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STUART + CARLYON

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All Black, and Blue and Green and Red.

It's difficult in Rugby World Cup year not to draw at least one metaphor from the sport to describe the performance of various competing asset classes as they vie for position on the investment leader board. Investment classes all have their ups and downs and New Zealanders are all too familiar with the prospect of having the top team in the world, only to see a France or a South Africa eclipse the All Blacks when it matters. Perhaps for the first time since 1987 this is our turn again.

Forget about the rugby for a moment. What we did – courtesy of Morningstar* research - is go back and look at the main investment asset classes ranked by performance in NZ$ terms over the 24 years since the All Blacks won the RWC. The Morningstar game board below shows just how volatile these investments really are each calendar year. There in 1987 we see NZ Government Bonds and Cash striding atop of the board. By 1995 Cash reached the bottom of the heap and Bonds close to the bottom in 1996.

The pattern is: there is no pattern. Instead we see the eternal lesson about not putting all your eggs in one basket. Spread your risk! Even in each of the major downturns such as the sharemarket crash of 1987, the 1994 bond crash, the so-called Tech Wreck of 2001-2002 and the 2008 Global Financial Crisis there were at least two asset classes contributing positive returns.

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We notice, too, that just as the All Blacks stumbled badly on their predicted road to the top four years ago, the top performing asset classes can suddenly tumble in equal fashion. International Equities (shares) were the darling of 1989 and 1997 to 1999, but performed dismally within 12 months. NZ Equities did nicely in 2003-04 but lost ground a year later. The lesson: avoid fads. This year's favoured team won't necessarily make it to the top. Conversely, today's losers may be next year's winners as seen from NZ and Australian equities rising from bottom to top between 2008 and 2009.

In investment terms, keep a spread of asset classes – and adjust the mix to suit your own life stage, risk attitude and particular situation. As for the Rugby, as we go to print the All Blacks are favoured 8/11 to win the RWC. If only the odds on investment asset classes were ever that good!

Morningstar Gameboard

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
23.9	45.9	23.6	14.5	43.9	13.4	51.7	6.3	21.4	23.3	40.9	36.7
23.9	29.0	18.1	14.4	30.7	11.8	31.8	2.8	19.6	18.7	14.5	14.2
23.3	17.7	15.9	11.6	28.8	10.9	16.0	-1.8	18.2	13.0	12.8	14.1
-6.6	17.3	15.2	-16.2	20.6	6.9	13.5	-2.8	13.9	12.1	7.7	13.1
-19.5	16.6	14.4	-18.6	17.8	-0.5	12.8	-6.9	13.2	9.8	6.8	7.1
-48.6	-6.7	14.0	-35.9	10.4	-7.0	6.4	-8.2	12.9	8.8	6.6	4.8
-70.7	-21.3	-20.7	-58.1	-11.4	-39.2	-5.6	-8.8	9.3	5.0	2.9	-3.3
1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
26.5	11.1	16.7	19.0	25.9	25.1	20.2	29.7	20.4	15.8	44.6	9.7
25.5	9.9	12.1	12.4	23.5	20.6	19.7	24.9	8.5	11.2	18.9	7.6
17.0	7.3	9.0	8.7	13.4	20.0	16.1	20.3	8.2	8.0	11.8	7.0
4.4	6.3	7.8	5.6	7.3	9.4	10.0	16.0	3.8	-20.8	7.8	4.1
0.1	3.7	6.0	4.2	6.4	6.0	8.1	7.5	-0.1	-21.9	4.4	3.4
-0.1	2.3	4.8	-19.5	6.1	5.5	7.0	6.0	-0.3	-32.8	2.9	2.8
-6.4	-9.1	-11.6	-36.2	5.5	4.3	6.9	4.2	-4.3	-37.7	1.7	2.4
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010

Cash | NZ Govt. Bonds | International Fixed Interest | NZ Listed Property | NZ Equity | Australian Equity | International Equity

Source: Morningstar Direct™

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Globally, Investors are sitting on Twitchy Fault Lines

You wouldn't think from the twitchy talk of investors that the deepest abyss of global financial ruin has been avoided. No: our outlook is still set to caution mode.

In fact over the last two years we have seen a dramatic recovery in global share markets with the US S&P 500 index almost doubling from its low point in March 2009 – but at the same time the US dollar has weakened. Economic indicators in the US are favourable with consumer confidence rising, companies making good profits and the number of jobless gradually reducing.

But this is not a return to the old normal. We're seeing a bounce back, but not in every sector and meanwhile the huge cash injections of the Federal Reserve monetary stimulus package are scheduled to end mid year. Both factors account for nervousness, and unfortunately the physical and political world continues to create events that exacerbate this condition.

Let's start with the earthquakes. The news has been dominated by natural and not-so-natural disasters with the Christchurch earthquake closely followed by Japan's devastating 8.9 earthquake, horrific tsunami and nuclear crisis.

Adding to world uncertainty are the extraordinary scenes of conflict and fundamental change in the Middle East and ongoing sovereign debt problems in Europe, with Portugal the latest country seeking a financial bailout.

If we focus strictly on New Zealand, the growth prospects for the economy are not looking bright for the medium term. A few months ago the Government's priority was about reducing foreign debt, but with the South Canterbury Finance bailout, the Earthquake and now AMI, our national debt has ballooned. Growth may resume from 2012 onwards, fuelled by the Christchurch rebuild perhaps, but this won't address our long-term need to create solid export trade.

For savers and investors we can expect low interest rate returns for longer. This is because after the earthquake, the Reserve Bank of NZ cut the official cash rate by 0.50% on the 10th March 2011. The Official Cash Rate is now 2.50%. We are reluctant to lock too much into five year bonds at the current low yields and are tending to invest maturing bonds and cash into shorter term deposits of between six months and two years. We believe longer term rates will eventually be more attractive again in future.

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From the other side of the world we're getting mixed signals. The European Central Bank (ECB) raised interest rates to 1.25% from 1%. President Jean Claude Trichet cemented expectations for at least two more rate hikes by year-end as the ECB tries to cool rising price pressures. But the Bank of England has left its key rate at a very low 0.50% placing more importance on domestic growth. In other words both parties see a risk of either inflation or stagnation and are placing their bets one way, or the other.

Investors needn't place bets in the same manner. Instead we maintain a broadly diversified mix of assets and reweight portfolios by reducing sectors that have grown in value. This lowers portfolio risk and keeps portfolios on track to achieve client goals.

Strategies for a low return environment

You can see from the game board that all 2010 returns are significantly lower and - especially for NZ – cash rates are at an all time low. That's because the Reserve Bank is trying to make it easier to borrow money for rebuilding Christchurch. The news is good for borrowers but not for those with term deposits maturing. So what are the best strategies?

Investors not yet retired

- Tax is lower and so is mortgage interest. Focus on saving more and make debt elimination a priority.
- Take advantage of the KiwiSaver freebies: the kick-start of $1,000 and the annual contribution of $1,040 from the Government.

For those retired

- You may require an adjustment to the level of drawings you take out. Trim expenses.
- Review those assets that are not earning anything. Do you need two cars for example?
- Get your tax rate correct.

These are belt tightening times for everyone. The easiest arena to achieve savings is in the way you shop. Work harder to find better deals, sharpen up your control on petty cash and prioritise your spending. If something is merely a "want" rather than a "need" then save the money instead.

We're here to help clients with their overall financial health so please book in to see your Money Doctor for a check up!