BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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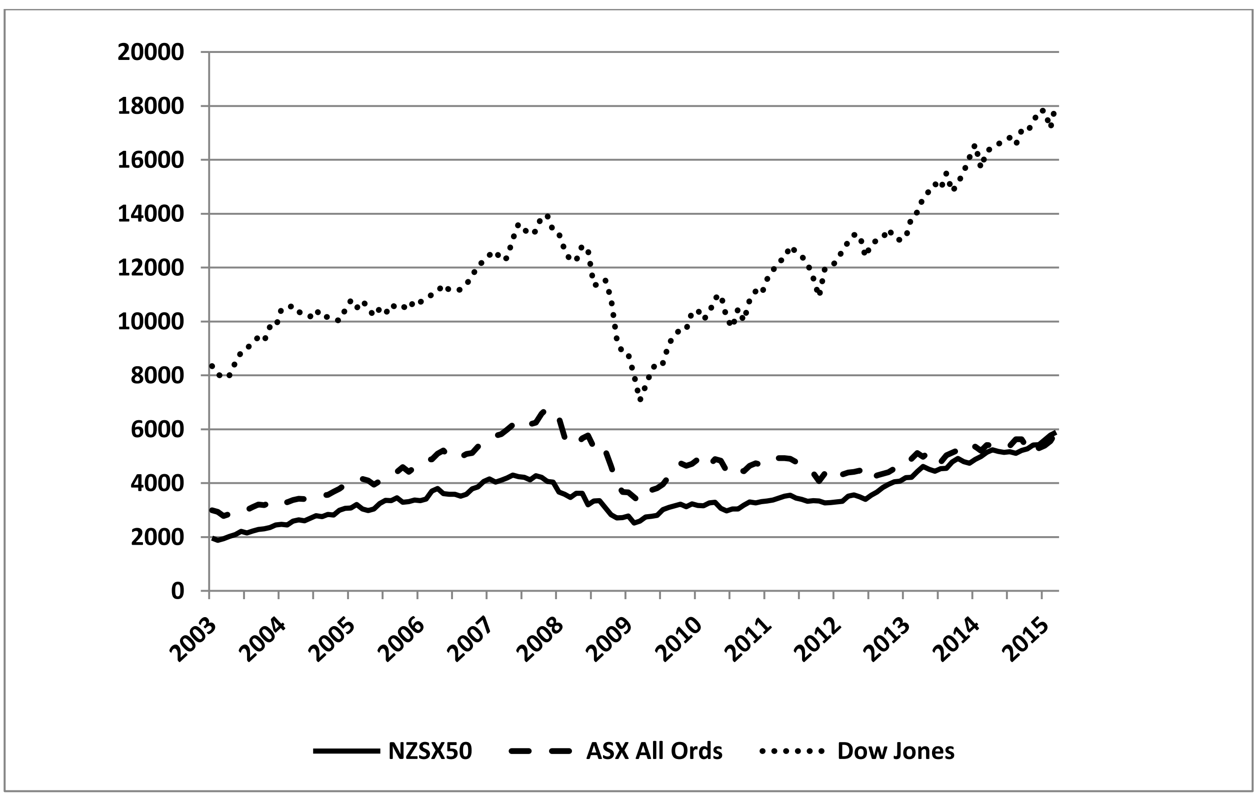
Where To From Here?

I attended a seminar recently in Wellington where a group of fund managers presented their views on investment markets both here and around the globe. All admitted to holding relatively large proportions of their equities funds in cash. The overriding message from presenters was that share markets are fully priced; however nobody knows when a correction will occur or what will cause it. Some commentators have been suggesting for the last few years that markets are overheated, yet share indices continue to soar. The Dow Jones Industrial Average is as high as it's ever been at around 18000. The NZSX50 has similarly reached its highest point, closing over 5900 recently. The ASX All Ordinaries Index is closing in on its 2007 peak, currently sitting around 5800.



