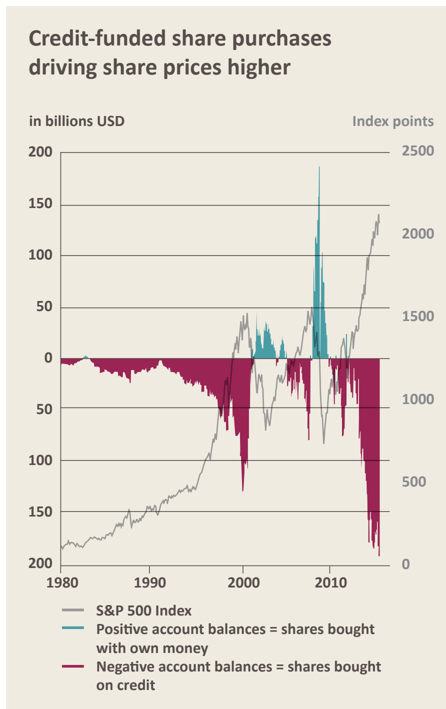
- **Smaller providers**
  Everything is becoming smaller. Large chains are experiencing hard times, but local markets are emerging as a result. Private dining rooms are being used as restaurants.
- **Entrepreneurship**
  Millions of micro-businesses and companies are being founded.
- **Transparency, not regulations**
  This new way of doing business is based on transparency and mutually beneficial cooperation, not on regulations and laws.

The sharing economy is unstoppable and poses a threat to traditional business models. The internet offers consumers and providers entirely new opportunities and presents small businesses with attractive growth potential. Large, inflexible companies are in the line of fire. The working environment and its conditions will be changed as a consequence of these new models. It is vital that investors understand these new developments, as many companies held in investor portfolios are going to be impacted by this paradigm change. Learn more about these developments on our website.

© Globalance Bank Ltd. · Gartenstrasse 16 · CH-8002 Zurich
Phone +41 44 215 55 00 · Fax +41 44 215 55 90 · welcome@globalance-bank.com · www.globalance-bank.com

POLITICS

Central bank expansionary monetary policy combined with zero or negative interest rates are meant to ignite real growth in the global economy. In reality, this policy is leading to severe distortions in macro-economic indicators. This in turn drives reallocation of assets and, ultimately, the formation of bubbles in financial markets. A very dangerous situation for investors.



Source: Dshort.com

Low interest rates encouraging speculative behaviour

Credit is a critical element of the global economy. Banks create new money by issuing loans. The production of goods and services (companies) and consumption (households) are fostered by credit creation. What matters most is that new money leads to new production. When this happens, the additional money is balanced by a larger supply of goods and services. When this doesn't happen, it results in inflation or even asset price bubbles. Rising asset prices attract more investors and induce credit-funded speculation. The system swings upwards then eventually crashes, with the crash ending the distortions.

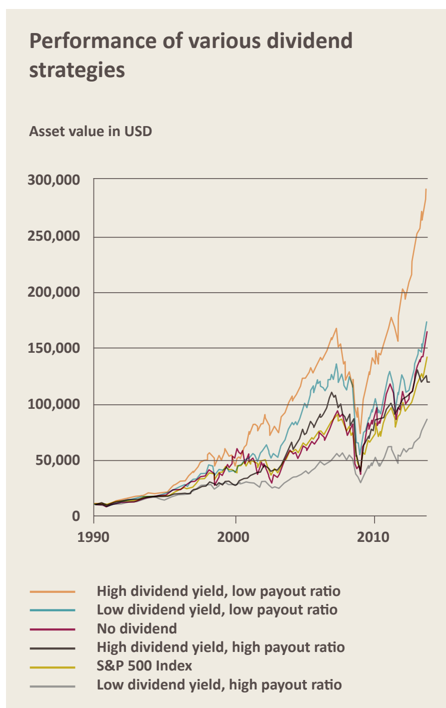
The adjacent graph shows how risky the current situation is. The grey line indicates the change in share prices of the 500 largest US companies. The coloured bars show the investors' accumulated USD net balances (above the 0 line) or net credit (below). The deeper the red bars fall, the more shares were purchased on credit. The chart tells us the following:

- Increasing indebtedness is driving share prices higher.
- Once the credit peak is reached, the stock market will always experience a correction.
- The debt figures from May 2015 are at an all-time record high.

