



July 2020



From Pete's Desk

Well it's a funny old world out there. The term "unprecedented times" has been used/overused in media articles, conference calls and reports since markets experienced a sharp and rapid decline in Feb/March. That event in itself not unprecedented Covid19, yes, relatively unprecedented but in the last 100 years we had the Spanish flu of 1918, Asian flu 1957/58 and Hong Kong flu 1968-70 plus a few lesser.

The current Geopolitical scene is more than a little worrying, again different but not unprecedented.

So what do I think is unprecedented?

- Covid Health Response (lockdowns)
- Covid Fiscal Response—Billions of stimulus, job support and associated debt increases.
- Covid Monetary Response—Compression on interest rates to levels never before. Easing bank lending restrictions and mortgage repayment holidays.

The market swings we are experiencing are not unusual given these times, but the speed at which they are occurring probably is. The rebound in markets since April is a tad perplexing and the extent to which a small bunch of "in favour" stocks have risen defies all logic e.g. Fisher and Paykel trading on a P/E of 56 times! Two stocks now account for 30% of the NZX. Around the world similar themes persist with a handful of stocks dominating and on seemingly extreme valuations.

A new phenomenon to emerge has been share trading platforms driven via social media. In NZ Sharesies & Hatch saw 75,000+ new accounts opened in lockdown.. In the USA it is Robinhood, but a global theme. High volume but relatively lower value trading is driving "in favour" stocks to crazy valuations. Through Hatch New Zealanders have invested \$50M in Tesla, a yet to make a profit company priced above Toyota now. There is a difference between investing and speculating. I fear that for some this can only end badly.

IRD PIE Tax

Just to give you all a "heads up", as a legislative requirement investor PIR's must be updated. You therefore may receive a letter from the IRD advising you of what they consider your correct PIR rate. It is possible/likely they could recommend a change that is incorrect. PLEASE check our office or with your Tax consultant to ensure you have a correct PIR

New Staff Member

Lynne has decided that it is time to start taking a step back from the administration and has organised for our daughter, Irene, to job share with her. Irene will be working mornings and Lynne afternoons. Irene returned with her family to Palmerston North at the end of last year and has worked in administration prior to having children and more recently in Maraetai.



"It's a funny old world out there"

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A Big Lesson Worth Knowing

Article in Insync Funds Management June update

So far we have endured two large market moves in 2020. Just 23 trading days resulted in the S&P 500 falling -34%. By June it had topped +40% (from its 23rd March low). It can be disturbing when this happens in such a short time frame; and with the media going ballistic with doom and sensationalism. Is this usual?

Yes it is. Large ups and downs occur all the time (except in the last 10 years); and so it feels unusual and it feels tempting to time moves or to cash out until things feels okay again. Here are the 7 biggest events over the last 90 years:

The 29' Great Depression Crash lasted well into the 1930's. It is still by far the craziest ride in history. The market was up +32% in 29 until peaking in September. Then it fell -45% in 2 months. It then rose +28%. Overall the year was down just -8.3%. Within 4 months in the following year the market was up +22%. It didn't last as the next 8 months would see a -44% drop. By December it was still down -25%.

1931 had stocks rising in 2 months by +19%, it then flipped; by mid-December closing around -57%. That year is **the worst year on record, finishing -44%**. Would you have stayed invested?

Another -51% drop over the next 5 months of 1932 would really test you! (this was THE bottom as it turned out). **Without warning or good news, markets rallied +112% in only 12 weeks.** The S&P still fell again another -32% to settle for the entire year at -8.6%. Selling didn't subside in 1933 as another fall of -25% ensued.

Thereafter however investors enjoyed a staggering +121% in July (and a bump of -29%) to finish the entire year +50%. One of the best years ever. 1934 saw another rise of +21% (and a fall of -29%).

The 73/74 Oil Crisis marked another roller coaster of returns. Stocks fell -37% before bottoming in October then rallied +21% the next month ending the year at -26%.

1980 had stocks falling -17% only to rise +43%. The market was up +32% by year's end.

1982 witnessed a similar event -17% followed by a +40% jump. Year end stocks were up +20%.

Black Monday crash of '87 the market falling -34% in only a week. It had risen +40% beforehand and ending the year almost +6% (after the worst one-day crash in history). In NZ our market was worse than the rest of the world and took a long time to get back.

