BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

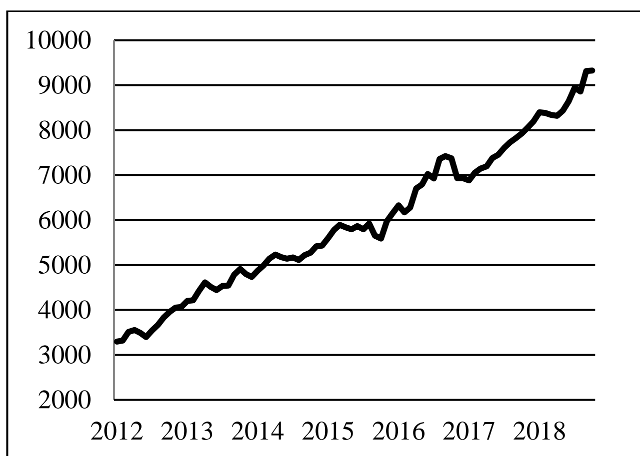
Bramwell Brown Limited – Newsletter – November 2018

Markets

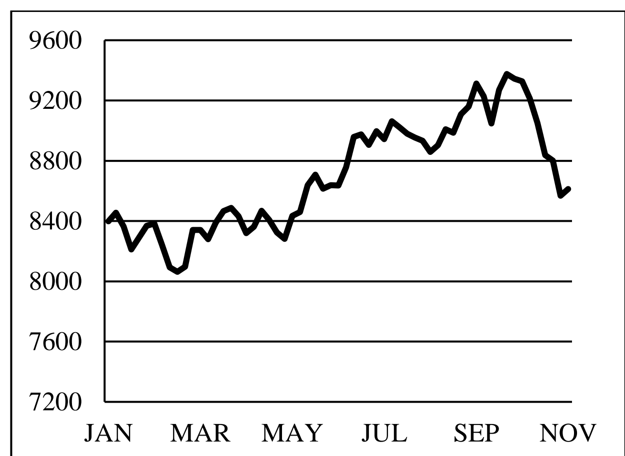
Last month I talked about the incredible run share markets have experienced over the last ten years. On October 1st the NZX50 Gross Index was at 9327. Since then it has dropped by 7.65% to 8613. The following tables highlight the recent correction, showing the New Zealand market having given up most of the gains made this year.

NZX50 Gross Index

2012-2018



January – November 2018



What's behind this correction and how worried should we be? Unfortunately, the New Zealand market tends to blindly follow international markets. Regardless of any correlation, our market will drop if the Dow Jones drops. Therefore, whatever is happening in overseas markets directly affects the New Zealand share market. Here is a list of factors affecting global markets.

US Interest Rates – the US Federal Reserve has lifted interest rates from 0.50% in 2016 to its current rate of 2.25%. Increases in interest rates have a ripple effect across an economy. In effect it shrinks the supply of money – it costs more for businesses to service their debt, and this puts downward pressure on share prices. Expectations of future interest rate rises have a similar effect to actual rate rises, and there have been clear signals from the US Federal Reserve for some time that they intend to increase interest rates.

China – Some commentators suggest China's debt is now at 300% of GDP; and growth is slowing.

Emerging Economies – when interest rates are rising in the US, but are not rising anywhere else, the US dollar strengthens. This makes it more expensive for emerging economies to repay their US dollar-denominated debt. Following the Global Financial Crisis, emerging economies had access to cheap credit, which they took full advantage of. If their economies slow, and it costs more to repay their debt, this can lead to recession. At present emerging economies account for approximately 60% of the world's Gross Domestic Product (GDP).

Oil – rising oil prices affect the economy in much the same way as rising interest rates.

Protectionism – we are seeing a number of economies moving towards populist policies, Donald Trump being the obvious example. Closing international borders and instigating trade wars does not provide markets with the certainty they thrive on.

How worried should we be? Of course we should be concerned – nobody likes to see the value of their assets decreasing in value. But if you've been following my advice you will have been taking profits from the share market over the last few years and your overall exposure to shares remains aligned with your tolerance for risk. You would also have ensured that funds required for a certain purpose within a short time-frame were not invested in shares. If you are new to the market you have hopefully been investing in stages, rather than all at once. You now have the opportunity to add to the good companies you have been buying at a lower price.

The one thing you should not consider is a wholesale exit from shares. Doing so is a presumption that you can predict the future. Presumably you bought shares for some or all of the following reasons, all of which remain valid despite market volatility:

- To diversify your investment assets
- To provide income
- To provide a hedge against inflation
- To access long-term capital gains

So long as these reasons still apply to you then there is no need to panic. You should gain some comfort from the long-term history of positive returns for shares, however you must expect some periods where markets perform poorly.

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