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Autumn 2015

Summer is over and the days will begin to cool down now that autumn is here, but things are just beginning to heat up on investment markets. While the Reserve Bank's decision to cut the cash rate to 2.25 per cent in February is a blow to anyone dependent on income from their investments, it has reignited local share and property markets.

The residential property boom shows no sign of a slowdown, especially in metropolitan Sydney and Melbourne where investors continue to drive prices to new highs. And after a lacklustre 2014 Australia's sharemarket is nudging 6000 points, a level not seen since 2007.

After shares pulled back last year on the back of falling commodity prices, optimism appears to be building among local investors. The February company reporting season revealed no nasty surprises while in Europe tensions have eased after Greece was granted an extension of its debt bailout.

Oil prices also appear to have established a new base at around US$50 a barrel. Any further falls would be a drag on inflation and the local oil and gas sector.

In the US, Federal Reserve chairwoman Janet Yellen gave an upbeat account of the US economy to the Senate Banking Committee in the last week of February. She hinted that US interest rates could be on the rise later this year if economic conditions continue to improve.

As always, if you would like to discuss the contents of this newsletter don't hesitate to call our office.

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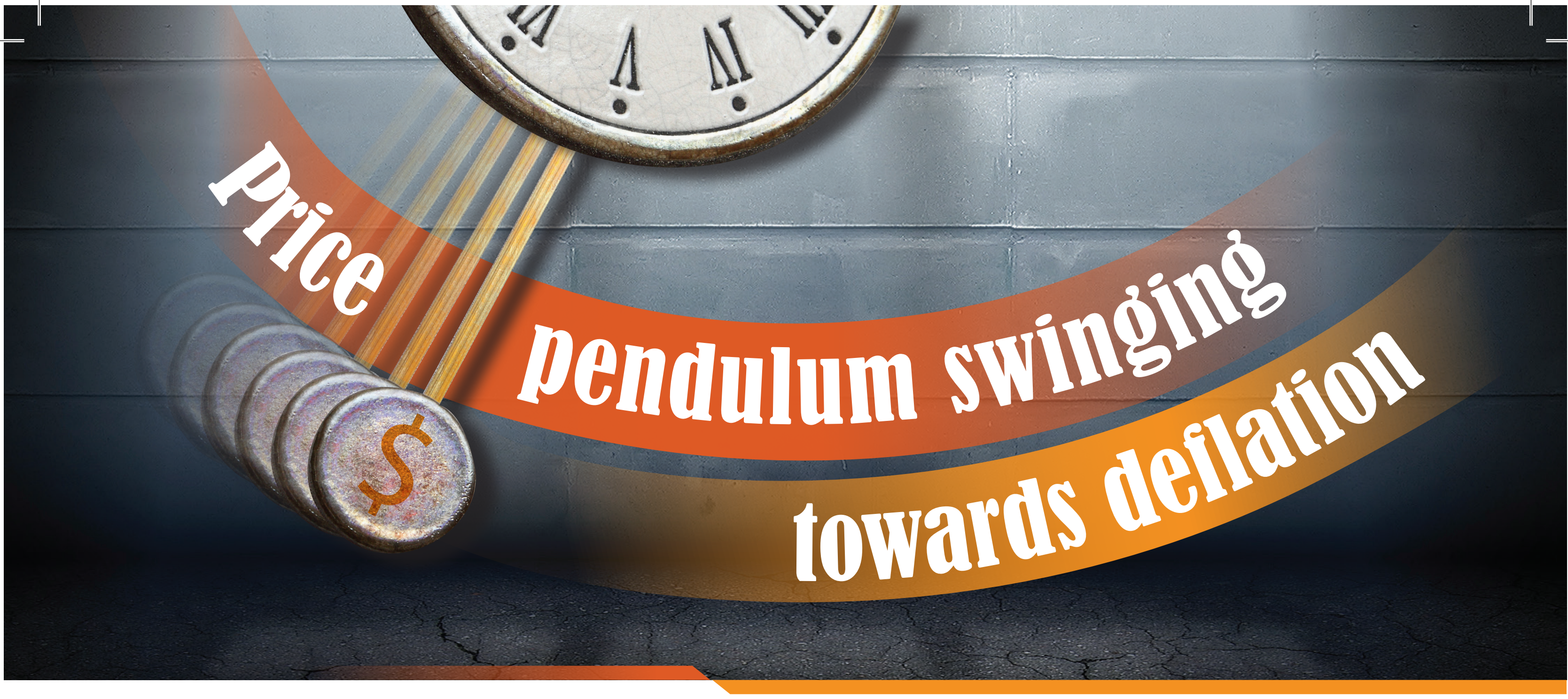


An interest rate cut and lower prices for petrol and consumer goods are a welcome sign that inflation is well and truly under control. Yet this run of good news for Australian consumers is part of a global trend that is raising concerns that the price pendulum has swung too far.

