BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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

Bramwell Brown Limited – Newsletter – March 2020

Official Cash Rate

The Monetary Policy Committee of the Reserve Bank met on February 12th to decide whether or not to amend the Official Cash Rate (OCR). Here is the Reserve Bank Governor's address:

"The Monetary Policy Committee has decided to keep the Official Cash Rate (OCR) at 1.0 percent. Employment is at or slightly above its maximum sustainable level while consumer price inflation is close to the 2 percent mid-point of our target range. Low interest rates remain necessary to keep employment and inflation around target. Economic growth is expected to accelerate over the second half of 2020 driven by monetary and fiscal stimulus, and the high terms of trade. The outlook for government investment is stronger following the Government's announcements in December. There are also indications household spending growth will increase.

However, soft momentum in economic growth has continued into early 2020. Slower global growth over 2019 acted as a headwind to domestic growth. In addition, competitive pressures and recent subdued business confidence have suppressed business investment. The global economic environment has shown signs of stabilising and trade tensions have receded somewhat. However, the COVID-19 (coronavirus) outbreak is an emerging downside risk. We assume the overall economic impact of the coronavirus outbreak in New Zealand will be of a short duration, with most of the impacts in the first half of 2020. Nevertheless, some sectors are being significantly affected. There is a risk that the impact will be larger and more persistent. Monetary policy has time to adjust if needed as more information becomes available."

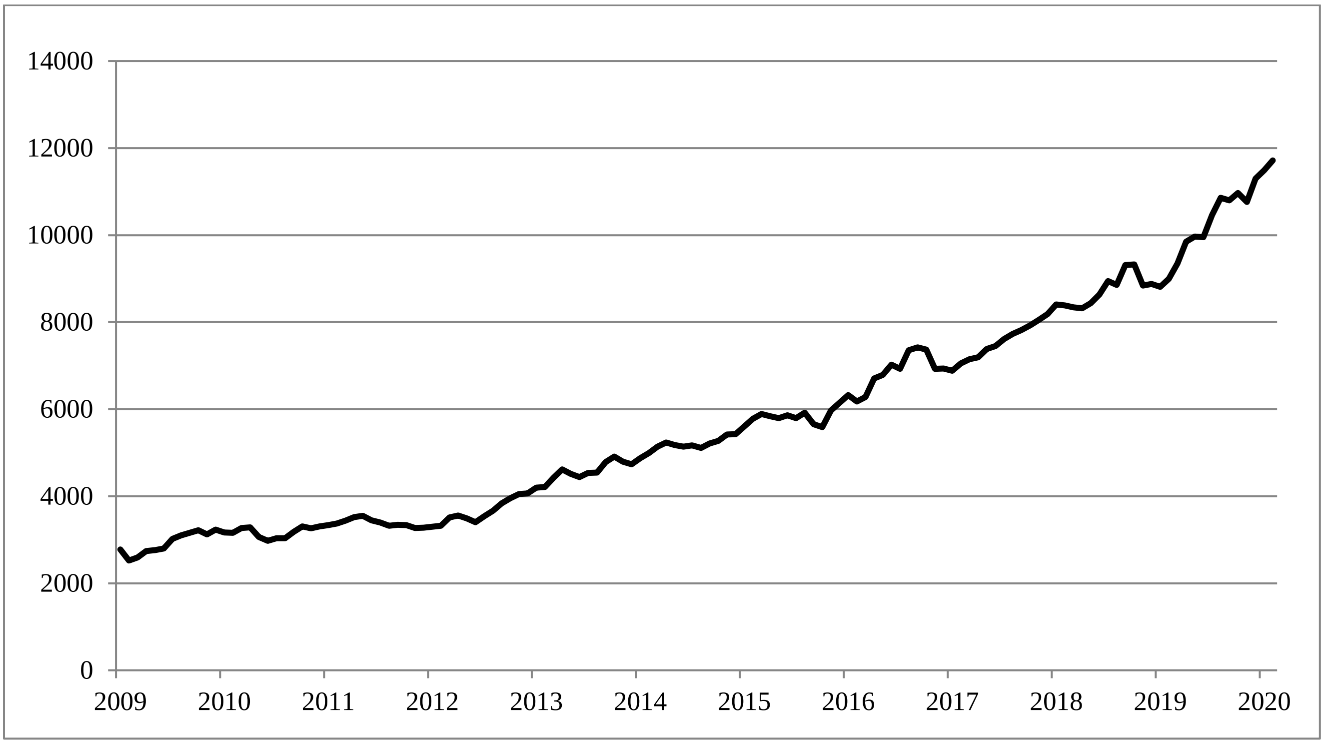
There doesn't appear to be any indicators that would suggest interest rates will increase in the short-term. For those investors who rely heavily on fixed interest investments to supplement their income, the very low rates of return are starting to bite. A 2.50% term deposit, after tax and inflation provides a return very close to zero. Unfortunately there is no silver bullet – the alternatives include taking more risk, reducing expenditure, or consuming capital – all of which involve a level of compromise.

