

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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Bramwell Brown Limited – Newsletter – September 2019

Infratil Bonds

Infratil has announced it is offering up to \$200 million of unsecured, unsubordinated infrastructure bonds, with the option to accept up to \$100 million of oversubscriptions. The bonds are being offered in two series with the following characteristics:

2026 Bonds

- Interest Rate – 3.35%
- Maturity date – December 15th 2026
- Interest paid quarterly – March, June, September and December
- Minimum application – \$5,000

2029 Bonds

- Interest Rate – 3.50% until December 15th 2020
- From December 15th 2020, and on December 15th of each subsequent year, the interest rate will be reset. The new rate will be the sum of the One Year Swap Rate on December 15th, plus a margin of 2.50%. If the One Year Swap Rate falls below zero percent, the rate payable on the bonds will not fall below 2.50%.
- Maturity date – December 15th 2029
- Interest paid quarterly – March, June, September and December
- Minimum application – \$5,000

The ten-year bonds offer a certain amount of protection around further reductions in interest rates. It has a floor of 2.50% of which it cannot go below, regardless of how far rates fall. If rates begin to rise again within the ten-year period, its rate will rise also. Some past resettable fixed interest securities have lost favour with investors due to changes in market expectations. Others have performed extremely well. Time will tell if Infratil have the settings right with this bond, and like all investments I recommend a moderate allocation to any one security.

CALL THE OFFICE AS SOON AS POSSIBLE IF THIS IS OF INTEREST TO YOU

Official Cash Rate

The Reserve Bank recently surprised the market by reducing the Official Cash Rate (OCR) by half a percent to 1.0 percent. Here is the Reserve Bank Governor's address:

The Official Cash Rate (OCR) is reduced to 1.0 percent. The Monetary Policy Committee agreed that a lower OCR is necessary to continue to meet its employment and inflation objectives. Employment is around its maximum sustainable level, while inflation remains within our target range but below the 2 percent mid-point. Recent data recording improved employment and wage growth is welcome. GDP growth has slowed over the past year and growth headwinds are rising. In the absence of additional monetary stimulus, employment and inflation would likely ease relative to our targets.

Global economic activity continues to weaken, easing demand for New Zealand's goods and services. Heightened uncertainty and declining international trade have contributed to lower trading-partner growth. Central banks are easing monetary policy to support their economies. Global long-term interest rates have declined to historically low levels, consistent with low expected inflation and growth rates into the future. In New Zealand, low interest rates and increased government spending will support a pick-up in demand over the coming year. Business investment is expected to rise given low interest rates and some ongoing capacity constraints. Increased construction activity also contributes to the pick-up in demand.

Our actions today demonstrate our ongoing commitment to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level.

I'm often asked what the Official Cash Rate is, and what it does. Most of the registered banks hold settlement accounts at the Reserve Bank, which are used to settle their obligations with each other at the end of the day. On any given day a bank will have more withdrawals than deposits (or vice versa) and will either have a surplus or deficit on that day. The Reserve Bank acts as a buffer whereby the registered banks can deposit their daily surplus, or borrow their daily deficit at an interest rate linked closely to the OCR. The Reserve Bank sets no limit on the amount of cash it will borrow or lend each day.

The Reserve Bank is required by the Government to ensure monetary policy contributes to maximum sustainable employment, whilst maintaining stability in prices over the medium term. Price stability relates to inflation, with a focus on keeping future average inflation around 2 percent. The Reserve Bank has the ability to manipulate economic activity by raising or lowering the OCR. Reducing interest rates should stimulate the economy by encouraging people to spend more. In contrast if inflation is too high the Reserve Bank will increase the OCR in an attempt to reduce economic activity.

Sharemarket Volatility

Markets continue to swing back and forth on the back of the escalating trade war between the US and China. Donald Trump's sometimes bizarre behaviour, and complete lack of diplomacy does not instil confidence in markets. Other factors including Brexit and the Hong Kong protests add to the volatility. Low interest rates should continue to underpin share valuations; however markets are at a point where predictions about a correction increase. It can become a self-fulfilling prophecy, whereby one piece of news or data can set a collapse in motion. We are not immune in New Zealand. To a large degree our share market follows the lead of overseas markets, regardless of economic conditions here.

What does a sharemarket correction mean for you? If you have a wide range of investments it could mean an opportunity to add to your existing shares at a lower price than previously. The portion of your overall wealth invested in shares should be invested for the long-term, and will not be required within the next ten years. Other funds (bank deposits and call deposits) will be available for shorter-term needs. If we look at the last big share market correction (2007/2008), we can see the opportunity it presented over the following ten years.

NZX50 (Gross Index)

- October 2007 – 4327
- March 2009 – 2417
- A drop of 44% in 18 months
- March 2019 – 9844
- An increase of 307%
- 15.07% per annum (compounding)

Fletcher Building Share Buyback

Fletcher Building has announced that it will be undertaking an on-market buyback of its own shares. Following the sale of the Formica business for \$1.2 billion, Fletcher Building has decided it is in a position to return \$300 million to shareholders. They have concluded the most effective way to do this is to buy back shares in the market. Shares bought by Fletchers will then be cancelled, therefore the number of shares on issue will reduce accordingly.

Investors are not obliged to sell their shares – they can continue to hold them if they wish. Provided Fletcher Building's income remains stable investors who hold their shares should see an increase in dividends, due to the fact that the income is being distributed over a lesser number of shares.

CONTACT THE OFFICE IF YOU WOULD LIKE TO DISCUSS THIS FURTHER.

Scams

We continue to read about people being tricked into handing over large sums of money. A recent article talks about an elderly gentleman sending tens of thousands of dollars offshore after being caught in a romance scam. I've written plenty of articles in the newsletter about scams, however it appears to be a growing problem. Scammers are becoming more sophisticated and manipulative. My key points to ensure you do not become the target of a scam include:

- Do not pursue an investment offer from an unsolicited phone call or email
- If an investment sounds too good to be true, then it's likely to be a scam
- Only deal with a licensed financial services provider
- If a business is not based in New Zealand, find out who regulates them
- Check the Financial Markets Authority website for assistance

If you have had the misfortune of being scammed, be very careful that you don't become a victim again. There are plenty of websites claiming to be able to recover money for victims of fraud. More often than not these sites are also fraudulent. If you would like me to check the legitimacy of something you have invested in please don't hesitate to contact the office.

Bank Term Deposit Rates

Here is a summary of some of the bank rates on offer at present.

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ*	2.80%	2.85%	2.90%	2.95%	3.00%
ASB	2.75%	2.70%	2.70%	2.70%	2.70%
BNZ	2.80%	2.90%	2.95%	3.00%	3.00%
Heartland	3.05%	3.15%	3.20%	3.25%	3.30%
Kiwibank	2.75%	2.75%	2.75%	2.75%	2.75%
Rabobank*	2.92%	2.97%	2.97%	2.97%	3.06%
Westpac	2.75%	2.75%	2.75%	2.75%	2.75%

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.