THE GENERATOR

"Every time you borrow money, you're robbing your future self"

- Nathan W Morris

Q3_2020

"I have a diversified retirement plan: sometimes I wish for money, sometimes I hope for money, sometimes I pray for money..."

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Comeback of the Century!

- ⇒ In the last 6-months we've experienced the fastest 30% bear market fall from all-time highs in history along with the second-fastest recovery from a 30% bear market in history as US and NZ sharemarkets recover all Covid losses
- ⇒ Continued progress towards a COVID-19 vaccine, alongside ongoing stimulus, continues to boost the positive mood, outweighing concern about ongoing mobility restrictions and second waves of COVID-19 infection
- ⇒ Better-than-expected economic data and company earnings have supported risk sentiment
- ⇒ Near Zero interest rates have boosted the global demand for income producing assets, boosting share prices of companies with stable cashflows, alongside those that have been beneficiaries of the work from home theme

Working under restrictions

With outbreaks of Covid-19 and shutdowns possibly becoming an unwelcome fact of life, we can assure all of our valued clients that our work for you carries on.

The nature of what we do means that we are almost seamlessly able to transfer to working from home and continue to look after your needs and investments.

We continue to be available for your phone queries, dealing with your emails and even holding 'electronic' meetings.

If you would like your annual review meeting with your adviser to be held via Zoom—please let us know!

Inside

Comeback of the century……

Economic and company results continued to beat cautious expectations, and central banks confirmed their 'whatever it takes' policy stance to supporting economic activity and, indirectly, growth asset returns. Continued progress towards a COVID-19 vaccine, alongside ongoing monetary and fiscal stimulus has also added to the positive mood, overwhelming concern about ongoing mobility restrictions and second waves of infection. Global Purchasing Managers' Indexes (PMI) returned to expansionary territory for the first time since January in July, and 80% of US companies to report Q2 earnings so far have beaten expectations. Volatility declined across most asset classes and bond yields fell under the weight of central bank quantitative easing (QE) programmes.

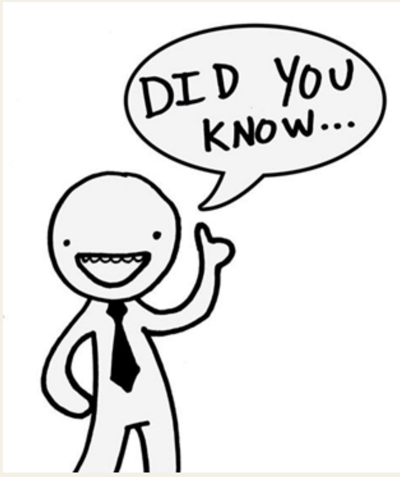
COVID-19 is not under control in some countries, and containment measures continue to limit economic activity. Second waves and the re-imposition of lockdowns in parts of the US, Japan and Australia are impeding their economic recoveries. Among the world's 10 largest economies, an easing in French and German restrictions, however, have offset increases elsewhere such that the average lockdown stringency for these 10 economies has remained around 60 over the past month (where 100 is equivalent to Alert Level 4 and 0 is no restrictions).

Central banks are continuing to provide stimulus that, in most cases, can be maintained until inflation and employment objectives are met. Fiscal stimulus, however, cannot continue forever in its currently large size without debt levels for most countries becoming unsustainable. Governments are aware of this, and expensive wage subsidy schemes that many developed economies have implemented are being reduced or are coming to an end. The US supplementary unemployment benefits ceased in early August and although most expect these to be extended, the rate is likely to be markedly reduced. Australia's "Jobkeeper" scheme, for example, was recently extended to 28 March 2021, but at lower rates and with tighter eligibility criteria.

The New Zealand economy benefitted from ongoing control of COVID-19 and low mobility restrictions until the August partial lockdown. Most high-frequency economic indicators had returned to pre-COVID levels and the Reserve Bank of New Zealand (RBNZ) continues to play a supportive role by keeping interest rates low via the Official Cash Rate (OCR) and its $100bn bond buying (QE) programme (of which, just over one third has been utilised).