What might trigger a correction in share markets is anyone's guess. It could be a major weather event, a war, an act of terrorism, a Government debt default or a natural disaster. I don't think investors should attempt to predict market highs and lows – history has proven that very few can do this with any accuracy. However I do think investors should consistently review their holdings and ensure those holdings match their objectives, their risk tolerance, and their timeframe for the use of their funds. I have been encouraging clients in recent months to take profits from high-performing shares and I would particularly encourage those who have a specific use for funds within the next year to review their holdings.

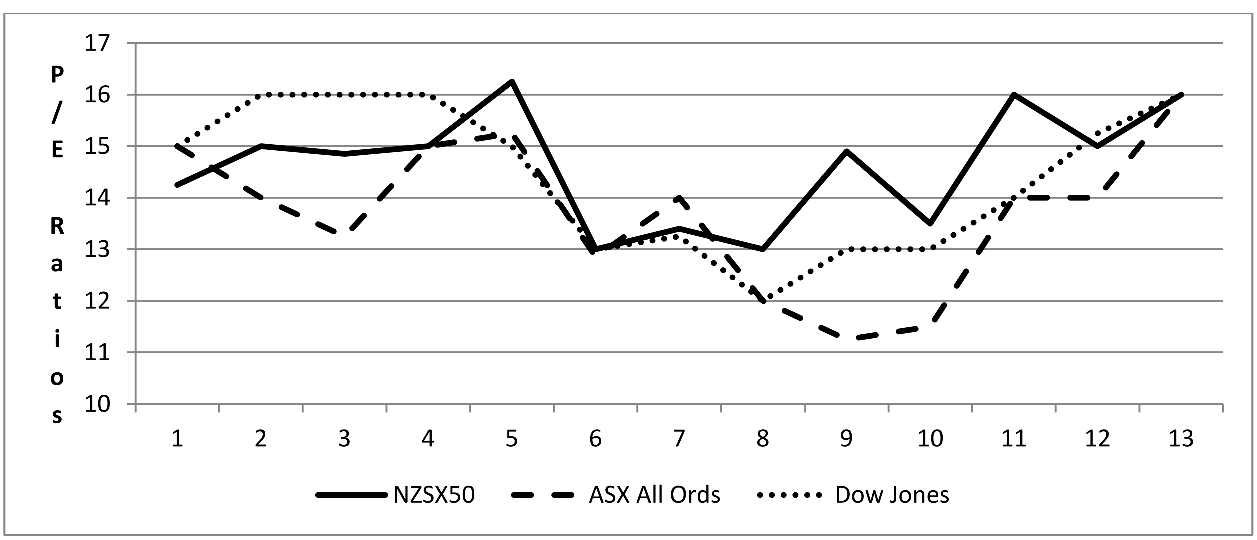
Consider a share investor whose aim is to buy property over the next one to two years. Gradually selling shares in anticipation of a fall in values is not about timing the market; it's about taking the risk off the table because you have a specific use for the funds. The same theory applies to investors nearing retirement – if your shares have performed particularly well and you are about to cease paid employment, consider taking some of the risk out of your investments. This doesn't mean you should go out and sell <u>all</u> of your shares, because shares still have an important role to play in most portfolios.

Call the office if you would like me to look at your portfolio to make some recommendations.

P/E Ratios

One statistic we look at as a measure of share values is the P/E ratio. The P/E ratio is the company's share price divided by its earnings per share. It is a ratio used to compare companies. The higher the P/E ratio the more you are paying for each dollar of earnings. All other things remaining equal a company trading on a lower P/E ratio represents better buying. Of course other things very seldom remain equal so you should not base a buying decision on this alone. A high P/E ratio may not mean the company is "expensive," it may indicate an expectation from investors of higher future earnings.

When I last discussed P/E ratios in the February 2013 newsletter companies were trading at around 15.5 times earnings, with the long-term average being around 14. Currently shares across most major markets are trading at a P/E of around 16. Investors are prepared to pay more for a dollar of earnings in the current environment partly because returns elsewhere are so low.



A P/E ratio of 16 suggests the return on a dollar invested will be around 6.25%. At the long-term average of 14 your return was more like 7%. As long as interest rates remain low there will be upward pressure on share prices as investors seek higher returns. The important thing to remember when comparing investment classes is to always account for the extra risk involved in share investments. Average P/E ratios should not reach the stage where they match the returns on fixed interest because you must receive a premium for the risk you are taking investing in shares.

