STUART + CARLYON

Financial advisers for your lifetime goals

Clear signals or mere market noise?

Back in 1987, in the months leading up to the share market crash that year, it seemed that everybody was talking about the markets. Money shows were the hot new thing on television, and – if memory serves us – that was the year that TV One news started reporting on share prices and currency fluctuation as a staple part of their nightly bulletin.

Unfortunately, as the crash showed, this new blizzard of information was pretty useless at providing true guidance for investors. The pundits and commentators all went over the same cliff as the rest of the lemmings.

So is the market noise any more useful 25 years later? In theory it should be. We have a generation of journalists who have lived through the ups and downs of the global marketplace including the 2008 meltdown and its attendant fallout.

Likewise, as part of that fallout we have new rules preventing vested interests from puffing up their respective products.

The irony is that while the rules governing media and market recommendations are less 'wild-west' than they used to be, the market noise is not necessarily any more helpful.

- One in five Americans surveyed in a TIAA-Creff Financial Advice Survey October 2012 said finding relevant financial advice is difficult. Of those surveyed, 51% don't know where to start looking for advice and 74% don't know which sources they can trust.

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- The survey reveals a significant disconnect between individuals' knowledge of their personal financial situations and the actions they take to achieve better financial outcomes. They know what they need, but set off on the wrong path to find it.

- There is a need for consumers to get personalized advice that directly meets their objectives and easy for them to implement, and indeed the majority, 64%, prefer to get advice in person.

Jim Parker of fund manager, Dimensional, in Australia has a savvy view of market noise – tempered we think by his training as a journalist. He says: "Market noise focuses on short term market movements, a high excitement-importance ratio, hot stocks, hot investment trends, instant gurus and fake prophets."

He points out that this is because journalists are under increasing pressure to deliver a high volume of content without enough time for research. The result, often lamented by journalists themselves, is that news stories become self-referencing. A rumour in a Blog gets reported elsewhere as fact, and soon it gains traction.

Says Parker: "The noise is getting more-so as the newspaper industry is contracting, competition is fierce as audiences and advertisers are deserting mainstream media. Focus now on quantity not quality – more opinion and less analysis."

He wryly warns investors to understand the characteristics of the various media commentators.

- Reporters tell you tomorrow what happened today.
- Consultants tell you what will happen 5 years from now (but not tomorrow).
- Economists tell you why what they forecast yesterday didn't happen today.
- Columnists tell you that the world is doomed and that there will be no tomorrow.

Ouch! But underpinning the problem is the fact that useful recommendations are almost impossible to publish. It's not enough to say that Might River Power, for example, is a good buy – or a share worth avoiding. It all depends on the circumstances of the investor: and those circumstances are not privy to the reporters or consultants who write so prolifically. A good advisor looks at your context, your objectives as well as at the underlying strengths or weaknesses of the investment in question.

In other words for a clear guide on your best investment moves – nothing beats one to one advice. The noise? Well, 25 years later, that's still all it is.

Taxing times

Attention all clients. The annual Portfolio Taxation Summaries will be rolling out to you later in May. The interest, dividends and PIE income are each compiled from all your investments throughout the year, and the summaries will make preparation of your tax returns much easier.

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There have been excellent returns from overseas shares this year, so for portfolios in family trusts there will be some tax to pay under the Foreign Investment Fund regime. As always, you or your accountant can contact us with any queries.

Low interest rates – how low and for how long?

Are New Zealand's low interest rates good or bad? That depends on whether you're primarily an investor or borrower. And it also depends on our rates relative to those overseas.

Put it this way. While NZ investors complain about bank deposit returns of 4% for a year and only 5% per annum for five years, spare a thought for US bank depositors being offered 0.45% per annum for 10 years.

With the US inflation rate sitting at 1 per cent the banks are really delivering a negative return. No wonder the US share market has done so well lately. By delivering a 2 per cent per annum dividend, shares look positively stellar compared to term deposits.

“Western central banks are expected to continue stimulating their economies with low interest rates until unemployment reduces and economic growth is sustained. While inflation remains low, this strategy is quite viable.”

Why are bank rates so low? The cause, throughout much of the developed world, is the stubbornly high level of government debt. So long as Governments are tip-toeing around the edges of a recession we will see:

- Central banks in those countries maintaining low interest rates to stimulate borrowing and economic growth.
- Low or moderate inflation in the countries with high government debt.
- Negative real interest rates for investors (less than zero after tax and inflation).
- Higher share prices as investors chase other forms of income yield.

Western central banks are expected to continue stimulating their economies with low interest rates until unemployment reduces and economic growth is sustained. While inflation remains low, this strategy is quite viable.

Right now it isn't just the US where bank interest rates are close to zero. These artificially low interest rates are in place in much of Europe, the UK and Japan.

But here's the rub. For nations such as Australia and New Zealand where Government debt is relatively low (believe it or not!) there is upward pressure on their currencies.

We may think our rates are low, but 4% to 5% compared to 0.45% is a huge difference. So overseas investors buy our dollar to invest in our interest rate securities – bonds and Government Stock – and that pushes our dollar up.

Here, the NZ dollar is likely to remain artificially elevated against the US Dollar and the Pound until those economies improve and their central banks can normalise interest rates again – that is, increase these without causing recession. It isn't going to happen over night.

Spotlight on money laundering

Well, this should help you sleep at night. On June 30th this year the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 comes into effect.

Money laundering is how criminals disguise the illegal origins of their money and the regulations will bring New Zealand into line with other nations trying to stop criminals and terrorists where they hurt: their bank accounts.

A good move, but for us more paperwork. The new act places obligations on all financial institutions including us folk here at Stuart+Carlyon.

We will be required to put in place a plan to comply. Because of our approach in delivering holistic advice, there is little likelihood of someone trying to launder money through us; in fact having clients' monies managed via Aegis, our custodian, is also a safeguard.