Recent government communication suggests substantial additional fiscal stimulus, beyond what has already been pledged and remains unallocated, is unlikely and the wage subsidy extension is due to expire on 1 September. The scheme is currently supporting more than 450,000 jobs – 16% of the labour force. Absent a further extension, the unemployment rate is likely to approach 10% by year end. Exports of services remain the key area of economic weakness but border re-opening, that would allow complete economic recovery, is largely contingent on a vaccine which most analysts believe is unlikely before the middle of 2021.

We are working hard to keep ourselves as informed and up-to-date with developments as we can



Interesting Facts About the Great Depression

The US stock market lost almost 90% of its value between 1929 and 1933.

Around 11,000 US banks failed during the Great Depression, leaving many with no savings.

In 1929, US unemployment was around 3%. In 1933, it was 25%

The average US family income dropped by 40% during the Great Depression.

The worst years of the Great Depression were 1932 and 1933.

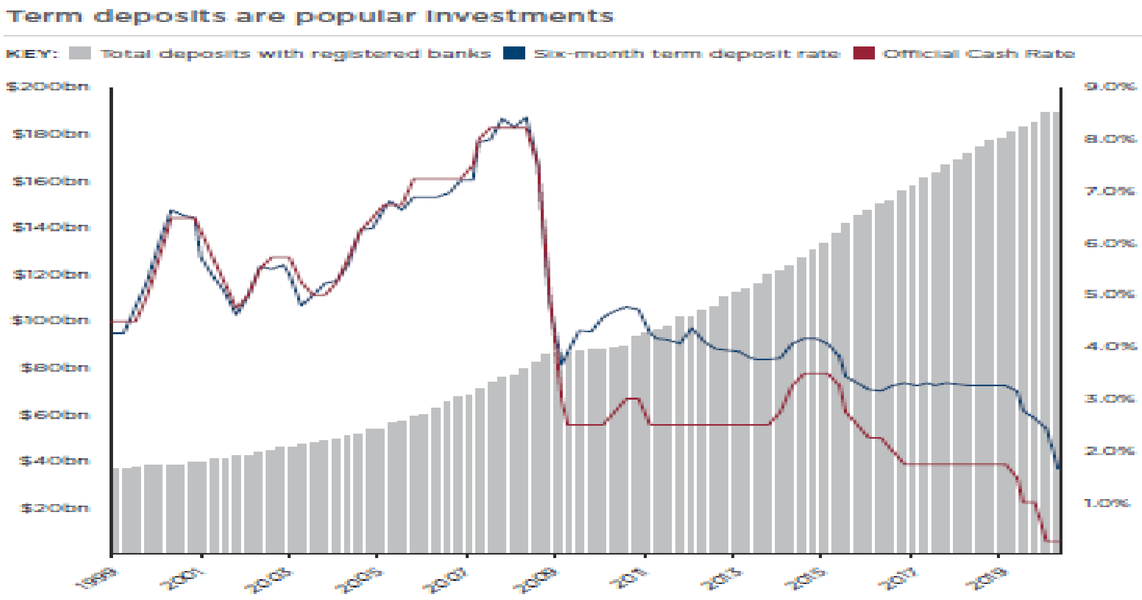
Around 300,000 US companies went out of business.

Summing up

- *Talk to your adviser if you're worried*
- *maintain your disciplined investment strategy*
- *think of your long term goals and how they are best achieved*

What do low interest rates mean for New Zealanders

Love affair with term deposits



Source: RBNZ, Bloomberg, Craigs Investment Partners.

The Monetary Policy Committee of the Reserve Bank left the Overnight Cash Rate unchanged at a record low of 0.25% at it's mid-August review, whilst boosting the amount available under it's Large Scale Asset Purchase programme to $100bn with the aim of driving down longer term interest rates. Expectations are that rates will possibly go negative early next year to encourage savers to spend more and company's to borrow more to invest in expansion to help drive the economic recovery.

So what does this mean?

At present there is $189bn in bank deposits, that's 38% more than five years ago and double the levels from 2010.Even with the falling returns available, deposits have grown as a proportion of household financial assets, from 15.3% a decade ago to 19.0% today.

