

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

Director: Brett Dymond – AFA, BBS, GradDipBusStud (Personal Financial Planning)

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Election

This would have to be one of the more bizarre elections we have witnessed recently, and I think most people were surprised by the strength of support for National. There is no question Dotcom's "Moment of Truth" galvanised support for John Key. There are still questions for the Key government to answer, however the public was clear in its message that it was not interested in Dotcom's meddling. The collapse of the Labour Party vote, and to a lesser degree the Greens, was staggering, and they have much work ahead of them to rebuild their support. In my view they will struggle to gain traction with some of their current policies. The aftermath of the election has been described as a train-wreck for Labour.

I found the debates entertaining but not particularly informative. It never ceases to amuse me the way politicians attempt to turn any piece of information to their advantage or their opposition's disadvantage. David Cunliffe claimed throughout the campaign that the economy was on the rocks, yet in defeat explained it was always going to be difficult to win when the economy was growing at 4%! John Key claimed credit for keeping interest rates low for the benefit of us all. He doesn't control interest rates – the Reserve Bank does that. He also claimed credit for the reduction in emigration to Australia, which I think is more to do with Australia's woes than New Zealand's fortunes.

Poverty

Much was made of the issue of child poverty throughout the election campaign. Figures I heard quoted were that 250,000 Kiwi children live in poverty. David Cunliffe made a speech in July claiming that number was 285,000. That's quarter of our children living in poverty – really? What is the definition of poverty? I did a bit of digging and it appears poverty internationally is defined as having to live on less than \$2.50US per day (approximately \$20NZ per week). In New Zealand it is defined as receiving less than 60% of the average household income. By this measure if you lived in Monaco and your yacht was only ten metres long you would probably be defined as living in poverty. One child living in poverty in New Zealand is too many; however I think the term has been sensationalised.

The solutions to the problem range from growing the economy in order to provide jobs, to taxing high-income earners in order to provide more welfare benefits. Somehow the help given to the most vulnerable needs to be given in such a way that it doesn't become an expectation.

Inequality

The widening gap between rich and poor was another topic debated in the election campaign. I've expressed my views before regarding my dislike for taxing high-earners proportionately more than others. I think the debate about inequality is misguided – it should instead focus on opportunity. Provided we are all afforded the same opportunity (education, equal rights, freedom of speech etc) then it's up to individuals to make the most of those opportunities – it's not the Government's job to somehow make us all equal. There will always be a gap between rich and poor based solely on the choices people make. I saw an item on the news leading up to the election on a housing programme run by a trust in the Far North. The aim was to provide their most vulnerable citizens with subsidised housing. The couple interviewed had been living out of a car up until their house became available. They had four children with another on the way. If you are classed as "the most vulnerable" in your community, why on earth are you having five children? How does this not perpetuate the issues of poverty, welfare dependence and inequality?

I do have one idea to reduce the gap between rich and poor in New Zealand – send Kim Dotcom home.

NZ Power

I attended our local meet the candidates evening leading up to the election and was particularly impressed with Kieran McAnulty. However we had to agree to disagree with his answer to a question I emailed him regarding Labour's NZ Power policy. The Labour policy was to create an agency to act as a single buyer of wholesale electricity, with the ability to set prices. Their aim was to reduce household power bills by \$230 to \$330 per year and to reduce prices to business by 5% to 7% on average. They claimed this policy would create 5,000 jobs and boost the economy by \$450 million per annum. What nonsense. Their logic was the money flowing back to households and business boosts economic activity and creates jobs. I can accept that to some degree, but what about the sector of the economy that the money has come from? The savings passed onto consumers haven't come out of thin air – they have been taken from another sector of the economy. Shareholders (including the Government) would forego dividends and the Government would also forego income tax. Please explain how taking funds from one group and distributing those funds to another group creates so many jobs and boosts the economy. You need to grow the pie to grow wealth, not simply cut the pie up another way.

Labour's policy ended up costing the country billions of dollars. The state assets were clearly sold at prices below their market value. What's ironic is that those that have done well out of Labour's meddling are the (relatively) wealthy, who could afford to buy the shares. Just imagine what the Government could have done to reduce child poverty with another \$2 billion from the state asset sales.