Australian inflation fell to 1.7 per cent in 2014. Prices were lower for petrol, clothing, computers, household appliances and furniture. This was surprising given that the Australian dollar fell sharply in the December quarter and many of these goods are imported.

There were also moves in the other direction, with price rises for childcare, education, insurance and financial services. But the price falls for imported goods indicate that Australia is importing lower prices from overseas where inflation is very low and even negative in some countries.

What is deflation?

It is difficult to imagine anyone being worried about cheaper goods. Yet persistent price falls can be bad news if shoppers and businesses stop spending in anticipation of lower prices ahead.

Deflation occurs when falling prices for goods and services drag the inflation rate below zero. Europe and Ireland are already in this position despite the best efforts of central bankers to stimulate spending and inflation by cutting interest rates to close to zero.

Deflation increases the real value of money because you can buy more goods with the same amount of money. It also increases the real value of debt.

What causes it?

Deflation is relatively rare but when it does happen it is often at a time of technological change. For decades now rising speeds and falling costs of computing and the internet have been transforming the global economy and the pricing of goods.

Since the 1960s the price of one unit of computing power, measured by floating point operations per second, or FLOPS, has fallen from US$8.3 trillion in today's money to US8c. This fuels productivity and cuts the cost of doing business.

Deflation can also be caused by a drop in demand for goods and services. This can be a symptom of rising unemployment, forcing businesses to lower prices to entice people to buy their products.

Fighting deflation

Central banks generally cut interest rates as their first line of defence against deflation to stimulate growth and encourage people to spend now rather than waiting for prices to fall further.

But interest rates can only be cut to zero. That's why central banks in the US, Japan and now Europe have moved to the second line of defence by increasing money supply. Or in modern economic speak, quantitative easing.

Since the global financial crisis trillions of dollars have been injected into the global economy, the most recent being a $1.4 trillion bond-buying program announced by the European Central Bank. But despite this and record low interest rates many developed economies are struggling to get inflation off the floor.

The hunt for yield

The recent move by the European Central Bank will make Australian shares and bonds more attractive to overseas investors, thanks to our falling dollar and relatively high interest rates.

While our cash rate is the lowest since 1958 and bond rates have also slipped, they are significantly higher than the zero rates on offer elsewhere.

The hunt for yield is also likely to intensify for Australian investors after the Reserve Bank cut the cash rate to 2.25 per cent driving rates for term deposits below three per cent.

By comparison, shares in the big four banks, Telstra and Wesfarmers offer dividend yields, including franking credits, of between six and eight per cent.

While deflation is not a pressing issue for Australia, it is occurring in parts of Europe and this will have flow-on effects for global markets.

If you would like to discuss your investment strategy in the light of issues raised in this article please give us a call.

Gold is back in investors' good books, thanks largely to economic and currency volatility around the world. Not only has the gold price rallied strongly in recent times, but falling oil prices have cut the cost of gold mining operations and sent Australian gold stocks soaring.

Eurozone worries over Greece and the potential for deflation, following aggressive money printing in the US, Japan and now Europe, have added to gold's recent allure.

Gold has always been prized for its rarity and physical beauty, but it is also valued as a safe haven investment when markets are volatile and a hedge against the devaluation of paper currencies.

While global currencies are no longer tied to the gold standard, central banks still hold gold bullion which they buy and sell to add stability to their monetary system.

Safe haven

The precious metal has been enjoying a resurgence similar to the one it had in the aftermath of the Global Financial Crisis in 2008, when investors scrambled for safe havens.

In the decade before the GFC, gold traded in a range between US$260 to $US670 an ounce. By August 2011 it had shot to a peak of US$1883. A correction followed and it fell as low as US$1143 in 2013.

The gold price began to recover again late last year as global currencies retreated against the resurgent greenback.

Some pundits also attributed the latest swing to Russian buying. The conflict in Ukraine and falling revenues for its oil and gas exports have seriously depleted Russia's monetary reserves.

The Kremlin's bullion binge temporarily threw the demand/supply equation out of kilter, causing the commodity's price to firm. By late January it was up at US$1283. By mid-February it was hovering around US$1237 an ounce.

As the graph shows, the upwards trend is even stronger in Australian dollars. As gold is traded in US dollars, the yellow metal has provided a hedge against the falling Aussie dollar for local investors.

