

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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

### **Bramwell Brown Limited – Newsletter – July 2015**

#### **Portfolio Reviews**

I have been busy through June meeting with a group of clients for six-monthly portfolio reviews. In general there's a "feel-good" factor, due to the increase in share values in recent years. In the past three years the NZSX50 has increased by approximately 33%. Since 2009 it has risen 138%. For the Australian stock exchange the figures are 20% and 79% respectively. It's easy to feel comfortable as you see your asset values increasing every year, however I've been warning investors that this is not something we can rely on.

Are rising asset values masking the true state of your finances? Are you spending more than you earn, but rising asset values are hiding this? With very low interest rates, and more cuts predicted, most retirees' income has reduced over the last five years. It's very easy to use capital to prop up your income, however eroding your capital can become a downward spiral. Reduced income leads to the erosion of more capital, which in turn leads to even lower income. If mining your capital in retirement is a strategy you are employing I would advise you to have very good procedures for monitoring your income and expenses. Be wary of increasing spending because your share portfolio has performed well – it can just as quickly reduce in value.

#### **Reverse Equity Mortgages**

Last month's newsletter created some good debate around retirement planning and what options are available for investors to fund their retirement. For those with a debt free home but little in the way of investment assets a reverse equity mortgage could be an option. Historically these products have been viewed with scepticism; however the growing need for solutions to lower incomes will see them move into the mainstream. From my limited knowledge on the subject I would suggest they are an option after all other options have been explored. The other options include:

- Downsizing your existing home to free up capital
- Exploring the possibility of family members stepping in to help. Could a son or daughter provide capital with the expectation the house passes to them eventually

Read more on reverse equity mortgages in next month's newsletter.

## **Greece – Should We Be Worried?**

The situation in Greece is coming to a head now – should we be concerned? In the short-term, maybe; however in the long-term I don't think so. New Zealand's exposure to Greece is limited, and the Greek economy is small in global terms. It makes up less than 2% of European GDP, and their debt is now held mainly by the IMF. The problem of course is that bad news causes investors to panic. Panic can lead to more panic and before you know it markets are taking a dive. Our market "should" be less sensitive to such happenings; however history tells us if the bigger markets in the US, Europe and Asia take a plunge we tend to follow blindly. I don't recommend investors sell their shares in anticipation of a Greek meltdown; rather look for opportunities to buy good companies (here and overseas) if we do suffer a share-market downturn.

## **Interest Rates**

As predicted the Reserve Bank dropped the Official Cash Rate to 3.25% last month. Expectations are that further rate cuts will occur before the end of the year. Banks dropped interest rates immediately and some continue to do so now. When the Goodman Property seven-year bond came out at a rate of 5.00% I felt it was low. It's not looking as bad now, and is trading on the secondary market at a yield of 4.62%. Here is a summary of some of the bank term deposit rates on offer. All have dropped since last month.

	<b>1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>
<b>ANZ</b>	4.00%	4.10%	4.20%	4.35%	4.40%
<b>ASB</b>	3.95%	4.15%	4.20%	4.25%	4.30%
<b>BNZ</b>	4.10%	4.25%	4.30%	4.40%	4.50%
<b>Heartland</b>	4.30%	4.35%	4.40%	4.45%	4.50%
<b>Kiwibank</b>	4.20%	4.30%	4.35%	4.35%	4.25%
<b>Rabobank</b>	4.18%	4.28%	4.33%	4.43%	4.52%
<b>UDC</b>	3.90%	3.90%	3.95%	4.05%	4.20%
<b>Westpac</b>	4.00%	4.15%	4.25%	4.30%	4.40%

## **Portfolio Administration**

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.