

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

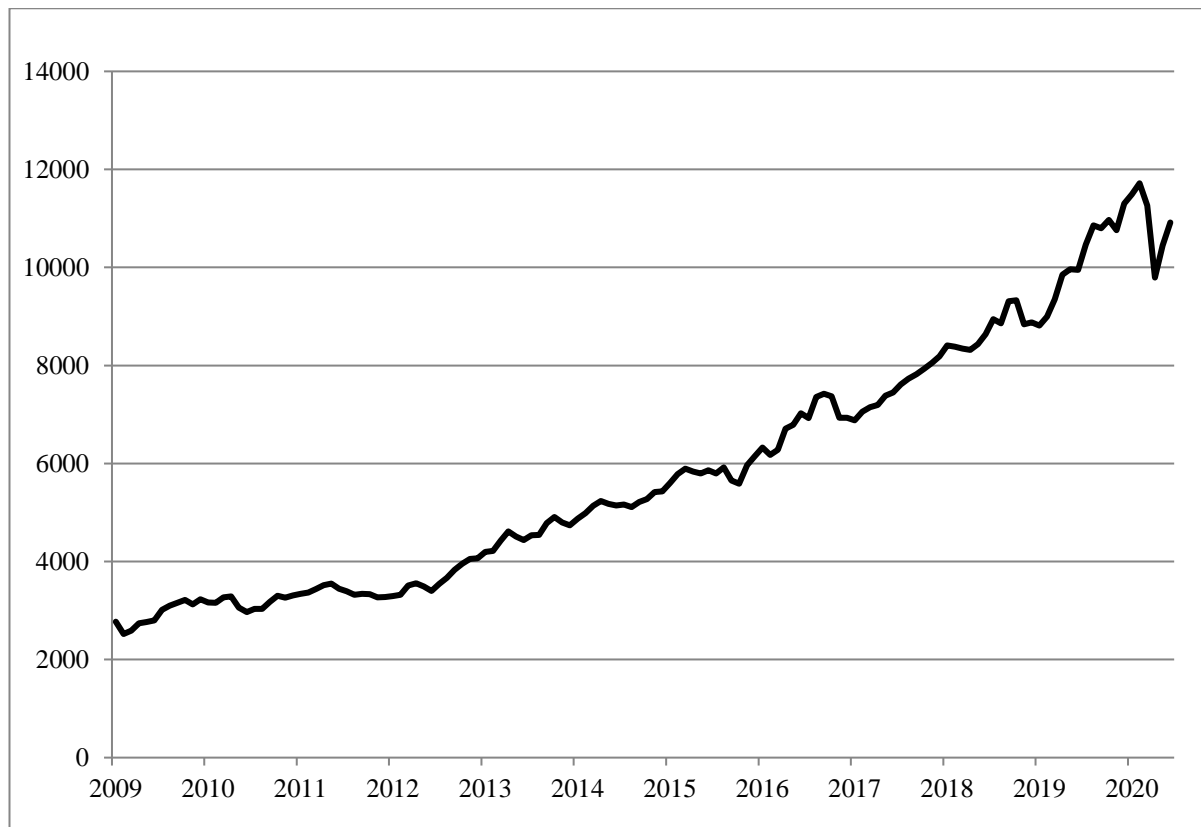
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Bramwell Brown Limited – Newsletter – June 2020

Markets

Share markets continue to rally, with the NZX up another 4.30% in May. The billions of dollars the Government is pumping into the economy is one reason for the turnaround, another reason is a further reduction in interest rates since the crisis began. As we have seen over the last ten years, other asset classes increase in value as interest rates fall. Figure 1 shows the NZX50 Gross Index since 2009.