Investors should brace themselves for the fact that this party will eventually end.

ECONOMY

During times when positive returns from bonds are almost impossible, dividends are a more attractive option for investors. A dividend describes the share of a company's profit that is distributed to shareholders. When choosing stocks, investors should look beyond the dividend yield, as this alone is no guarantee of positive returns over time.



Source: J.P.Morgan Asset Management

Dividends alone will not suffice

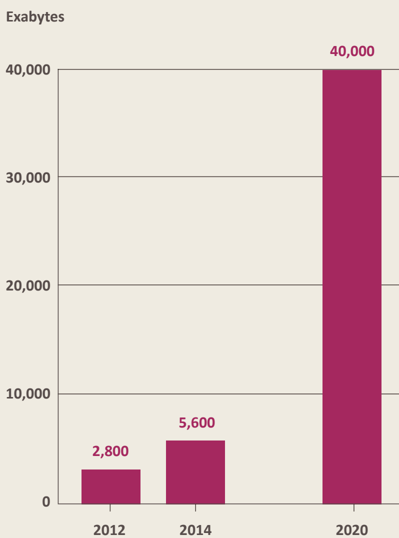
Higher dividends are attractive to investors who want to draw a regular income from their capital. Yet a narrow focus on the dividend level would be a mistake.

On the one hand, the dividend yield rises when the share price falls. However, a falling share price may indicate poor future prospects for a company. It therefore makes sense to analyse dividend yields over several years. This allows to detect whether the high dividend yield is the result of a corrected valuation. Moreover, the payout ratio should also be taken into account. It measures the share of a company's total profit that is to be distributed in dividends and shows whether a company can actually afford such attractive dividends. High dividends in combination with a high payout ratio increase the risk of the company not being able to pay out such dividends should its situation worsen. On the other hand, a low payout ratio serves as a buffer against hard times.

It has been empirically proven that high dividends combined with a low payout ratio result in the best returns. The adjacent graph shows the return of a variety of combinations of both these criteria: a portfolio consisting of shares with a high dividend yield and low payout ratio is the clear winner.

ENVIRONMENT

Global energy demand is set to grow as a result of increasing global population and rising consumption in emerging countries. Analysts estimate growth of about 50% over the coming 15 years. Among the largest electricity consumers worldwide is the internet, and its appetite is growing fast. This development presents investors with interesting investment opportunities.



Source: IDC iView; "Big Data, Bigger Digital Shadows, and Biggest Growth in the Far East" December 2012, sponsored by EMC

The internet as a power guzzler of the future

If the internet were a country, it would already be the world's fifth largest energy consumer, well ahead of highly developed countries like Germany and the populous Indian subcontinent with its 1.2 billion citizens.

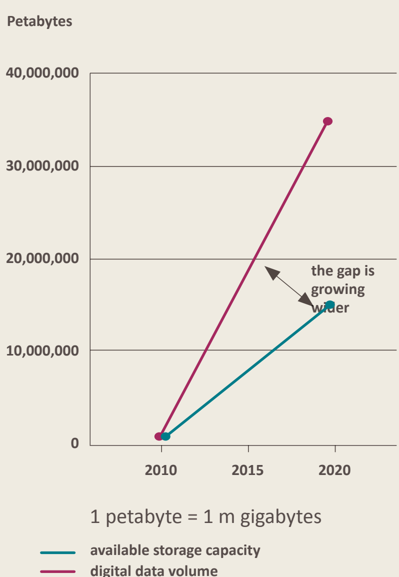
Internet content and traffic are managed from vast data centres operated by giants such as Google, Facebook and Twitter. They house entire server farms with enormous energy requirements.

