



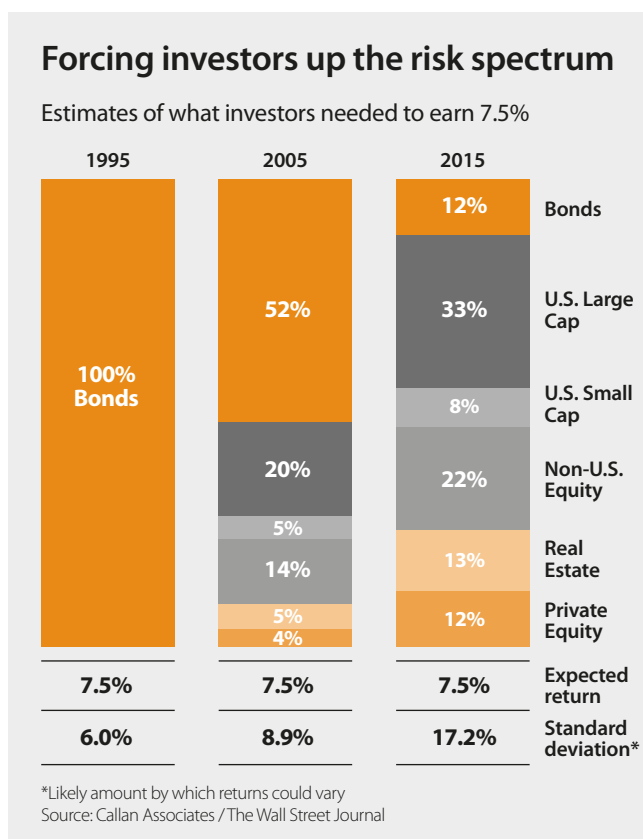
# STUART + CARLYON

Financial advisers for your lifetime goals

## Dialling up risk for the same return

Bonds. They haven't been too attractive lately. Twenty years ago they were the cornerstone of most personal investment strategies: a rock-solid foundation which provided good annual interest while carrying minimal risk.

But look what happened. The Wall St Journal recently published a very good chart illustrating how investors now have to take bigger risks if they want to equal returns of two decades ago.



In 1995 you could have all your money in corporate bonds earning 7.5% per annum. Move on to 2015, and now 88% of your money has to be in shares and property to earn that same 7.5% gross per annum.

Today bonds offer extremely modest returns. In New Zealand one might earn 3.2% pa for five years while US corporate bond holders are lucky to earn 1.5% interest per annum.

But aren't they at least a solid, safe investment? Not necessarily. The way investment risk is assessed revolves around what the quants call the Standard Deviation: the degree to which the outcome might in all likelihood swing around that 3.2% per annum.

The old 100% bond portfolio earned 7.5% per annum - plus or minus 6% - a fairly tolerable range, and still positive no matter what. Whereas the 2015 diversified portfolio could vary plus or minus 17.2% at times. In other words, to aim for a return far better than current bond rates means higher volatility.

We deal with that issue for our clients all the time. How to build a portfolio with enough upside for that comfortable retirement whilst making sure if the swings are too big or too prolonged, that the money will last over their lifetimes.

Whether the money lasts in a downturn is the best way to evaluate just how much risk you can afford to take. If it is too risky and can't be tolerated, then there is no choice but to dial down the return you are trying to achieve.

In a world of extremely low interest rates, investing is not as easy as in 1995.

## On the hoof. A "great again" scenario under a Trump presidency?

After tipping out the decorum rulebook and savaging his Republican opponents in the primaries, Donald Trump is discovering the limits to his unorthodox approach when it comes to the Presidential contest. The pollsters currently give him a 12% chance of winning the necessary vote. Yet the contest is never over until the vote gets counted so we need to prepare for what a Trump presidency would look like in terms of the economy. Not easy for a man who is heavy on rhetoric but gossamer thin on specifics. He appears to make policy on the hoof.

We do get clues however from his statements as well as his appointment of hand-picked advisers on the economy: a largely anonymous group of merchant bankers and property speculators who have already signalled tax breaks for operators in their particular fields.