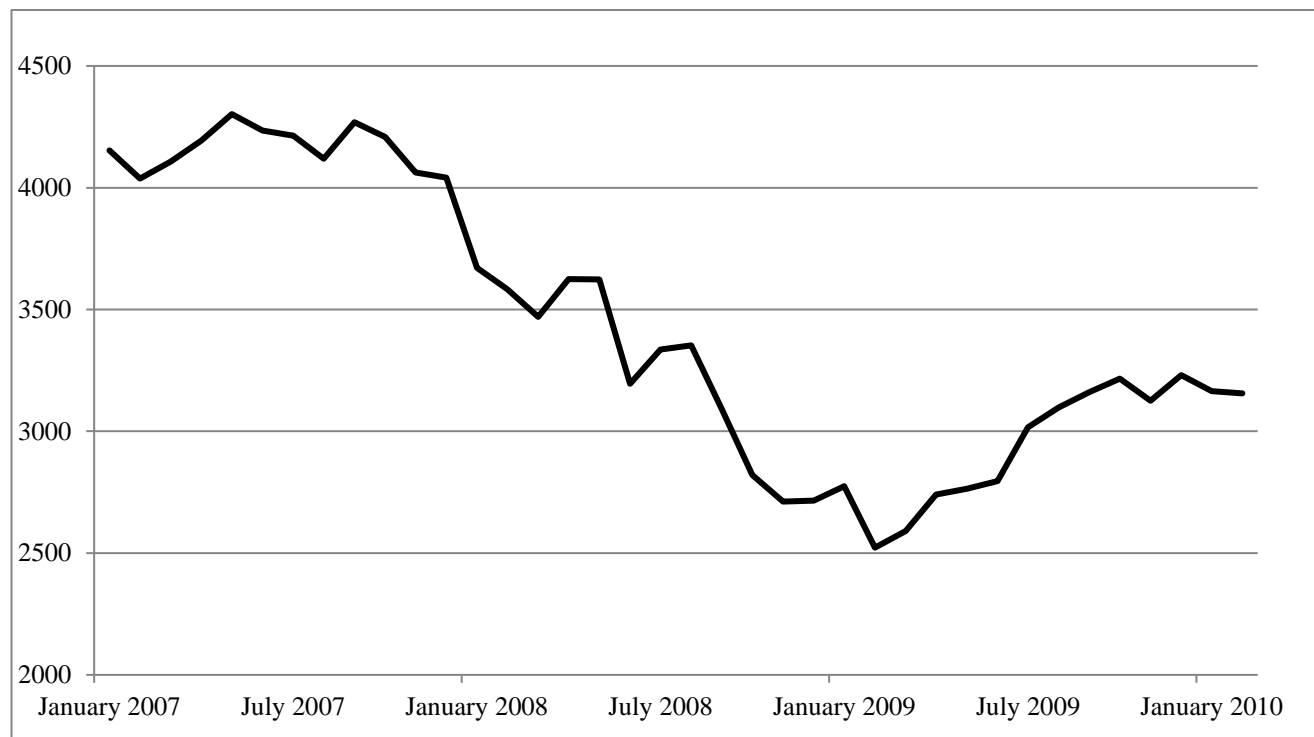
Figure 1: NZX50 Gross Index



My concern is that the recent confidence in our share market may be misplaced. I look at the 2007 Global Financial Crisis, where our market took eighteen months to reach the bottom, and I wonder what is different this time. Tourism was our largest industry before Covid 19, and that will take years to recover. Unemployment will increase significantly, which will be a double-blow for a Government coping with a reduced tax-take. The pessimist in me wonders if lowering interest rates can solve this alone.

Figure 2 shows the NZX50 Gross Index through the period of the Global Financial Crisis from 2007 to 2010. You can see a number of market rallies, that all investors were hoping was the end of the slide, however it wasn't until March 2009 that the market finally halted its decline. Will we see the same pattern this time? If I had to guess (and it is a guess) I would say yes, however there are plenty of commentators who disagree with me. Whatever the future holds I still maintain that trying to time markets is difficult at best, and we should continue to invest in good companies with the intention of holding them for long periods.

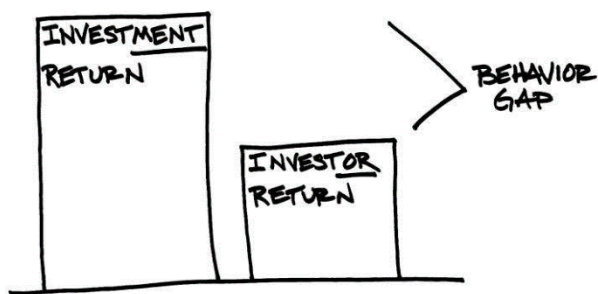
Figure 2: NZX50 Gross Index



Market Timing

I thought given the most recent market correction it would be worthwhile repeating an article from a previous newsletter on the futility of trying to time 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. 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

ANZ Capital Notes (ANBHB)

As discussed in last month's newsletter the ANZ capital notes that were previously allowed to be redeemed on May 25th, will now be rolled over. The Reserve Bank informed locally incorporated banks that they should not pay a dividend, nor redeem capital notes during the Covid 19 crisis. The notes will reset each quarter at the three-month bank bill rate plus a margin of 3.50%. The interest rate for the current quarter has been set at 3.76%.

Working from Home

Covid 19 has affected many people in different ways. At best it has been disruptive, and at worst it has been devastating. However, there have been good things to come from the lockdown. Checking in more often with family and friends, and the ability to work effectively from home have been positive for me. I'm going to trial working from home in the afternoons to see if it's viable in the long-term. This doesn't mean I won't be available in the afternoon. Phone calls and emails will continue to be answered as normal, and if an afternoon meeting is best for you, then that's what we will do.

Bank Term Deposit Rates

Unfortunately, interest rates continue to fall following the Covid 19 crisis. 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	1.85%	1.85%	1.90%	1.95%	2.00%
ASB	2.10%	2.10%	2.15%	2.15%	2.20%
BNZ	2.00%	2.00%	2.00%	2.00%	2.00%
Heartland	2.30%	2.35%	2.35%	2.35%	2.35%
Kiwibank	2.15%	2.20%	2.25%	2.25%	2.25%
Rabobank	2.33%	2.38%	2.38%	2.38%	2.48%
Westpac	2.00%	2.10%	2.15%	2.20%	2.20%

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.