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MoneyTalk

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Reporting Season Outcome

The general consensus amongst market observers is that the company reporting season, which concluded at the end of August, was satisfactory with a good showing of companies reporting ahead of their previous guidance numbers. But the flip side was, for quite a few companies, a real disaster.

Any company that missed market expectations was usually treated very harshly and there were quite a few stocks that fell between 15 - 25%. Former "darling" stocks like some in the healthcare and dairy sectors were particularly noticeable for the harsh treatment.

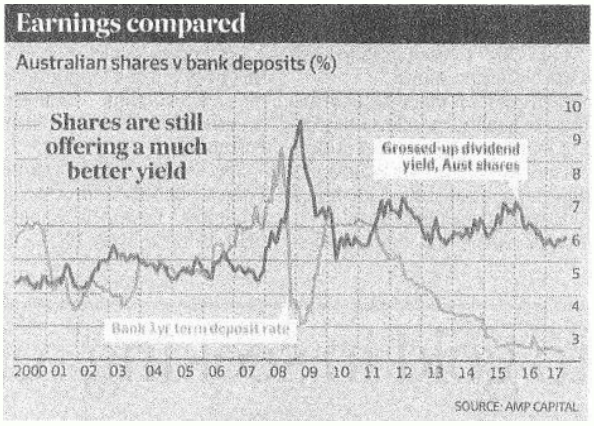
The miners however made huge gains, especially those in the iron ore business, had whopper results with BHP, Rio & Fortescue standouts. Iron ore prices have risen spectacularly this year after a soft 2016, as economic activity in the manufacturing countries started to kick-in again. Leading the pack with huge profits was Commonwealth Bank at just shy of $10 billion in profits for the full year. But there was a nasty side to this result and it came in the form of a major regulatory examination by APRA, expected to take six months. CBA has had a bad run with controversy and the lack of compliance, especially noticeable was the apparent failure to report more than 53,000 suspect money laundering transactions. In the end the CEO has been forced into early retirement in the coming months and the stock price took a total 10% hit during August. The bank has now lost its price premium over the other major banks. The worst may not yet be over with a huge financial penalty potentially to be applied is they are found to have failed to manage their compliance issues.

Already the US regulators are investigating the breaches and penalties where CBA also operates, can be much more severe than here.

Mum and Dad investors were to get another shock when Telstra reported when the long expected impact of the NBN income loss came home to roost. Unless the company has something really special up its sleeve the golden run for Telstra seems to be over as dividends have been confirmed to drop again.

Retailers as a broad group are struggling and it is hard to see a big turnaround for the sector anytime soon, if at all. There are some big disruptors playing in this space now and the best example is in the supermarket area where Aldi continues to take market share off the big three operators. If you are in any sort of denial about the decline of traditional retailing just go for a walk along any traditional retail shopping strip and count the vacancies; even the very well established Chapel Street and Bridge Road strips have vacancy rates the level of which haven't been seen in decades.

All this feeds into the sharemarket performance and regrettably it continues to lie prostrate struggling to get out of the quite narrow band that it has been trading in for more than 12 months now.



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Long Term Returns

The old adage that no one rings a bell when a market peaks or hits the absolute bottom in their respective cycles remains as true today as when it was coined. A very complex graph produced regularly by Vanguard Investments has recently been published showing the returns over the past 30 years of the six major asset classes compared to the CPI.

The graph takes up pretty much two pages of this newsletter so we have distilled into a simple chart; if you want to see the graph in all its colourful glory go to Vanguards website. These are percentage returns as at 30 June 2017.

Asset Class	1 yr	5 yrs	10 yrs	20 yrs	30 yrs
US Shares	13.8	21.3	8.2	7.0	9.4
Aust Bonds	0.2	4.3	6.2	6.2	8.5
Aust Shares	13.1	11.6	3.5	8.1	8.4
Listed Property	-6.3	14.1	0.1	7.1	8.0
International Shares	14.7	18.2	5.1	5.3	6.5
Cash	1.8	2.5	3.9	4.7	6.4
CPI (to 31 Mar 17)	2.1	2.0	2.5	2.5	3.0

A couple of comments are appropriate here. Overseas shares have had a great run for the past 5-6 years after some very poor returns for almost two decades. The impact of the GFC can be fairly clearly seen in the poor 10 year numbers which have subsequently recovered and anyone who chose a low growth portfolio over the past five years has lost out on the returns of quite a strong growth period.

