Bramwell Brown Limited – Newsletter – July 2022

Markets

Investors can rightly feel nervous considering the most recent correction to the markets. Countries all around the world are struggling with rising inflation, and the subsequent increase in interest rates is causing asset prices to fall. The NZX50 Gross Index has fallen over 15% since the start of this year. Table 1 shows the United States, Australian and New Zealand market reductions since January 1st.

Index	January 1st 2022	June 28th 2022	Decline	% Decline
Dow Jones Index	36338	30947	5391	14.83%
ASX 200	7444	6764	680	9.13%
NZX 50	13033	11012	2021	15.50%

What to do? The main thing, is don't panic. Market cycles are an inevitable part of investing, and a market downturn should not affect your long-term investment strategy. We generally invest for a combination of growth and income, and regardless of values most companies will continue to pay dividends through a downturn. If you have a diversified portfolio, you will also have allocations to bonds and bank deposits, therefore your entire portfolio is not subject to the share-market volatility. Nobody likes to see their investments lose value, however if you are a long-term investor, fluctuations in the value of your portfolio should not be a great concern. I've been advising clients since the recovery from the Global Financial Crisis not to get too carried away with the increase in the value of their portfolio, and the advice remains the same when values are dropping. As long as you are not forced to sell, the valuation of your portfolio at one point in time is not particularly relevant. History has shown us that market downturns are followed by a recovery well in excess of the point that they fell from.

The current volatility doesn't mean we should completely retreat from purchasing shares. If you have been accumulating shares as part of an investment plan, you should continue to do so. It is highly unlikely you will accurately predict the bottom of the market, so you are better to buy shares in stages. Mainfreight today at $70 is better buying than it was last year at $95.

Market Timing

I read an interesting article recently about the futility of trying to time markets. This is from Marek Krzeczkowski and Henry Morrison-Jones of Mint Asset Management.

“During bouts of market volatility, we often get questions from our clients about what changes we have made to our funds and whether it is a good idea for them to try and time the market. Despite how tempting it can be to sell during periods of uncertainty, making changes in the face of volatility is often counterproductive, especially given how much noise exists in the market. To help filter out this noise, it is essential to have a framework in place that can be used to look beyond current market conditions.

As an old saying goes “In theory, theory and practice are the same. In practice, they are not.” The plausibility of timing the market is a frequently broached topic in financial literature and almost always the conclusion is that it is nearly impossible to get right. What makes timing the market so tricky is that you must get it right twice – once on the way down and then again on the way up. Selling your holdings too late or buying them back too early often results in worse returns than if you had just held on throughout. After all, how can you be sure that the market has peaked or that the worst is over?

In hindsight, the relative peaks and troughs during market shocks appear obvious, but in the moment, what comes next can be incredibly hard to predict. A great example of how hard it can be to predict price floors and ceilings is to look at how markets reacted during the events of the Second World War.

Surprisingly, the absolute bottom during WWII was not the German surrender at Stalingrad, the news following D-Day, or the Axis surrender in 1945, but rather it was the Battle of Midway in June 1942. Ask any historian and they will tell you that even after the Battle of Midway, the war news was consistently bad. Timing is tricky as the markets tend to price in outcomes before they materialise. Often, even the news flow is a poor indicator of what comes next and while there were surely some who timed things right during the 1940s, it would have been an unlikely feat for most. History does not repeat itself, but it often rhymes, and this example has some strong parallels to the events we are seeing today.

Even if you can interpret the significance of news and events better than most, there is so much news out there that it becomes difficult to know what is worth paying attention to in the first place. Separating news from noise has become increasingly difficult in the Information Age – an age where anyone who wants to be heard only needs to express their thoughts on Twitter in 280 characters or less. If you believe that following economic experts’ advice can help, finding the right expert can also be challenging. The U.S. Bureau of Labour Statistics estimates that there are around 17,500 economists in the United States alone, all of whom are likely to have their own outlook on the economy shared through their reports, research, or medium of choice. Attempting to use every piece of information available to make investment decisions would leave even the most experienced investor completely lost.”

Dividend Yields

Here are some current share prices (June 28th) together with their most recent dividends.

Company	Price	Dividend	Yield
ANZ	24.80	1.4400	5.81%
Argosy Property Trust	1.22	0.0650	5.33%
Australian Foundation Investment Co	8.43	0.2400	2.85%
Arvida	1.52	0.0550	3.62%
Briscoes Group	5.29	0.2700	5.10%
Contact Energy	7.40	0.3500	4.73%
Chorus	7.42	0.2850	3.84%
Freightways	9.57	0.3600	3.76%
Genesis Energy	2.72	0.1750	6.43%
Goodman Property Trust	2.00	0.0550	2.75%
Heartland Bank	1.99	0.1250	6.28%
Hallenstein Glasson	5.66	0.4200	7.42%
Infratil	7.90	0.1850	2.34%
Kathmandu	1.10	0.0600	5.45%
Kingfish	1.55	0.1390	8.97%
Manawa Energy (was Trustpower)	5.94	0.3300	5.56%
Mercury Energy	5.68	0.1820	3.20%
Meridian Energy	4.59	0.1705	3.71%
NZX	1.28	0.0610	4.77%
Precinct Properties	1.37	0.0665	4.85%
Ryman Healthcare	9.00	0.2240	2.49%
Steel & Tube Holdings	1.27	0.0879	6.92%
Stride Property Group	1.68	0.0991	5.90%
Spark	4.87	0.2500	5.13%
Vector	4.26	0.1675	3.93%
Westpac	22.19	1.2100	5.45%
The Warehouse	3.43	0.2750	8.02%

As we know, share prices and future dividends are never static, therefore we cannot guarantee these yields will remain the same. This is where risk (uncertainty) comes into play when investing in shares. With share prices declining, we are seeing the yields on those shares increasing. However, can we be certain that companies will be able to maintain their current dividends in the new higher-interest rate environment?

Scams

Unfortunately, we continue to see vulnerable people being cheated out of money. Cert NZ lists these common types of scam:

Phishing is a type of email scam, where the sender pretends to be a trustworthy organisation like a bank or government agency, in an attempt to get you to provide them with personal information like your internet banking login details.

Social media scams are where the scammer pretends to be someone you know and ask you for money. For example, they'll say that the money is to help them get home as they're stuck somewhere with no access to funds, or that they need to pay for unexpected medical costs. Social media scams prey on people's good nature and their desire to help others.

Invoice scams affect both businesses and individuals. Scammers send fake invoices requesting payment for goods or services that you didn't ask for or receive. They often say that the due date for payment has passed, or that your credit rating will be affected if they're not paid.

Tech-scam calls are where scammers call people at home pretending to be from a well-known tech company like Microsoft. They often request remote access to your PC or device claiming they need to repair an issue or install a software update. They do this to try and gain access to your private and financial information.

Money scams are common online. They include 'get rich quick' schemes like the Nigerian prince scam, unexpected prizes, fake auctions and any other number of scams intended to part people with their money.

Romance scams are where a scammer takes advantage of someone looking for a relationship online. Scammers will use dating sites and apps or social media to build a relationship with someone. Once they've gained the person's trust, the scammer will start to ask for money, gifts or personal details that can be used to commit fraud. They often use fake profiles to make it harder to track them down.

In order to ensure you do not become the target of a scam:

- 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
- Choose unique passwords for your online accounts, and consider two-factor authentication
- Always check your bank statements
- Don't click on web links you receive from someone you don't know
- Don't pay invoices for goods or services that you didn't ask for or receive