BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – December 2016

Scams

I've written previously in the newsletter about various scams doing the rounds. The most common scams are emails purporting to be from your bank suggesting you need to log-in to remedy a bogus problem. If you follow the link they provide it takes you to what looks like a very legitimate website. Don't be fooled – the banks will never ask for your security details or passwords. Heartland Bank was recently the target of this type of "phishing" scam.

Financial advisers have also been targeted, with criminals hacking into clients' email accounts. They then send an email asking the adviser to sell securities and forward the funds to another bank account. There may be a preamble about a sick relative dying, or a mishap while on holiday overseas. Rest assured Bramwell Brown will only ever pay proceeds from the sale of securities to the bank account registered to that client. Even if we wanted to pay the funds elsewhere, the brokers we use would refuse to do so.

The Financial Markets Authority (FMA) has some very good information on their website regarding scams http://fma.govt.nz/news/warnings-and-alerts/. Here is some of the advice posted on the FMA website. An 'investment' is likely to be a scam if you experience any of the following:

- Someone you don't know contacts you about an investment opportunity.
- You're promised very high returns, with little risk. These promises are nearly always too good to be true
- The person/business gives you little or no information in writing. All legitimate investments must have documents explaining the investment.
- You're told the offer is known only to a select few and should be kept a secret. This is often a ploy to make you feel special and to stop you speaking to an adviser or the authorities.
- You're promised access to 'secret' overseas banking markets supposedly offering very high returns - these markets don't exist.

I would advise anyone to be extremely suspicious of any unsolicited investment opportunities. These people aren't interested in your welfare – they're interested in your money.

The FMA goes on to say - We also recommend you be wary of the following types of high-risk products and services:

- **FX trading for profit through companies based overseas.** These companies are not regulated in New Zealand and it can be very difficult to recover your money if you experience problems with them.
- **Binary options.** Winnings may be withheld and trades may be manipulated without your knowledge.
- **Software packages and seminars.** Software you've paid for may not be delivered or may not work. Seminars may promise to make you lots of money but are often over-hyped and misleading. Investments tend to be high risk and expensive.
- **Special investment schemes promoted through friends and acquaintances.** These could be Ponzi or pyramid schemes. If so, there is a high likelihood you'll lose your money.

There are even websites now that claim to be able to help the victims of scams get their money back. You guessed it – all you have to do is pay $1,000 and they'll promise to get your money back. Of course as they get closer to securing your funds they just need a bit more money to get across the line.

Other steps you can take to protect yourself include:

- Deal with a business resident in New Zealand
- Deal with a business regulated by the Financial Markets Authority
- Find out the legal name of the business you're dealing with
- If the business is not based in New Zealand find out who regulates them
- Don't rely on information provided through an unsolicited offer – do your own research
- Check warnings issued by the Financial Markets Authority
- Be very wary of remitting funds overseas

If you are ever in doubt about the legitimacy of an investment opportunity don't hesitate to phone the office. Alternatively get in touch with the Financial Markets Authority.

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.

US Election

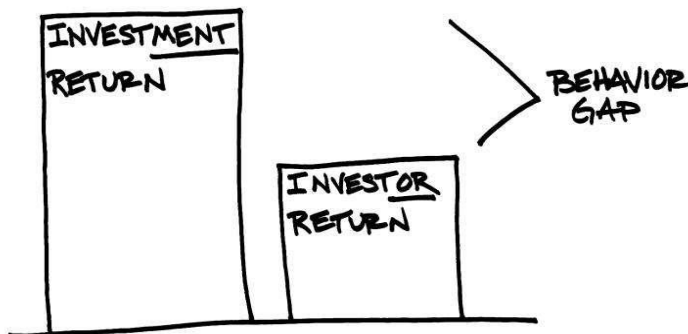
How many of you became concerned about your investments in the lead-up to the US election result? Our share market dropped approximately 11% from its peak in September to a low point in the middle of October. A general consensus that our market was becoming overpriced had much to do with the correction; however the Trump v Clinton circus created the type of uncertainty that markets don't like. I fielded a few calls from nervous investors and my advice is based around my long-term philosophy on investing:

- I can't predict the future
- Diversify your investments (cash, bank deposits, bonds, shares and property)
- Buy good companies and hold them for long periods
- Take a percentage of profits from well-performing companies and reinvest
- Ignore short-term market 'noise'

Warren Buffet said in his 2014 Berkshire Hathaway shareholder letter; "Ignore the chatter, keep your costs minimal, and invest in stocks as you would in a farm."

Market Timing

Last week I attended a very interesting presentation on investor returns and the futility of trying to 'time' the markets. Thanks to Ben Brinkerhoff from Consilium for this material. The general consensus is that investors miss out on potential returns by letting emotion take over from their long-term investment strategy. Some sell out due to nervousness when markets dip only to find in hindsight it was the wrong thing to do. Others invest at the top of the market due to the fear of missing out. When the market pulls back (as it does) they sell out at a loss and vow never to invest in shares again. These investors produce what can be termed the 'behaviour gap,' the difference in returns between what a long-term buy and hold investor would achieve, and that of a market timer.



Dalbar is a US organisation that since 1994 has been measuring the effects of investor decisions to buy, sell and switch into and out of mutual funds. The Dalbar Quantitative Analysis of Investor Behaviour Study 2016 found "no matter what the state of the mutual fund industry, boom or bust: investment results are more

dependent on investor behaviour than on fund performance. Mutual fund investors who hold onto their investments have been more successful than those who try to time the market."

Here are some figures on market crashes and their subsequent recoveries. The data is based on the S&P 500 (US) since 1945.

Loss of	Observations	1 Year Return After Loss	2 Year Return After Loss	3 Year Return After Loss
-5%	36	12.05%	25.09%	40.09%
-10%	14	8.19%	37.58%	35.28%
-15%	10	15.91%	33.93%	29.28%
-20%	7	6.45%	22.77%	24.47%
-25%	5	17.36%	42.24%	41.79%
-30%	3	9.08%	27.94%	38.29%
-35%	3	10.65%	27.94%	42.81%
-40%	3	25.39%	41.65%	59.01%
-45%	1	33.14%	62.67%	69.54%
-50%	1	53.62%	88.30%	97.94%

What do we make of all of this? We can't predict the future and those who try generally fail. We know with a degree of certainty that markets will fall, but history shows us that more often than not those markets recover to well in excess of the point that they fell from.

- Buy good companies and hold them for long periods.
- Don't be afraid to buy good companies when markets have fallen.

NZSX50 Index

Often when I quote market performance I use the NZX50 Index and the ASX200 Index as reference points. It's important to recognise if drawing comparisons between the two that the NZSX50 is a 'gross' index whereas the ASX200 (and most other world indices) is a capital index. What this means is that the NZSX50 assumes any dividends are reinvested in extra shares when calculating the index. The ASX200 only uses capital appreciation or depreciation to calculate its index.

It's entirely appropriate that New Zealand's index is a gross index, as we have a far higher proportion of companies that offer low growth but pay higher dividends. However it's unlikely most investors reinvest all their dividends in extra shares, therefore it's unlikely individual investors will outperform the index. And if you're drawing comparison between the NZSX50 and the ASX200 indices it's important you understand the difference in their calculation.