

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – February 2015

Happy New Year

I hope clients of Bramwell Brown Limited enjoyed a relaxing Christmas and New Year break. Aside from the usual house-painting, cards, and back-yard cricket I spent time honing my tennis and golf games against my brother who was visiting from Australia. At times like this I think we can all reflect on the incredible lifestyle we enjoy in New Zealand. Watching the news on TV each night it's easy to become blasé about what's happening around the world. I feel guilty fast-forwarding through the nightly segments on Isis, Ebola, Al Qaeda and the Ukraine, instead focusing on the sports. I've said to my children on numerous occasions that we really don't appreciate how lucky we are to live here.

Official Cash Rate

The Reserve Bank has left the Official Cash Rate (OCR) at 3.50% after some talk that rate rises could be on the cards sometime this year. Here is Dr Wheeler's commentary:

“Trading partner growth in 2015 is expected to be similar to 2014, though the outlook is weaker than anticipated last year. Divergences continue among regions, with growth in China, Japan and the euro area easing in recent quarters, while growth in the US has remained robust. World oil prices have fallen 60 percent since June last year, which will boost spending power in oil importing economies but reduce incomes for oil exporters. The oil price decline, together with uncertainties around the transition of US monetary policy, has led to an increase in financial market volatility. The lower oil price will have a significant impact on prices and activity in New Zealand. The most direct and immediate effects are through fuel prices, with the price of regular petrol falling from a national average of \$2.23 in mid-2014 to \$1.73 currently. This will increase households' purchasing power and lower the cost of doing business.

Annual economic growth in New Zealand is above 3 percent, supported by rising construction activity and household incomes. The housing market is showing signs of picking up, particularly in Auckland. However, fiscal consolidation, the reduced dairy payout, the risk of drought, and the high exchange rate will weigh on growth. While the New Zealand dollar has eased recently, we believe the exchange rate remains unjustified in terms of current economic conditions, particularly export prices, and unsustainable in terms of New Zealand's long-term economic fundamentals. We expect to see a further significant

depreciation. The high exchange rate, low global inflation, and falling oil prices are causing traded goods inflation to be very weak. Non-tradables inflation remains moderate, despite buoyant domestic demand and an improving labour market. Headline annual inflation is expected to be below the target band through 2015, and could become negative for a period before moving back towards 2 percent, albeit more gradually than previously anticipated. In the current circumstances, we expect to keep the OCR on hold for some time. Future interest rate adjustments; either up or down, will depend on the emerging flow of economic data.”

The last sentence may cause some alarm amongst investors. The possibility of cuts to interest rates is not something those relying on fixed interest for income want to hear.

Shares

I wrote in December of the gains made over the last three years by the NZX50, and already it looks set to continue. The talk of interest rates remaining lower for longer continues to fuel the share-market. January has already seen a gain of 4%, with the electricity generators showing strong gains.

	Listing Price	December 2014	Current Price
Genesis Energy	1.55	2.12	2.32
Meridian Energy	1.00	1.79	1.93
Mighty River Power	2.50	2.98	3.52

I would reiterate the comments I made previously about continually reviewing holdings and banking some profits if appropriate. Phone the office any time if you would like me to review your investments.

Unsolicited Share Offers

Zero Commission is at it again with their unsolicited offers to buy shares. Some Chorus shareholders will have recently received an offer to buy their shares at \$2.40, when the market price was \$2.65. Telecom and Rakon shareholders can expect to receive a similar offer shortly. They tend to target small shareholders with the argument that paying no brokerage means investors receive more for their shares selling to Zero than if they were sold through a broker. The letters I've seen sent to clients don't bear this out. Even with a higher minimum brokerage investors are worse off selling to Zero Commission. The offers aren't quite as cynical as the ones we used to see from Bernard Whimp, however I would encourage investors to seek advice whenever they receive unsolicited offers and are unsure of what to do. Call the office any time for guidance.