Anyone still holding that portfolio allocation probably should be speaking to their Moneyplan adviser about whether maintaining that position will continue to be detrimental to you. The continuation of the growth cycle is more likely to be with us for a few more years yet, assuming no “black swan” events in the near term. Not to put too fine a point on it any eruption of the North Korea impasse would potentially cause a global recession.

Some of the lesser known asset classes, for which there is no regular performance reporting, have also had excellent returns especially over the past five years also. In this basket are funds that invest in infrastructure assets; fixed term property syndicates; private equity and property development all of which tend to be the domain of the very large super funds that can take the long term view and not be worried about liquidity.

Flying the Kangaroo Route

Anyone who has flown the route to London in recent years may have done this on a Qantas A380 aircraft via Dubai, or the same aircraft with Emirates who five years ago entered into a Code Share agreement with Qantas. This trip is typically close enough to 24 hours, irrespective of what route you travel, be it the Middle East or Asia. Things are about to change in a big way with Qantas introducing the Boeing Dreamliner to both the London and New York routes with non-stop flights. United has also announced a non-stop service from Sydney to Houston.

Aussies are going to have even more options to London now with the direct London flight originating in Melbourne and flying to Perth and then direct to London. The other option will be to fly Qantas via Singapore (a reintroduced route) or with Emirates via Dubai. There is no news yet on non-stop traffic from the other major airlines servicing this route. This new generation of aircraft is changing the way we will travel overseas in the future with concept of ‘hubs’ (where you stopped over or changed planes) will become obsolete for many travellers.

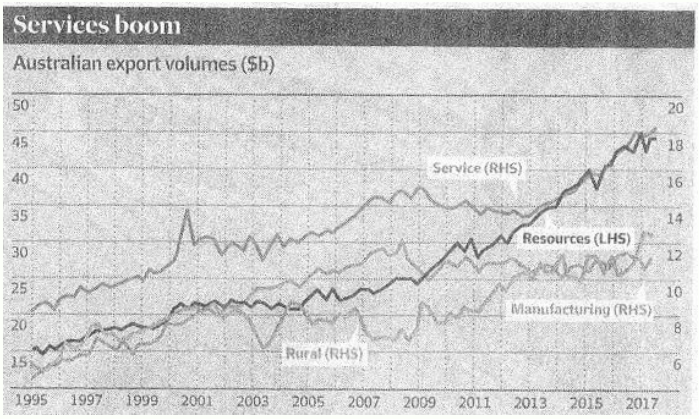
If you are someone who looks to maximise your FF points and Status Credits you will need to do your home work to see what route produces the best results.

If you have an overseas trip coming up you will be delighted to see that the AUD hit 81 cents against the USD early this month. It is only about 2-3 weeks ago that the Commonwealth Bank were suggesting that it could get to 85 cents in 2018; that would be a huge bonus for those travelling, especially to the USA.

Picture Tells the Story

The mining resources construction boom ceased around five years ago as the industry moved from infrastructure spending to that of production. A quickly seen impact of this change, especially seen in WA, was the movement of tradesmen and other skilled labour to other areas around the country to pick up suitable work. A follow-on issue has been the collapse of housing prices in regional WA areas with investors being burned badly. Perth house prices also had a correction but appear to have stabilised now.

The graph here spells out very clearly how our economy has changed so dramatically in the past decade. Starting with the Manufacturing (Blue) line which peaked in 2008 we see a modest fall in 2009 and then it flat lines for a decade. Think here about car plants and coal mines closing down, plus scores of smaller businesses in this sector, many of whom have been forced out after becoming uncompetitive with imported goods.



Countering this see the sharp uplift in Service Industries (Grey) line over the past five years. Key industries contributing here are Tourism, Health and Aged Care. It has been estimated that the current rate of infrastructure spending across the country, think here about new roads/freeways and power generation especially, will be 1.5 times greater than the mining construction boom.

The historical great contributors to our economy and also to the Export trade are Rural (Red) and Resources (Black) and "they have been flying" for the past decade. Whilst we are not going to run out of coal, gas and gold anytime soon there will become a time when production starts to taper down and replacement income will be required to keep our Balance of Payments in order. Agriculture will play a major role here as we continue to expand our production to meet some of the Asian demand in particular. The government is still promoting Service Industries as the big hope to fill this emerging void through the export of a range of services including education, healthcare and aged care.

The RBA will continue to play a huge role in keeping our economy on track and not racking up massive overseas debt that we would eventually struggle to pay the interest on, let alone repay it. The Bank is concerned about the lack of wages growth and inflation as they are both well known impediments to economic growth. Thank heavens for some good sense in the conduct of our economy.