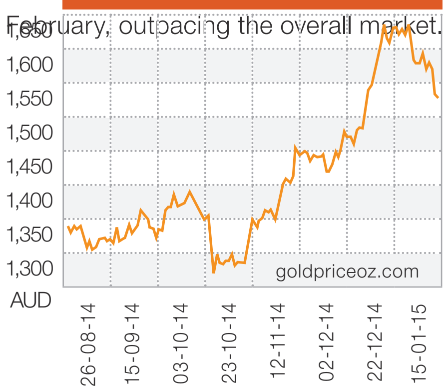
Golden opportunities

There are a variety of ways to invest in gold apart from acquiring bullion bars or jewellery. Buying shares in a gold mining company or units in an exchange traded fund (ETF) focussed on gold stocks will also give your portfolio exposure to the precious metal.

In fact, apart from the GFC blip locally-listed gold shares have outperformed the All Ordinaries index.

As the graph below shows, the ASX Gold index has shot up more than 50 per cent between November and mid-February, outpacing the overall market.

6 months Gold Price (Fix)



A tangible alternative

For those who prefer to physically hold their investment, the West Australian Government's Perth Mint sells gold coins, medallions and bullion bars. The mint also has a listed derivative called Perth Mint Gold that offers investors the ability to buy and sell more readily. Each ASX-traded PMG unit equals one-hundredth of an ounce of gold.

Gold can be a complex commodity for investors to get their head around, but there is general agreement that a small exposure to gold can act as a useful diversifier when markets are volatile.

Gold stocks vs All Ordinaries Index

How to reach 100 NOT OUT

Who would have thought doing the Silly Walk created by John Cleese in Monty Python could hold the key to a happy and healthy life in your 90s and beyond?

According to Californian neuroscientist Michael Merzenich, making your body move in a new and complicated way each day will challenge your brain and help grow new synapses and neurons. And that can go a long way towards making you a happy and healthy centenarian.

Reaching 100 is becoming more commonplace around the globe. By 2020 there will be 12,000 Australians who live to a hundred and that figure is expected to blow out to 50,000 by 2050.

But living a long life is only good if it's a healthy life. There's no point your heart still beating if you have long lost both your mental and physical capabilities.

So what are the secrets to being a healthy and happy centenarian?

Mental agility

Aside from the Silly Walk, there are many mental activities that can help keep your brain sharp. Crosswords, sudoku, bridge, learning a language and even studying for a degree are all excellent brain workouts. The sports maxim "use it or lose it" rings true when you are looking at mental agility.

A positive attitude is also an important factor. The more optimistic you are about life, the happier and healthier you will be.

Lack of stress also plays its part so pursuing such activities as yoga can help keep you calm and help you towards a healthy long life.

But it's not just your brain that you want to keep in good shape. You also need to be physically fit.

Physical health

The top tips most often mentioned for a long and healthy life are to avoid smoking, eat a balanced diet, drink in moderation and maintain a healthy weight range.

Keeping up physical activity is also important. Bowls, walking, the gym or swimming, for instance, all help to increase wellbeing.

Of course, the sooner you start these practices the better. It's no good deciding at 80 that you are suddenly going to eat sensibly.

Eating less might also prove significant. In Okinawa in Japan, an island which has the highest percentage of centenarians in the world, the locals claim to stop eating once they feel 80 per cent full.

Eating less means your metabolism has less work to do so this puts less long-term stress on your body.

Genetics also plays a major role. If your parents have lived to a ripe old age then you can probably expect to have a similar experience. And given advances in medicine, education about lifestyle choices, improved sanitation and disease control, it is likely you will live even longer.

A question of balance

One UK newspaper report listed 25 simple ways to extend your life and they were as simple as eating three walnuts a day, drinking tea rather than coffee and even balancing on one leg while getting dressed to strengthen your core.

Regular sex is also meant to help you live longer, according to a Welsh study that found not only will it extend your life but you could look up to seven years younger in the process!

Of course, if you are going to live to 100 it's smart to make sure you have enough money to go the distance. Taking out an annuity (a regular payment until you die) with part of your retirement savings is one option that may provide you with peace of mind.

The Who may well have sung "hope I die before I get old" but if you plan your retirement successfully a long life can be a happy and healthy one.

Improve your odds of hitting 100

+9 YRS	Be happy!
+6 YRS	Cut down on stress
+5 YRS	Eat the recommended serves of fruits and veggies
+4 YRS	Maintain a good sex life
+2-5YRS	Work out at least five days a week