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MoneyTalk

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Polishing up the Crystal Ball

This calendar year has been one of the best for many years with both our local share market indexes having a strong run through 6,000 points, with the last 150 points achieved in very short order. As is typical of such quick run ups there was a subsequent retreat as traders were quick to take some profits. Surprisingly a lot of the gains were made and consolidated in October which is typically the worst month for markets.

Globally the world's biggest share market is in the USA and it seemed that month after month their major Indices posted new all time highs. For all the ad-mouthing that President Trump has received that economy is in great shape with GDP powering along, and new jobs aplenty. Heaven knows how well it would go if he could get some of his major election promises to a vote; especially the big tax reductions. Australia's most lauded global share manager, Kerr Nielsen of Platinum Funds, has steered his basket of global share funds to top quartile performance over the past 12 - 18 months. At his company's recent AGM he said that he felt that many of the major global markets were now over blown (too pricey) and a correction in many of those markets would not surprise. In fact his funds are being very selective now and selling down some of those stocks would have done very well for his investors.

Neilsen picked the rise of the Japanese share market of a couple of years ago and it has done famously well during that period. His latest prognostication, linked to his overpriced markets comments, is that Asia will be the "place to be" at least in the near to medium term.

Back home residential property has started its long overdue cooling off with Sydney at the lead presently if the number of auctions passed-in is any guide. Melbourne has retreated but not to the same extent yet. Another ominous sign is the big slowdown in apartment developments which has had a bit of media coverage in recent weeks, with reports that some major jobs have been “pulled” out of fear that they won’t readily sell. Funding for both the developers and the future buyers has tightened up significantly also. With our population in Victoria growing at about 150,000 a year there will continue to be strong demand for housing and that is why one of the best performing assets for the past 3-4 years have been broad acres developed for residential development.

Like other east coast states we are spending up really big on infrastructure; think about rail crossings, freeway upgrades and public transport infrastructure for example and the additional jobs that has created has been a boom to our local economy. Our unemployment level seems stuck around 5.5% whilst NSW has pushed down to a very comfortable 4.6% recently. To the bewilderment of many economists they remain mystified as to why with such low unemployment numbers are not translating into higher wages; this would then normally result in higher inflation and strong economic growth. Perhaps 2018 will be when it all meshes together and we get a nice uplift.

We have spoken in this newsletter previously about Black Swan events that usually wreak havoc on markets, without warning, and a sleeper for next year could well be a Royal Commission into the Big 4 banks. If that gets up in the Parliament it could damage bank stocks seriously.

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This whole shemozzle about eligibility to stand for election could reshape the Federal Parliament in 2018 should the likely number of by-elections go against the Government which would result in quite a different focus on legislation coming on.

On balance it does seem that we can keep our economy moving ahead in 2018, albeit not at the pace we would like; above 3% p.a. Property prices should consolidate but not suffer any big downturn given the big undersupply now apparent. Cash and fixed interest will remain around current levels with no move by the RBA expected until later next year. Returns on shares are not likely to repeat this year's results but should comfortably outstrip inflation, plus their dividends. All up, a satisfactory return across most asset classes.

Now for a word on China. Often arriving at a view about anything may come from a combination of many smaller matters and so it seems to be with our biggest trading partner. The political leadership has recently been re-elected for another five year term; great for political stability. The government continues to shut down poor performing industries/companies and also the major polluting ones. They sure seem to be paying more than lip service to the Paris Accord. At a more micro level there was a big "bust" of folk producing fake Penfolds wines last month; just one more example of some manufacturers getting slammed for counterfeiting offences.