Aussie Wine Sales Booming

Along with pretty much all of our agricultural sectors wine sales are booming once again. Apparently we are all (well some of you anyway) drinking more wine today with domestic sales for 2016 up 6.9% and worth $2.97 billion, with export sales growing by 11.4% to $2.11 billion. This big uptick is almost exclusively being driven by China and Hong Kong where Australia now has 25% by value of that market. France still holds a clear lead there at 44% and then us. It is a big gap down to Chile at 9.6%, Spain at 6.5% and Italy 5.3%.

The annual consumption of Australian wine worldwide is estimated to be 30 million glasses. China continues to the market with greatest opportunity for us to increase our exports and there will be some greater marketing emphasis on white wines. Current red wine sales are $500m annually but whites are languishing at just $20m.

After a series of lean years of grape prices to growers the 2016 year showed some increases and amongst the main varieties Shiraz was up 14%, Chardonnay up 21% and Cab Sav 17%. Some of the lesser know varieties had good lifts too; Grenache up23% and Muscadelle up 67% (off a low base though).

The biggest wine growing States and areas are:

South Australia 926,430 tonnes
Murray Darling-Swan Hill 416,966
New South Wales 348,441 (the Riverina's share was 311,639T)
Victoria 63,933

A big winner from this strong upturn has been the ASX listed Treasury Wine Estates who recorded a 55% lift in net profit for the 2017 financial year. Penfolds, Wolf Blass and Rosemount are their major brands and management are indicating that there is more growth to come this year. Treasury makes Australia's most iconic wine in Penfolds Grange which sells for around $800+ a bottle, a distinction shared with the equally famous Henschke Hill of Grace. Both currently have their 2012 Vintage on sale and both have been rated at 99/100 by James Halliday.

MoneyTalk

Pensioner Concession Card News

From 9 October 2017, the Pensioner Concession Card will be reinstated to around 92,300 former pension recipients, including 3,600 Department of Veterans' Affairs payment recipients.

Clients who had their pension payment cancelled on 1 January 2017 because of changes to the pension assets test will get a Card again. If the Department of Human Services sent them a non-income tested Low Income Health Care Card, they will regain entitlement to a Pensioner Concession Card on 9th October 2017. Individuals can use this card in the same way they did before their pension payment was cancelled. The Pensioner Concession Card gives people access to Commonwealth subsidised hearing services, plus a range of other benefits offered by states, territories and private enterprise.

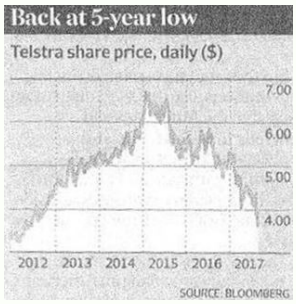
Best of all, clients do not have to do anything. Centrelink will automatically reissue Pensioner Concession Cards to eligible recipients. The card is also exempt from the income and assets test. Until their Pensioner Concession Card arrives in the mail, clients can continue to use their non-income tested Low Income Health Care Card to access discounts and concessions.

Clients who received a Low Income Health Card will have this deactivated after they receive their new Pensioner Concession Card. However, the Commonwealth Seniors Health Cards will be kept to maintain current Commonwealth benefits, such as the Energy Supplement, as long as your clients retain their eligibility.

If you are uncertain about your position please speak directly with your adviser.

Chasing Dividends Dangerous

Mum and Dad investors have had a pretty good run with Telstra shares depending on when they bought their shares. This simple little graph, spanning five years, tells a disturbing story. Since peaking in 2014 the price has dropped more than 40% and the dividends received go nowhere near covering that collapse.



In a better and longer term example that shows how chasing dividends can be an ever greater disaster. When Telstra floated at $3.30 per share back in November 1997 one of the other major government privatisations, CSL, was trading at $3.20. Since then Telstra has paid total dividends of $5.51 per share and CSL a total of $15.15. Don't be confused here. Telstra has a dividend yield, based on its past 12 months of payments, of 8.38% fully franked. CSL has yield of just 1.34% unfranked, so what's going on?

It is simple really. CSL now trades a bit above $130 per share so its modest dividend has been paid on an ever increasing capital value and Telstra's dividend yield has climbed because its share price has been diving.

Chasing a dividend can come back and bite you really badly and requires that investors constantly review their holdings to try and avoid this type of mauling.

All that said the second graph firmly illustrates huge gap between bank interest and share dividends with a 17 year comparison between the two. It has been all downhill since 2011 for bank interest whereas share dividends, on a grossed up basis, have ranged roughly between 6-7% p.a.