OUTLOOK FOR FINANCIAL MARKETS as at 5/12/2016

We live in strange times.

- It is estimated that there are around $US 13.5 trillion-plus of mostly Government bonds around the world trading at negative yields, i.e. you pay interest to have others use your money. It has become so crazy that even some companies in Europe are now issuing bonds with a negative yield. The only explanation for this is that the buyers of these bonds expect that the European Central Bank's bond buying program (*quantitative easing*) will push bond prices higher and yields even more negative. Markets have become so distorted that investors are buying bonds for capital gain vs shares for income.
- Few thought Brexit would happen and it did. If it did then share markets were meant to suffer and they did for 2-3 days, but they then went straight back up.
- Few thought Donald Trump would be elected President and he was (*and the Republicans won control of both houses*). This, if it happened, according to many so called experts was meant to be a negative for the US share market but it wasn't. In fact it was a bonus and most (*but not all*) other countries had rises in their share markets also.
- That said, it is worth pointing out this by itself is misleading because some sectors went backwards (*particularly listed property and utilities/infrastructure*) whilst others rose e.g. banks and the resources sector rose substantially (*albeit from a low base*).
- The Italians voted not to reduce the power of their Senate, their Prime Minister, Matteo Renzi, resigned and markets hardly moved.
- OPEC met and with the co-operation of the Russians finally agreed to control oil output and stop the price war that was hurting all major oil producing countries.
- Iron Ore and coal have had some really good price rises in recent times despite quite a few forecasters predicting doom for these commodities.
- As we have previously suggested, developed country long term Government Bonds finally sold off (*the Trump effect*) by sizeable proportions pushing up interest rates (*albeit that interest rates are still very low*) – US 10 year Government Bond yields were 1.36% 5 months ago and due to the recent sell off are now 2.4%. The rationale goes something like this: the US economy is going OK now and the US Federal Reserve are expected to raise short term rates at their December meeting, add to this the expectation that Trump will reduce income tax, cut red tape, spend lots more on infrastructure, thereby increasing budget deficits and encouraging more spending, boosting inflation which therefore means higher interest rates. Australian 10 year Government Bonds have also sold off and yields have moved from 1.85% to 2.85% over the same 5 month period.

All this just goes to prove that the more things change the more they stay the same:

- Short term movements are still hard to predict.
- Longer term, economic and financial market CYCLES persist – things go up then down, they adjust and then they go up again and so on, but longer term growth happens and with ever increasing technological advancements the standard of living improves for the majority of people.
- In most events (*or trends*) there are winners and sometimes losers but on average we make progress. Who can remember the Newcastle earthquake – not a nice thing to happen but there were many winners courtesy of the rebuild. Our job is to find you as many winners as we can, minimise the impact of any losers and get you a good result over time, by fine tuning your mix of investments as required from time to time.

OUTLOOK FOR FINANCIAL MARKETS *(Cont'd)* as at 5/12/2016

Our views on investment sectors:

Cash	Earning less than 2%, useful for spending or keeping some short term to enable participation in good investment opportunities whey they arise.
Fixed Interest	Bonds issued by developed country governments despite a recent fall in prices *(& increased interest rates)* for some, are still expensive and to be avoided. Some Bonds issued by emerging market governments offer good value at their current levels. Corporate bonds are a mixed bag with everything from good value to expensive at current prices.
Shares	Australian shares are reasonable value on average, but some are expensive and some cheap with quite a few good opportunities available in smaller companies. The Australian economy doesn't look like returning to boom conditions any time soon so you need to choose wisely when deciding on your stock selections. Similar sentiments apply to Global Share markets but the growth prospects for the US and quite a few emerging market economies look better than Australia's. That said some parts of the US stock market appear expensive to us.
Property	Listed property looked slightly expensive a couple of months ago but after recent falls (about 15% from their high point) the sector now looks reasonable value despite the prospect for some slight increases in interest rates. Direct Commercial property looks to have plenty of opportunities provided you are selective in what you invest in (*yields should be in the 6% to 7% range for quality properties*). Australian residential property looks expensive (*particularly in NSW and Victoria*).