The late 90's asset bubble had a +20% gain for 5 years straight up until 1999; yet in '98 it had a -9.3% fall before increasing +34% ending the last year of last century at +28%. As the Dot-Com bubble burst nudged by 9/11, three big price swings occurred in 2001. Stocks fell -19% before rising +19%; then a -26% crash to close the year around -12%.

For those that tried to 'time' all this (or worse, panicked), a terrible fate awaited. The lesson is stay with quality segments of a market, ride out the storms, don't give into greed in the good years or panic in down periods, and all is likely to be well; history tells us so.

Speculating in shares is a short game.

Investing in shares is a long game.

Stephen's Ponderings



Well, it has certainly been a bizarre year. On New Year's Day, who would have thought that 2020 would pan out as it has?! If anyone had said that there would be a global pandemic, that we would be locked down in our homes for five weeks and the borders would be closed, they'd likely have been told they were crazy (or suspect of being on some strong drugs).

At best, I suppose it has been a good reminder that we never know what is around the corner. No matter how much confidence someone may have about the future, nobody really knows. I hope the next 6 months will be more stable, but I suspect that there is still a lot of water to go under the bridge yet.

There are two elections coming up before the end of the year and I'm a bit of a political junkie. Although the polls are often wrong, the NZ election looks like it'll be all over before it begins. The US election could be a lot closer - although Trump is running behind at the moment, he surprised everyone four years ago. Watching the news media both here and overseas, there doesn't seem to be any attempt at balanced journalism anymore. Interviews seem to be about catching a politician out and trying to get them to say something controversial, which will make a headline. It would be nice to have some journalism which at least tries to be impartial and present both sides of a story.

Technology really is changing the world, from elections to markets, but whether it's generally a good thing or not I'm not too sure. For kids, the consumer tech is dangerously addictive. I found that out during lockdown, trying to keep ours off their computers and games and focused on homework! I'm glad that I grew up in a time before social media and iPads, its all too confusing and complicated.



Lake Te Anau

Lynne and I decided to take a trip South to support the tourism industry. We had a lovely trip, a little chilly but we managed to fit everything we wanted to do in around the weather patterns. Lynne ticked off one of her bucket list entries by taking a helicopter ride from Lake Te Anau up to Manapouri and then over to Doubtful Sounds. It's a little disconcerting when they hover close to a waterfall on a cliff face and take you up to the tarn at the top! We also took a trip up the Southern arm of lake Te Anau on an 85 year old motorised yacht called Faith, complete with drinks and snacks. They believe that Faith may have been used to evacuate soldiers at Dunkirk. We had a young man named Adam as our Captain. He tells us he was a third shareholder in the yacht—explained that he probably only owned the arm rest of his seat truth be told!. We were also taken on a short bush walk to the mirror lakes a “lake within a lake” We took a bus trip through to Milford, straight through at the Homer Tunnel, usually an hour wait. We were told that on a “normal” day there would be 400 buses and 2,000 cars—now only 50 buses and likewise fewer cars. Then a catamaran trip on the Milford Sound out to the entrance. Accommodation was \$99 per night, staying a Birchwood Cottages. We can thoroughly recommend them, not ultra flash but certainly did the trick when you were out all day. (Sobering to see a suburb in Te Anau with around 400 new but empty houses—previously Air –bnb's! There are certainly going to be people hurting out there. So if you want to take a trip south—we can recommend lake Te Anau—though Lynne warns that you need to watch out for the Paradise ducks at the bird sanctuary—they are of the ankle biting kind!



Personal Changes

Don't forget....

It is important that you advise us if you:

- ⇒ **Change your bank account**
- ⇒ **Change your address**
- ⇒ **Change your Will or set up POA's**
- ⇒ **Change your Trustee**
- ⇒ **Change your email address**
- ⇒ **Have any other changes in your life that may relate to ownership structure or strategy**

Bank account and address/email changes are obviously important to ensure that withdrawals and correspondence get to the right place but it is also important if you change your Will or Estate structure. This could mean that your investments may need to be set up differently e.g. if you set up a Tenants in Common structure or a Trust structure. Our recommendation would be "if in doubt—give us a call" to ensure your portfolio is in alignment.

What kind of bedding does an accountant have?



Balance sheets

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