If Trump gets elected expect the following:

- **Trade:** TPP won't go ahead and NAFTA, signed in 1994, will be on notice. He backs tariffs to protect American industries.
- **Tax policy:** Trump promises lower taxes for everyone, dropping the top tax rate from 39.6% to 33% and a flat 15% tax on businesses as well as an end to death duties.
- **Infrastructure and defence:** Increase spending.
- **Monetary policy:** no clear view but hinted he would not reappoint the Chairperson of the Federal Reserve, Janet Yellen. He



says his focus is on reducing the National Debt, but has reversed his position on this a number of times.

Trump was quoted in a March interview as saying: "My core beliefs are I want a major tax cut." This sums up his focus: sharp on tax breaks but hazy on monetary policy.

**“ Commentators say a Trump economy would lead to higher inflation that would weaken the US dollar but lift US Bond yields.”**

Commentators say a Trump economy would lead to higher inflation that would weaken the US dollar but lift US Bond yields. The impact on equities is less clear – some business sectors will remain powerhouses regardless, while some may face steep trade barriers as a result of the unravelling free trade agreements.

As much as anything, the attack on free trade would slow the world economy down and that could lead to a regrouping of major players and a power shift away from the America that Trump wishes to make great again.

## Standing out

To stand out in a crowd takes a lot of courage. One fund manager that does this is Platinum Asset Management.

Platinum avoids the "crowded parts of the market" and seeks out companies, sometimes in unfashionable sectors, that are performing at the sales and profit level. In other words they take something of a bottom-up approach to selecting stocks.

Of course there is no shortage of top-down problems to worry about: Brexit, Trump, global indebtedness, China's slowdown are all piling onto the investment headache.

Because of uncertainties, investors are herding into assets that are perceived to have low risk, for example US consumer staples and negative yielding government bonds. Uncertainties also lead to quality assets being heavily marked down.

But despite all the doom saying, Platinum say the US economy continues to do well, China's property markets have stabilised and

European economies are in slow recovery. Why invest in low growth staples?

So Platinum are focusing on out of favour stocks offering better value – insurance and internet companies in China, banks in Europe and technology in the US.

One thing they point out: Governments can't rely on monetary policy alone to rekindle their flat economies, so many are now stoking the fires with increased spending on infrastructure. This shifts the focus towards fiscal stimulus leading to inflationary pressures which will put upward pressures on bond yields creating a very different investment environment.

In strong bull markets Platinum says: "we struggle to keep pace with the index...our approach takes us away from owning the more highly valued parts of the market where investors are crowding and creating momentum." In other words, they shine when market conditions change.

*Note: As always we structure your portfolios to meet your individual needs and objectives. The important message is to stick to your strategy or plan. You've heard our mantra, a diversified portfolio is your friend in dampening risk and maximising return.*

## Connecting with China

When Susanna first went to China in 1995 one could only visit Beijing through CIT, the official Chinese travel agency. That meant being railroaded into certain souvenir shops, and taken to restaurants owned by 'connected' relatives, which served terrible food. And that wasn't just the view of the foreigners.

On her trip to the Great Wall, Susanna recalls, the tour party included other Chinese, from the South, and they complained loudly about the North Chinese standards. It was like asking fine dining French chefs about stodgy British cuisine.

Times change. Recently a good client mentioned an excellent China Highlights tour that they went on led by Dave Bromwich, the President of the NZ China Friendship Society.

Dave has strong connections with Rewi Alley cooperatives, so they visited local village communities as well as the iconic must-see sites in Shanghai, Guilin, Beijing, and Xian (home of the Terracotta warriors).

Our client shares our passion for travel, and felt that the cost including flights from NZ, all food, accommodation, internal travel and entry fees was really good value for 20 days. One favourite day was Song Qingling house and museum in Beijing and realising Rewi Alley's connection to the history of Modern China.

Dave and his Chinese co leader went to a lot of effort to ensure good food and interesting visits, including one or two activities arranged in response to the interests of group participants.

With a maximum of 14 people the next tour is probably in September 2017. For more information please email Susanna.