Sure there have been some less impressive negative aspects, like the South China Sea "islands", it's fair to say that China is becoming a more global citizen and we should all benefit from that change.
Finally, there is technology and its rapidly changing pace which should serve as a warning to investors to do your research, and try not to pick a loser. A long train example of one huge change revolves around office equipment, and the older ones amongst us will be able to go back to typewriters and roneo machines. More recently faxes, teleprinters and pagers are going the way of the Dodo. Emailing really only started 25 years ago and computers have made quantum leaps, nearly every year, as have phones. Let's not forget the daily newspapers which are now about one-third of the size they once were as many of us get our news online now. As a result stocks like Fairfax have collapsed. How would you liked to have paid $400,000 plus for a taxi licence 2-3 years ago and have Uber storm into town undercutting fares and reducing the value of a taxi plate by two-thirds probably? Not too many small retailers saw the advent of online sales and more critically the depth of the impact. The loss of both jobs and capital in retailing is now becoming alarmingly apparent.

Selling your Retirement Unit

There are unquestionably some "cowboys" in the aged care and retirement home space and the media has reported several cases recently. The worst of these were owners in a village that will lose all their money when they are tossed out shortly. This is a complex area so we won't try and go into full details here but rather let the table shown speak for itself.
The critical things that anyone entering into village accommodation needs to work on are:

1. Speak to your Moneyplan adviser before signing anything. Selling your home and ending up with more cash will invariably cause a reduction in any Age Pension being received; maybe even cutting you off altogether.

2. Speak with your family or someone you trust about the impact on your life that you may not have foreseen. Speak to any friends that are already in a village and ask about their experiences.

3. Do not sign any Agreement without first taking legal advice. These documents are always very complex and beyond the understanding of lay people usually.

The table here on the right doesn't take into account the monthly fees etc that you will also need to pay and in this example from Australian Unity they quote those fees to be $684 a month ($8,208 p.a.) plus utilities and phone costs plus council rates and contents insurance.

Case study

What you get back after leaving a retirement village*

Original lease price/ ingoing contribution	$850,000
Re-lease price	$1,140,000
Original lease price/ ingoing contribution	$850,000
Less	
Departure fee (5% pa for first two years and 4% pa for years three to six)	-$221,000
50% of the capital gain (based on a re-lease price of $1,140,000	-$145,000
Estimated exit entitlement payable to the resident	**=$774,000**