Coronavirus

I've fielded a number of calls recently regarding the Coronavirus outbreak, and specifically how worried we should be in relation to our investments. Of course we should be worried – nobody likes to see their investments devalue – but we need to keep any market correction in context. The graph below shows the NZX50 Gross Index since 2009. The increase in share values over this period has been phenomenal. From March 2019 until February 2020 the NZX50 Gross Index has increased by 400% - or 15.75% per annum compounding. It would be unrealistic to expect this to continue.

Just a point to note – the NZX50 Gross Index assumes all dividends paid are reinvested into more shares. In reality most investors spend their dividend income rather than reinvesting, therefore most New Zealand share portfolios will not be increasing in value at the same rate as the Index. The NZX50 Capital Index tracks the same fifty companies, however does not account for dividends paid. In the same period it has increased by just under 200%, or 10.35% per annum compounding.

NZX50 Gross Index



In May 2019 I wrote this in the newsletter:

What could derail the phenomenal run share-markets have enjoyed?

- Rising interest rates – this looks unlikely at present, and if rates are to increase it should be a gradual process with plenty of warning

- Debt – there is concern around the globe about the levels of corporate debt. The International Monetary Fund claim countries representing 70% of global Gross Domestic Product have high levels of corporate debt, highlighting the US and China as particularly vulnerable
- Economic slowdown – if corporate earnings decline, and we have a subsequent decline in dividends, share prices will fall
- A global shock – unfortunately we don't know what we don't know, and any number of circumstances (war/disease/natural disaster) could affect the markets
- Contagion – any of the above could result in panic amongst investors, whereby the feeling that the markets are overvalued and due for a major correction becomes a self-fulfilling prophecy

What to do? Many investors question whether quitting shares is the right thing to do. Sell everything now and then buy back in once the market has hit the bottom. However, history shows that strategy is almost impossible to get right. If we look at the Global Financial Crisis in 2007, it took eighteen months for the market to reach the bottom.

- Will you be able to time your exit and re-entry correctly?
- Are you prepared to give up dividend income while you're out of the market?
- What if the volatility blows over in a month and it turns out you've made the wrong decision?
- What about the transaction costs?

My advice remains the same:

- Understand the risks you take with investments, and stay within the risk you can tolerate
- Hold a wide variety of asset classes
- Buy good companies and hold them for long periods
- Hold overseas investments as insurance against a shock to the New Zealand economy
- Limit your exposure to individual companies
- Be aware that a market correction will occur at some point
- Don’t attempt to time the market – invest in stages
- Don’t be tempted to sell if the market does fall

For those investors with regularly maturing term deposits and cash, the dip in the market presents opportunities to invest in quality companies at lower prices. With no certainty around when the current volatility will ease, I think investing smaller sums in stages is as good a strategy as any.

Ross Asset Management

David Ross has recently been granted parole, four years before the end of his sentence. Ross was sentenced to ten years and ten months in prison in 2013 for his role in a multi-million-dollar Ponzi-scheme fraud. He ran an investment management business that was using funds from new clients to pay out fictitious returns to existing clients. He was estimated to have conned over seven hundred investors out of more than $100 million. What steps can you take to reduce the risk of a trusted adviser taking your money?

The easiest way for an adviser to steal clients' funds is if investors give that adviser discretion over their money. David Ross is a good example – investors simply handed over their money and trusted Ross to make wise investments. Instead he used investors’ funds to supplement his lavish lifestyle while sending investors bogus reports. Many victims lost their entire life savings.

Any investment made through Bramwell Brown Limited is registered in the client’s own name. Shares, bonds, bank deposits, KiwiSaver accounts and Kiwi Bonds are all held by the individual investor. Any security you buy should be traceable by it appearing on a registry statement. In some cases overseas shares might be held by a nominee rather than in your own name in order to reduce the costs associated with buying them. I don’t think you can completely eliminate the possibility of dishonesty in your dealings with money; however I think you can minimise the potential by ensuring your investments are registered in your own name. You have to trust your financial adviser to be doing what you have asked, but I would warn against giving an adviser complete discretion over your funds.

Bramwell Brown has intermediary agreements with various members of the New Zealand, Australian and overseas stock exchanges, and it’s these brokers that will invoice you when orders for securities are placed. This should give some security to investors because your adviser (me) is one step removed from the financial side of the transaction. Yes, at times we forward client funds to various brokers through our Trust Account and in this instance you are relying on my honesty to do as requested. However as long as those securities are registered in your own name you will be able to check that nothing untoward has occurred.

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 correspondence 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.