BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – September 2016

Official Cash Rate

The Reserve Bank reduced the Official Cash Rate (OCR) to 2.00% in August. Here are parts of Graeme Wheeler's statement released at the time. The underlining is mine.

Global growth is below trend despite being supported by unprecedented levels of monetary stimulus. Significant surplus capacity remains across many economies and, along with low commodity prices, is suppressing global inflation. Some central banks have eased policy further since the June Monetary Policy Statement, and long-term interest rates are at record lows. The prospects for global growth and commodity prices remain uncertain. Political risks are also heightened.

Weak global conditions and low interest rates relative to New Zealand are placing upward pressure on the New Zealand exchange rate. The high exchange rate is adding further pressure to the export and import-competing sectors and, together with low global inflation, is causing negative inflation in the tradables sector. This makes it difficult for the Bank to meet its inflation objective. A decline in the exchange rate is needed. Domestic growth is expected to remain supported by strong inward migration, construction activity, tourism, and accommodative monetary policy. However, low dairy prices are depressing incomes in the dairy sector and reducing farm spending and investment.

House price inflation remains excessive and has become more broad-based across the regions, adding to concerns about financial stability. The Bank is consulting on stronger macro-prudential measures that should help to mitigate financial system risks arising from the rapid escalation in house prices. Annual inflation is expected to rise from the December quarter, reflecting the policy stimulus to date, the strength of the domestic economy, reduced drag from tradables inflation, and rising non-tradables inflation. Although long-term inflation expectations are well-anchored at 2 percent, the sustained weakness in headline inflation risks further declines in inflation expectations.

Monetary policy will continue to be accommodative. Our current projections and assumptions indicate that further policy easing will be required to ensure that future inflation settles near the middle of the target range. We will continue to watch closely the emerging economic data.

There are a few points in the Governor's statement that investors need to take heed of.

- Interest rates are likely to decline and look set to stay lower for longer
- The Reserve Bank wants the exchange rate to fall
- The Reserve Bank is concerned about house prices and is looking at solutions to the problem

Interest Rates

I think it's fair to say we've known for some time that interest rates were heading lower for longer. Our options to deal with the issue have been discussed in this newsletter many times – spend less, eat your capital, or take more risk to improve returns. Many investors are doing the latter, with the New Zealand sharemarket offering yields well in excess of bank deposit rates. While all other things remain equal the share market will continue to trade at current levels (or better). At present there's no obvious catalyst for the sharemarket to fall. Unfortunately "all other things" rarely remain equal, and it's factors we are yet to be aware of that may cause a market correction. My advice to those seeking better returns in the share market is to be sure you are not over-exposed to one company or one industry, (electricity/property/retail) or one country (New Zealand). Spread your risk as much as possible and always ask how you would feel if risk turns into loss.

Exchange Rate

The Reserve Bank has been trying to talk the exchange rate down for some time now with very little success. Does it have something in its arsenal that we are yet to see? Is it a good time to invest some funds overseas? The current exchange rate with Australia is around 96 cents which is historically high. Without trying to predict the future I'd suggest Australia looks attractive at present based on the exchange rate and the relative poor performance of the ASX over recent years.

House Prices

I've never been a big fan of residential property as an investment, although I know plenty of investors with a certain skill set who have done very well investing in houses. I would simply encourage them to listen to what the Reserve Bank is saying about house prices. And don't forget how quickly changes in supply and demand can affect prices.

Is Bramwell Brown Moving?

In the June newsletter I indicated a potential move to new premises for Bramwell Brown. The tragic death of Craig Clouston has put those plans on hold at present. I am still investigating options to position this business for the next ten to fifteen years, and will keep you informed of any developments as they come to hand.

Review of the Financial Advisers Act 2008 (Source MBIE)

The Financial Advisers Act and the Financial Service Providers Act which regulate financial advisers were passed in 2008, and aim to promote the sound and efficient delivery of financial adviser services and to encourage public confidence in the professionalism and integrity of financial advisers. Financial advice is regulated due to the nature of financial products and services, and the potential for harm to consumers as a result of poor service. When making a decision about a financial product, many consumers need to rely on the information given to them by the financial firm or adviser selling it, so it is important that consumers have access to high quality financial advice.

Prior to 2008, financial advisers were largely unregulated and investor confidence in financial advice was low. The regime has succeeded in lifting professional standards by introducing conduct and competency standards. It has also improved consumer access to redress, by requiring those who provide advice to retail consumers to belong to a dispute resolution scheme. Despite these positive changes, the regime has been subject to some criticism, including that it is unnecessarily complex and has not adequately raised standards for all financial advice services. Over the past 18 months, the Ministry of Business, Innovation and Employment (MBIE) has comprehensively assessed the performance of the Financial Adviser and Financial Service Providers Acts. MBIE has consulted widely with industry and consumers to identify any problems with the regime and opportunities for improvement.

The long-term outcome of the review is to provide a regime that encourages confidence and participation in financial markets. MBIE has identified key objectives in pursuit of this outcome, including:

- Consumers can access the advice they need
- Advice makes consumers better off
- Regulation is enabling, with no undue compliance costs, complexity, or barriers to innovation
- Consumers have access to effective redress

The Authorised Financial Adviser (AFA), Registered Financial Adviser (RFA) and Qualifying Financial Entity (QFE) designations will disappear and be replaced by financial advisers, agents and financial advice firms. All financial advisers will now have to place the interests of the consumer first. Surprisingly, under the current regime only Authorised Financial Advisers are subject to this standard under the Code of Conduct. Clients of Bramwell Brown should notice no difference in the way we operate. For more information on the proposed changes see http://www.mbie.govt.nz/info-services/business/business-law/financial-advisers/review-of-financial-advisers-act-2008

Financial Markets Conduct Act

The Financial Markets Conduct Act 2013 (FMCA) was introduced to reform the regulation of financial conduct in New Zealand. Its purpose is to promote the development of fair, efficient and transparent financial markets, and to build confidence in our markets. The global financial crisis and the finance company failures were the catalyst for the new legislation. Part of the new law allows issuers of securities to use exemptions in the Act to streamline the process for "same-class" offers, making it easier to raise further capital. If companies already have bonds listed on the NZX they can fast-track subsequent issues by providing a relatively simple product disclosure statement (PDS). The only disadvantage to this new system is that we have less time to assess the merits of these new issues and get the information to you in a timely manner. The Kiwi Property Group bond in this month's newsletter is an example. If you are in the market for new bond offers please let me know so that I can add your name to our list in order to contact you in plenty of time.

Kiwi Property Group Bond Offer

The Kiwi Property Group is issuing $75 million (with the ability to accept oversubscriptions of up to $50 million) of seven year, fixed rate, senior, secured bonds. The offer is made under the Financial Markets Conduct Act 2013 (FMCA).

- Interest rate – 4.00%
- Issue date – September 7th 2016
- Maturity date – September 7th 2023

Bank Rates

Here is a summary of some of the bank rates on offer at present.

	1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**
ANZ*	3.45%	3.55%	3.65%	3.70%	3.75%
ASB	3.20%	3.25%	3.35%	3.45%	3.55%
BNZ	3.25%	3.35%	3.40%	3.50%	3.60%
Heartland	3.40%	3.50%	3.60%	3.65%	3.70%
Kiwibank	3.25%	3.25%	3.40%	3.50%	3.60%
Rabobank*	3.65%	3.55%	3.60%	3.85%	3.95%
Westpac	3.20%	3.25%	3.30%	3.35%	3.40%

* ANZ and Rabobank rates are available through an intermediary relationship with Bramwell Brown.

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