BRAMWELL BROWN LTD

INVESTMENT ADVISERS – BROKERS

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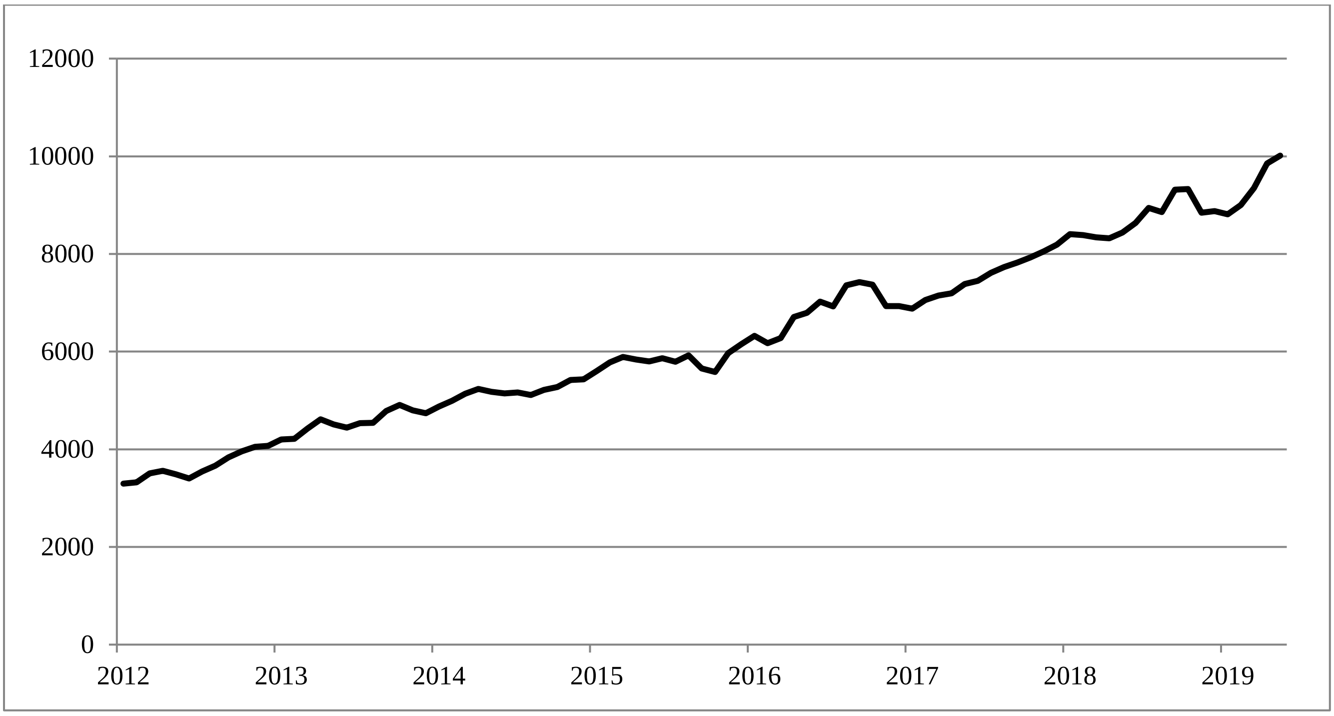
New Zealand Shares

The NZX50 Gross Index has broken through the 10,000 mark for the first time, sitting at 10,013 at the time of writing. Low predicted inflation, long-term low interest rates, and sustained growth in company earnings have all added to the momentum.

NZX50 Gross Index



The question I am most often asked is "is the strong share market performance sustainable?" Unfortunately, there are so many factors that drive markets, that it's impossible for me to make a prediction with any certainty. The main factor driving share markets is low interest rates, and I see nothing at present that is going to change that in the short to medium-term. Investors will always draw comparisons between the returns on bank deposits and bonds, with the returns on shares. There should always be a premium for risk – your return on shares should be higher than your return on bank deposits, to compensate you for the risk you are taking. But that risk premium tends to remain relatively static. As interest rates decline the return on shares that is acceptable to investors declines in tandem. For example, if we look back to 2007, we could take out bank term deposits at an 8% return. The acceptable return on shares to compensate for the risk we were taking might have been 10% to 12%. Today bank deposits might return 3.50%, and the acceptable return on shares to compensate for the risk we were taking has subsequently dropped to 5% to 7%. The risk premium remains the same, however we are prepared to accept much lower returns on shares because the alternative returns are also so much lower.

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

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

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.