Partner FINANCIAL GROUP

Update

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Market
Commentary

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We all know the scrip … "*invest for the long term*", "*diversify your investment portfolio*", "*don't panic*", "*buy quality*", "*re-weight your investment market exposure on a regular basis*" … all good rational stuff !

Trouble is, none of us are totally rational and emotions are hard to suppress. Particularly when news-reports inevitably present share market movements, in terms like "SOAR" and "PLUNGE", rather than "UP" and "DOWN". If elevator manufacturers did the same thing, none of us would ever get in one!

Still, we thought you might appreciate receiving some informed commentary from those close to the action. Naturally, if you have concerns or questions, simply call for a chat.

Sitparan & Rob

Recent Market Movements

It is important to remember that the recent correction in equity markets has only taken them back to roughly where they began the year, after an extremely fast start. Financial market performance has been unusually smooth for too long and that was unlikely to last. As an example, the US stock market saw 15 consecutive monthly increases from late 2016; the last time this happened was the early 1950s.

What we are now seeing is, in our view, a short-term rush out of risk assets into cash, as a reaction to the fairly rapid increase in global bond yields over the last couple of months.

This rise in yields has been well within our expectations, but the speed of the move combined with some higher inflation readings has driven profit taking in equities. The speed of the drop in share prices may also be fueled by forced selling, especially among investors who have been wrongly positioned in leveraged short-volatility products. The question now is where and when the market correction stops? Given short-term movements markets are inherently difficult to forecast, we focus on the longer-term trends.

We have a positive view on global economic activity in 2018. In particular, investors should be reassured in coming days and weeks by the strength of company profits, and the dividends and share buybacks which high levels of company cash allow.

US earnings are particularly strong, with expectations for tax cuts boosting estimates for this year. Inflation is likely to edge higher in coming months, but we do not expect it to surge dramatically as structural headwinds remain significant. Central banks are therefore unlikely to be aggressive when tightening policy.

If investors can grow comfortable with this outlook then that should be enough to stem the sell-off and trigger a recovery.

The worst thing that anyone can do now is make knee-jerk decisions. Past history would suggest buying opportunities are appearing; previously over-bought conditions have now reversed, and valuations look more attractive. However, future gains in markets may be rather more measured, as confidence takes time to re-build.

Source: Aberdeen Standard Investments 07/02/2018

When the good, the bad & the ugly are sold, take stock...

Last week Wall Street fell over 1,000 points, reversing the sharp rises of earlier in the month. Many are now asking if this is the start of a new trend on markets and what it all means for the Australian share market.

While it is always hard to forecast what share markets will do in the short term, we conclude that:

The current correction is well overdue following 12 consecutive months of gains in the Dow and it is highly unlikely that we will see the same gains on overseas markets that we saw in 2017.

While share markets will likely rebound at some point, we believe it is likely that the combination of high valuations for many sectors as well as rising bond yields will lead to significantly increased volatility in share markets over 2018.

We expect the correction in Australia will be mainly felt in high flying areas like the Resources sector as well as many lower quality smaller companies where we have seen excessive speculation.

While rates in the US may increase further in 2018, we believe the RBA will keep Australian interest rates on hold for some time yet given the high leverage of Australian consumers as well as the continued strength in the Australia dollar against the US dollar.

At some stage in the next year or two, we expect the Australian dollar will weaken as US rates are lifted further, as US growth picks up, while the RBA keeps rates on hold because of our highly leveraged households.

Many quality Australian Industrial companies on yields of 4, 5 and 6% with growth continue to be the core of the IML portfolios. In our view these companies will continue to look attractive for some time yet given our expectation of low interest rates here in Australia. We will be looking to use the cash in our portfolios to add to our positions in these types of companies in market weakness.

Anton Tagliaferro, Investors Mutual 3/2/2018

Get rich and retire early by investing like Warren Buffett

10 gems of wisdom from the world's greatest investor that could help to change your fortunes

Every investor dreams of being the next Warren Buffett, the self-made US billionaire who bought his first stock age 11 and is now worth more than $93.4 billion, according to Bloomberg. Mr. Buffett is the most famous investor in the world and the third-richest person on the planet, but he is admired for more than his money.

The so-called "Oracle of Omaha" is renowned for his folksy words of wisdom, which have made him a cult figure to many. The 87-year-old is also a generous philanthropist, giving away more than $27bn in the past decade.

His investment vehicle Berkshire Hathaway has grown at an annual rate of just over 20 per cent since 1964, more than double the average annual return of 9.7 per cent on the S&P 500 index of top US stocks.

If you had invested $10,000 in the company in 1964 you would now be worth more than $240 million, multimedia financial-services company The Motley Fool calculates.

Mr. Buffett may have started young but don't despair, he made 99 per cent of his wealth after his 50th birthday. The following 10 gems could help make you richer, and potentially save you a lot of money as well.

1 Rule No 1: never lose money. Rule No 2: never forget rule No 1

2 If you buy things you don't need, you will soon sell things you need

3 Risk comes from not knowing what you're doing

4 Be fearful when others are greedy and greedy only when others are fearful

5 Our favourite holding period is forever

6 In investing, it is not necessary to do extraordinary things to get extraordinary results

7 Only when the tide goes out do you discover who's been swimming naked

8 Beware the investment activity that produces applause, the great moves are usually greeted by yawns

9 Forecasts may tell you a great deal about the forecaster, they tell you nothing about the future

10 Remember that the stock market is a manic depressive

Source: Harvey Jones, 08/01/2018

Buffettology ...

On investing

1. "The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."

2. "Successful Investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time: You can't produce a baby in one month by getting nine women pregnant."

3. "I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over."

4. "In the short term, the market is a popularity contest. In the long term, the market is a weighing machine."

5. "Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble"

6. "Diversification is a protection against ignorance. It makes very little sense for those who know what they're doing."

7. "If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes. Put together a portfolio of companies whose aggregate earnings march upward over the years, and so also will the portfolio's market value."

8. "The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."

9. "I am a better investor because I am a businessman, and a better businessman because I am an investor."

10. "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Source: Motley Fool, Dan Dzombak

You're not an economist are you...?

A **mathematician**, an **accountant** and an **economist** apply for the same job.

The interviewer calls in the mathematician and asks "What do two plus two equal?"

The mathematician replies "Four." The interviewer asks "Four, exactly?" The mathematician looks at the interviewer incredulously and says "Yes, four, exactly."

Then the interviewer calls in the accountant and asks the same question "What do two plus two equal?" The accountant says "On average, four - give or take ten percent, but on average, four."

Then the interviewer calls in the economist and poses the same question "What do two plus two equal?"

The economist gets up, locks the door, closes the shade, sits down next to the interviewer and says, "What do you want it to equal"?