*Assumes resident leaves after 10 years

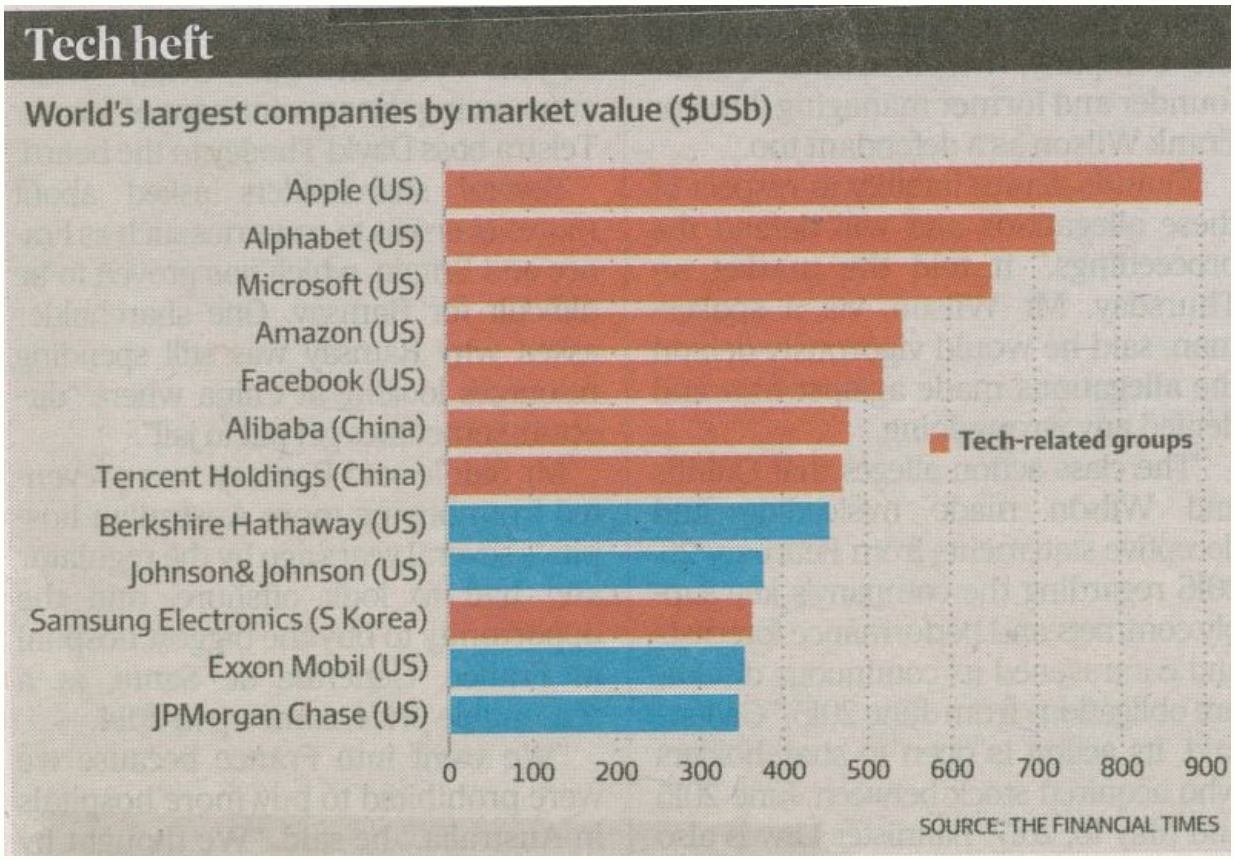
SOURCE: AUSTRALIAN UNITY

Top 12 Global Companies

Two-thirds of the largest 12 companies in the world are technology based as this table shows. It is not that long ago, less than a decade, where the reverse would have been true. We can see it in our own sharemarket mix where resources were once "King." Today we have five banks in our Top 10 stocks with just BHP and Rio left in the Top 10.

Many of these companies are so huge today that they can't even find places to invest their billions of dollars and yet they still look for ways to run as much of their sales income through Tax Havens to reduce the tax impact as much as possible.

Apple is an interesting example because it records a book value of its assets at US$134 billion and it has a market capitalisation of US$900 billion. The experts tell us that the difference is the "expectation of enduring "super normal" profits." Wow, that's some premium!



Business Condition Bullish

The NAB conducts a monthly survey of business conditions and the latest commentary shows that excellent economic conditions are the best since 1997 and we are able to see a reflection of that in share prices for listed companies. The bank's Chief Economist says that for all sectors, other than retail, profits and trading conditions in October were at the highest levels for more than two decades which suggests that economic growth and new jobs will shortly follow.

Uncertainty about individual businesses is stated as being one reason why confidence; things like changing technology and a muddling Government maybe at the heart of this concern. A big winner, and a major contributor, to the lift in business conditions have been a surprise coming from the strong turnaround in manufacturing. Soaring energy costs are a big concern for all sectors and the prospect of another 20% lift in the New Year could well be another hit to confidence.

But, says the NAB, business confidence is not as strong and has been on a sideways track for the past five years. Uncertainty is not uncommon when there is a lack of strong leadership from government and whilst it is quite often the case that business confidence and conditions mirror one another the gap between the two is now at its widest point in the history of the survey.

MoneyTalk

Peaks & Vallevs - a Reminder

This type of graph is what encompasses the good and not so good aspects of our major sharemarket index, the ASX S&P 200, which is a summary of the leading 200 stocks on our sharemarket. There are still many people who are not comfortable with investing in shares and they will cite the 2008 credit downturn as an example of why they won't do it.

The flip side to that position is best seen in the same graph where the market has trebled in value over the past 25 years, even after that collapse and recovery in 2008-09. In addition all those companies continued to pay their half-yearly dividends, which over the past 4-5 years have been double that bank interest rates. The more educated investors who saw a buying opportunity back in 2009 may well have picked up growth of around 70% since then.

Christmas & the New Year

We take this opportunity to thank you for your continued support and wish you and your families a safe and Merry Christmas and prosperous 2018.

Our office hours over the x-mas period are as follows:

Close: 10am, Friday 22nd December
Reopen: 9am, Tuesday 2nd January 2018