Normal users don't know that every online click costs large amounts of energy. Internet activity adds up to 3.5 billion Google searches and 250 million photo-uploads to Facebook each day. The adjacent graph shows that the volume of internet data is doubling every two years, which will mean an eight-fold increase by 2020.

The result is obvious: server farms will become the world's biggest energy consumers. Efficient energy use will be a pivotal competitive factor for IT companies. From an investment perspective, energy efficiency and energy management are important growth themes which should not be missing from portfolios that are prepared for the future.

SOCIETY

It's hard to imagine, but even today there's a scarcity of storage capacity for archiving all available digital data. As social media grows and grows, this is only going to get worse. The advancing digitalisation of society is presenting us with a range of new challenges, but these will also open up new investment opportunities.



Source: IDC Digital Universe Decade – Are You Ready? (2010)

Riding the data tsunami

In 2014, the global volume of electronic data stood at 5.6 zettabytes. A zettabyte is a 1 followed by 21 zeros, an amount we can scarcely imagine. If we were to print out 1 zettabyte of data, the pile would reach 20 times further than the distance from Earth to Pluto.

The main culprits are not companies but private internet users. YouTube videos, MP3 music and photos are uploaded online, «liked», «shared» and downloaded in their millions every day. A huge 70% of the data volume can be traced back to private users.

Big data – as the digital universe is called – offers a wealth of possibilities for companies. Never before have businesses known so much about their customers. Nevertheless, it is estimated that only 0.5% of the available data is analysed in a structured way. The proportion of valuable information is thought to be 25%.

The implications are enormous. The storage industry must develop new technologies to bring order to this torrent of data. Without innovation, the storage gap will grow to about 60% of the data pool (see graph). Data analysis and mining services are other growth markets with immense potential, for only structured data has any value. Finally, data protection and security are increasingly important to private users. These are all very interesting investment topics with great potential.

OVERVIEW OF OUR INVESTMENT SCENARIOS

We currently see three different economic scenarios that could strongly influence the investment environment over the medium and long term. We will restrict ourselves to world views we consider to have a realistic likelihood of occurring and avoid the «boom and bust» scenarios at either end of the scale.