I'd be a hopeless politician – I can see all the problems but I don't have the solutions. What I do know is that economic and social policy always involves compromise – economic development versus the environment, free markets versus intervention, welfare versus personal responsibility. I also know we live in a fantastic country. We don't have our differences solved with bombs, we enjoy liberal civil rights and we still have an environment that is the envy of the world. I don't think those fundamental things will change, whoever is in Government.

Fonterra

Much was made in the campaign of our reliance on dairying, and how a drop in the dairy payout will spell the end of our recovery. I milked cows for twenty years and if there was one thing that remained consistent – it was the inconsistency of the payout. Farmers are used to it and plan to deal with it. As for our reliance on dairying, Economics 101 states an economy should exploit its comparative advantage. Our comparative advantage is our climate – we have the ability to grow grass at a rate of 15 tonnes of dry matter per hectare per annum, which is why dairying will always be one of our main industries. Yes, the payout has taken a hit, however the long-term demand for protein from developing economies is compelling. The biggest challenge for the industry is around water – quality and quantity. Much work is being done by various groups to improve our water quality and more (rightly) will be demanded. We should be grateful New Zealand is wealthy enough to be debating water quality – I wonder if the Iraqi's are?

NZ Post Notes

Investors in NZ Post's unsecured, subordinated notes will soon receive notification of a five-year remarketing process. The notes were issued in 2009 with a coupon of 7.50%, and the terms at issue allowed NZ Post to conduct a remarketing process this year. NZ Post intends to offer new terms, being a reduced margin over the five-year swap rate. Indications are that the new margin will be between 1.85% and 2.15%. This would give a new interest rate of approximately 6.25% to 6.55% for the next five years. The remarketing process will only be successful if at least 25% of current holders return a hold notice or a bid notice specifying a margin equal to or less than the new margin. If less than 25% of holders accept the new terms the notes will roll over for a further five years at the five-year swap rate plus a margin of 3.80%. If the remarketing process is unsuccessful NZ Post are committed to pay the higher rate (3.80% over the five year swap rate), however they also have the ability to repay the notes early in May 2015.

There may be notes available to new investors depending on the uptake from existing investors. We have sought an allocation so please contact the office as soon as possible if this is of interest to you.

For existing holders who may be unsure of what to do please call the office at any time to discuss.

Power Company Shares

I said in last month's newsletter that the energy company shareholders would more than likely be hoping for a National election win. Share prices crept up leading up to the election and then rose sharply on the Monday following the result. Here is a table summarising the various share prices.

| | Listing Price | Pre-Election | Post-Election |
|--------------------|----------------------|---------------------|----------------------|
| Genesis Energy | 1.55 | 1.80 | 2.03 |
| Mighty River Power | 2.50 | 2.40 | 2.59 |
| Meridian Energy | 1.00 | 1.25 | 1.46 |
| Contact Energy | | 5.45 | 5.92 |
| Trustpower | | 6.90 | 7.35 |

The risk around Government intervention has been removed for now, however is something that investors should still consider in the long-term – National won't be in Government for ever. For those prepared to take the risk the energy companies historically have provided good yields. Here is a table showing yields based on current and prospective dividend payments.

| | Share Price | Dividend (per/share) | Gross Yield |
|--------------------|--------------------|-----------------------------|--------------------|
| Genesis Energy | 2.03 | 14.60 cents | 9.99% |
| Mighty River Power | 2.59 | 13.50 cents | 7.24% |
| Meridian Energy | 1.46 | 13.01 cents | 9.22%* |
| Contact Energy | 5.92 | 26.00 cents | 6.10% |
| Trustpower | 7.35 | 40.00 cents | 7.55% |

* The Meridian yield is based on a share price of \$1.96 – a further 50 cents is payable by shareholders in May 2015.

Rabobank Interest Rates

| Term | Rate (annual interest) |
|-------------|-------------------------------|
| 1 year | 4.95% |
| 2 years | 5.25% |
| 3 years | 5.50% |
| 4 years | 5.80% |
| 5 years | 5.95% |

DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE