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STUART + CARLYON

Financial advisers for your lifetime goals

The Trump shall sound

The American elections certainly surprised everyone, and proved yet again that voters can change their minds right up to the moment they step into the voting booth. Clearly 47% of voters wanted a change from the familiar. Now the nervous headlines revolve around the various appointments and smoke signals being bandied about Washington. Will Trump moderate his extremist promises?

So far, the signals suggest that on a societal level the Trump Presidency is likely to be fraught and divisive in a way we haven't witnessed since the late 1960s.

But in terms of the economy, it will be more or less business as usual. Wall Street has reacted favourably to indications that Trump will be pro-growth. His spin doctors are already claiming that no President elect has ever faced such a serious fiscal crisis. This surely ignores the situation that Roosevelt faced with the Great Depression, or the GFC inherited by President Obama in 2008. But the claim prepares the ground for a regime that delivers tax breaks and big spending.

Meanwhile, there is absolutely no indication that the TPPA trade agreement is back on the table.

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For New Zealand these two issues do not bode particularly well. Already the New Zealand dollar has taken a pounding against the US Greenback, and any world where walls go up and free trade goes down, is not a favourable world for smaller export oriented nations such as New Zealand.

For this reason our share market is down. It shed 3% in value on the day of November's election outcome. Ironically the Reserve Bank in NZ, shortly after the Trump victory, determined they would proceed with reducing the Official Cash Rate (OCR) to 1.75% on the basis low inflation was still a concern. Also Australia and UK eased interest rates. These moves have hardly reinforced the strength of the Australasian currencies.

In the medium term, 3 – 5 years out, Trump's likely policies may rekindle inflation, and rising central bank interest rates. This is bad news mostly for companies and households that have borrowed too much.

The potential for economic stimuli also pushes up bond yields, causing bond prices to fall. This is already happening in the US. Rising interest rates do not benefit investors who own "yield" type

investments such as property and infrastructure stocks. The high yielding NZ share market is now suffering, falling 12% since its September all time high.

In sum, the proposed changes are expected to promote overall growth in the US, but more in some sectors than others. The appointment of hawkish military leaders suggests that the gargantuan 'defence industry' is going to get another boost in investment.

Over time, we may also see a realignment of world trade partnerships with different nations either penalising the USA for Trump's failure to address global climate change, or for putting up barriers designed to boost America at the expense of its trading partners. China is likely to lead this kind of shift. (Europe has its own challenges.)

So, there's good news and bad news. Has it ever been any different? As always, our client portfolios are diversified as none of us can predict the future. Our last extreme event was the GFC and the recent market reaction was mild by comparison.

Unless your circumstances have changed dramatically, there is no need for major surgery to your portfolio. We look forward to the situation becoming less speculative than it currently is. The direction of Europe's collective economy may prove to be a bigger story next year.

Shaky Isles

New Zealand's latest earthquakes around Wellington and the upper South Island deliver lessons for everyday citizens, and a couple of shocks to New Zealand's rather flat economy.

The economic cost. The government must be wringing its hands over the new and unexpected costs of restoring basic infrastructure:

roading, rail, electricity and water supplies to Kaikoura. (Not to mention the write-off of many buildings in Wellington.) Earthquakes force this country to replace lost assets, rather than invest in activities that will grow the economy. Imagine if those millions were invested in a new start-up export-oriented industry.

A good chunk of the surplus Bill English had in his Budget will surely be diverted to restoring earthquake affected areas.

But any disaster this close to home should make us stop and think as to how we would cope when everything is thrown off balance. Are we sufficiently insured? Do we have access to emergency funds so we can deal, short-term, with any crisis that occurs?

Since the big Christchurch quakes we have been increasingly reminded of our preparedness, or lack of preparedness, in the face of earthquakes, tsunami, or volcanic eruptions. The fact is, New Zealanders dwell in a seismically active nation and we should, as a matter of course, be ready for the worst.

So at risk of dampening the season's festive cheer, may we suggest the following:

- Review and update all insurance policies. Your house insurance should be priced to reflect replacement cost. That's gone up in the past 12 months.
- Keep handy all the important documents that you can grab. Keep passports, land titles and insurance policies in one satchel.
- Have up to date wills and Enduring Powers of Attorney in place.
- Back up key information – e.g. bank account numbers.
- Do an inventory of your assets and liabilities.

And don't forget to update your survival kit: refresh your water and items of food. This sounds bleak doesn't it: but it beats being unprepared.

Changes in the New Year

Our lease has come up and Stuart + Carlyon will be moving office in the New Year to bigger premises. We will be staying in Parnell, but moving downhill to the bottom of Cleveland Road to the contemporary Cumulus building, pictured above.

For sure we will miss being so close to the banks, and to the various cafes on Parnell Road, but the new location is surrounded by new commercial developments also, and we are certain that there will be cafes aplenty! And parking.

We will send further details once everything is confirmed, and hold a "housewarming" event once we're shifted.

In the meantime our office is closed from 22 December to 16 January for the normal Christmas –New Year holidays.

We wish all our clients and their loved ones a relaxing holiday. Keep safe!

A Christmas cracker to finish with

A worthwhile community charity received donations from every single business owner in town. And even the public-sector managers had made hefty donations. But one name was conspicuously absent: that of the local bank manager.

So the charity's director paid a visit. "Look, our records show you haven't given a penny to charity," she told the bank manager. "And let's face it, you're on a good salary. Would you, this Christmas, care to make a donation?"

The banker replied, "Did your records show that my mother is ill, with extremely expensive medical bills?"

"I didn't realise," mumbled the director.

"Or that my brother is blind and unemployed? Or that my sister's husband died, leaving her broke with four kids?"

"I … I … I had no idea."

"So," said the banker, "if I don't give *them* any money, why would I give any to *you*?"

As you know we do not take commissions. However some Kiwisaver schemes will not rebate commissions to its members. As the amounts involved are uneconomic in nature, we pool the amounts received and donate to the Cambodian Rural Schools Trust. The trust is a charitable trust set up to fund the costs of running Savong's School in Siem Reap – a school founded and built by Duncan Stuart (Susanna's husband).