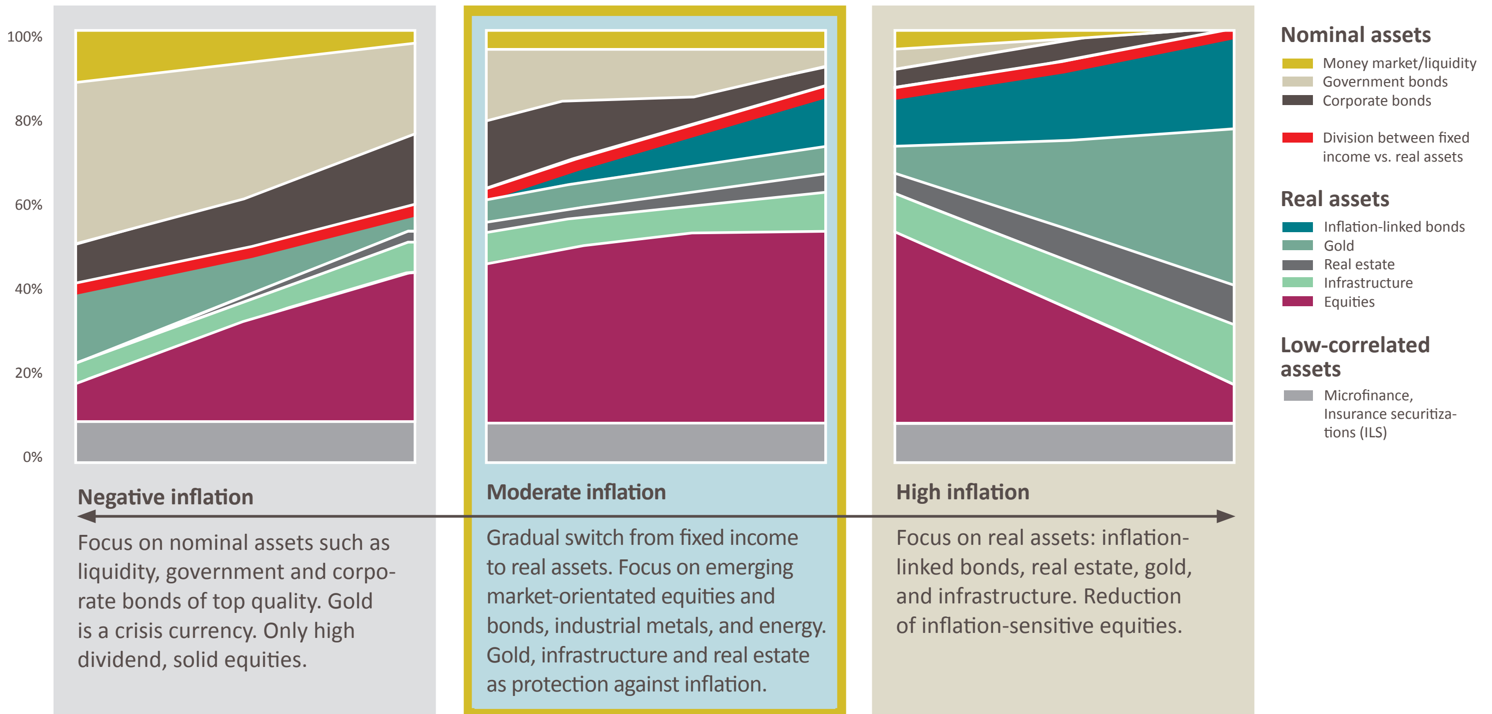
Brief description of the scenarios

Global deflation
Negative inflation, low interest rates. Relapse into financial crisis. National austerity and high unemployment. Negative investment activity and consumption. Emerging markets mired in global recession.

Low global growth
Spluttering economic engine in industrialized nations. Continuous, positive decoupling of emerging markets. Central banks print more money and target inflation/negative real interest rates to push down national debt.

Global inflation
Increase in velocity of money, increasing lending and investment activity. Glut of money not stopped in time. High consumer demand drives up prices. Industrialized nations import inflation. Currency devaluation war between countries.

Asset allocation in each scenario



Probabilities (arrows indicate changes to the previous quarter)

	Global deflation	Low global growth	Global inflation
at 2 years	→ 10%	↓ 45%	↑ 45%
at 5 years	→ 10%	↓ 35%	↑ 55%

Justification

The first half of the year confirmed the fear that global growth would not take as expected. Improvements in the Eurozone were almost wholly absorbed by weak growth data from the US and a few emerging markets. The growth is, in fact, the result of massive support from the big central banks, as the urgently needed structural reform has not been implemented by many national governments. We still find ourselves in a situation of «low global growth», which is gradually pulling us towards inflation as a result of continuing monetary expansion. Currently, the massive liquidity stimulus pursued by the three largest central banks – the FED (US), the ECB (Europe) and BoJ (Japan) – is distorting global bond and stock markets. Central banks' heavy bond purchase programmes are exceeding supply of new bond issues. In the medium term, this means low to negative returns and intensifies the investment plight. In the short term, however, lacking bond volume causes volatile market corrections such as those we witnessed in German bonds during April and May. Also in equities the probability of a market setback is increasing: Poor economic data or uncertainty surrounding the Greek situation may prove to be the trigger. Against this uncertain environment we adopt a defensive position in our portfolios. Specifically, we maintain our broad diversification, increase liquidity by reducing equities and keep a low exposure to bonds.

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