KiwiSaver

April 1st marks an important date for KiwiSaver investors who may be considering purchasing their first home. The Government introduced changes to the first-home deposit subsidy last year, and these changes will become law this week. Under the old rules eligible KiwiSaver members were able to withdraw funds that they and their employer had contributed to their KiwiSaver account in order to buy a first home. They were also eligible for a grant of $1,000 for each year they had been a KiwiSaver member (up to a maximum of $5,000). The new rules allow eligible members to withdraw the Government tax credits (why they call them that is still beyond me). Furthermore the grants have been increased for the purchase of a new home.

Under the new rules the KiwiSaver first-home deposit subsidy is replaced by the KiwiSaver HomeStart grant. Like the original first-home deposit subsidy, eligible members are able to apply for a grant of up to $5,000 to put towards a deposit on an existing home. Eligible members are now able to apply for a grant of up to $10,000 to put towards a deposit on a new home. The new rules also now allow all KiwiSaver funds to be withdrawn for a first-home purchase, apart from the $1,000 Government kick-start contribution.

There is a limit on the value of a house that is able to be purchased using the HomeStart grant. Those limits are;

Auckland - $550,000

Hamilton City, Tauranga City, Western Bay of Plenty, Kapiti Coast, Porirua City, Upper Hutt, Hutt City, Wellington City, Nelson City, Tasman, Waimakariri, Christchurch City, Selwyn District, Queenstown Lakes – $450,000

Rest of New Zealand - $350,000

There are also eligibility criteria around income and realisable assets. Individuals must have before-tax income not in excess of $80,000 ($120,000 for a couple), and realisable assets must not exceed 20% of the price cap for the area you are buying in. Previous home-owners are still able to qualify for a HomeStart grant provided they no longer have an interest in property and are deemed to be in the same financial position as a first home buyer in terms of income and realisable assets.

Fixed Interest

Bond yields continue to be depressed due to low interest rates here and abroad. Here is a list of frequently traded secondary market bonds.

Company	Coupon	Maturity Date	Yield	Price/$100
Warehouse	7.37%	June 2015	6.00%	100.25
Telecom (Spark)	8.35%	June 2015	4.10%	100.84
Trustpower	8.40%	December 2015	5.40%	102.05
Fonterra	6.83%	March 2016	3.90%	102.62
Fletcher Building	9.00%	May 2016	5.00%	104.29
Infratil	8.50%	June 2016	4.90%	104.17
Z Energy	7.35%	October 2016	4.85%	103.65
Air New Zealand	6.90%	November 2016	4.70%	103.38
Auckland Airport	8.00%	November 2016	3.98%	106.24
Trustpower	8.00%	December 2016	5.18%	104.56
Meridian Energy	7.55%	March 2017	4.15%	106.31
Infratil	8.50%	June 2017	5.80%	105.54
Powerco	6.74%	September 2017	4.65%	104.88
Manukau City Council	6.52%	September 2017	3.68%	106.70
Infratil	8.00%	November 2017	5.80%	105.31
Trustpower	7.10%	December 2017	4.60%	106.31
Fletcher Building	7.15%	March 2018	5.30%	104.99
Z Energy Limited	7.25%	August 2018	4.80%	107.58
ANZ Bank	6.25%	March 2019	4.13%	107.64
Contact Energy	5.80%	May 2019	4.52%	104.79
Z Energy	6.50%	November 2019	5.00%	106.15
Infratil	6.75%	November 2019	5.35%	105.70
Goodman Property Trust	6.20%	December 2020	4.83%	106.75
Sky TV	6.25%	March 2021	4.89%	107.03
Wellington Airport	6.25%	May 2021	4.75%	107.88
Kiwi Income Property Trust	6.15%	August 2021	5.45%	103.73
Trustpower	5.63%	December 2021	5.10%	102.99
Infratil	6.85%	June 2022	6.00%	104.94
Kiwi Bank	6.61%	July 2024	5.25%	105.15
Mighty River Power	6.90%	July 2044	5.50%	105.30