If we assume that this $189bn earns the current six-month deposit rate, the current return on this very large pool of money is $3.2bn per annum. Because interest rates have fallen so far, this is 25% less than the income earned by the $88bn we had on deposit in 2010—quite a paycut!

On the other side of the coin, borrowers have benefitted as interest rates have declined with the cost of servicing debt now dramatically lower than in the past. Definitely a win for the property market.

The monthly payment on a $500,000 mortgage is almost 20% lower than in late 2014 and more than 40% below 2007 levels when we saw a dramatic fall in interest rates induced by the global financial crisis.

If the current levels of interest rates aren't giving you the returns you need, or the prospect of further reductions in your income is unpalatable, we are happy to talk to you about the benefits of a well-researched, well-constructed diversified investment portfolio.

Falling incomes for retirees relying on term deposits

In 2007 a six-month term deposit of $475,000 would earn you approx. $40,000 per annum.

To earn $40,000 pa on the same basis today, you'd need to have approx. $3,100,000 invested!

Summing up

- *sometimes what you see as a safe strategy can in fact be a risky one, because it won't deliver on your goals*
- *Seek sound advice about setting up a multi-asset, multi strategy portfolio of assets*

What happened to the middle class?

With the stock market charging back to all-time highs in record time from the pandemic bear market there is a growing chorus of "the stock market is detached from economic reality".

The stock market rocking again in the face of double-digit unemployment and massive pain for many small businesses doesn't feel right.

Economic reality eventually matters for the stock market over the long-term but it makes sense that it can become detached over the short-to-intermediate-term.

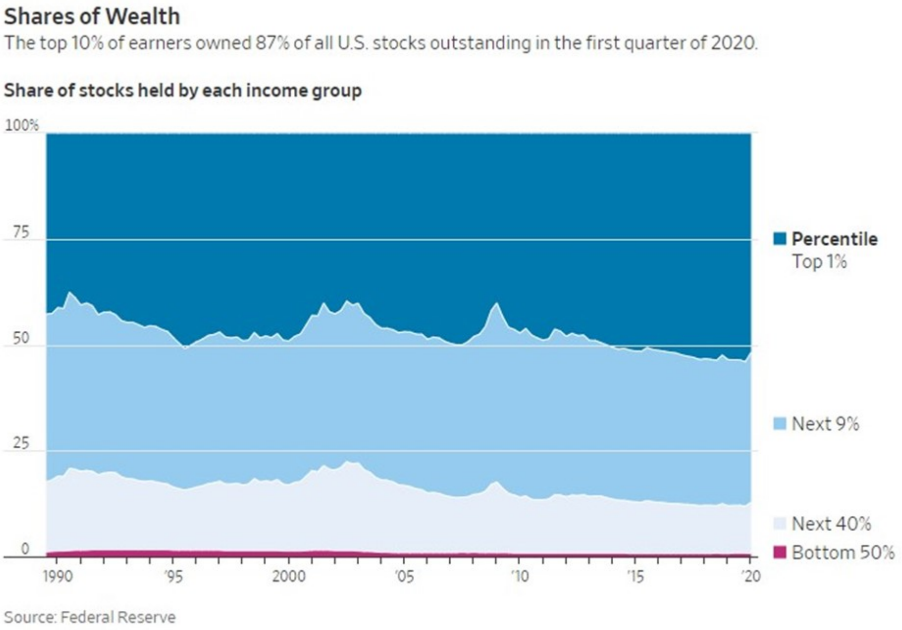
By one researcher's estimate, there are close to 600,000 companies in the United States that employ 20 or more people. Just 3,600 or so of those businesses are publicly traded.

The stock market represents less than 1% of businesses in America. It just so happens that 1% includes some of the biggest, most powerful companies on the planet. One of the reasons people are now so angry at the stock market is because it's concentrated in the hands of so few

The bottom 50% own less than 1% of the stock market while the top 1% owns 54% of stocks.

If more people participated in the stock market, there wouldn't be so much displeasure directed at its rise.

Of course, there is a reason only half the population owns shares in corporate America — most people can't afford to save. Being in the middle class fifty or sixty years ago meant you could afford a decent house and car as a single income household and probably retire with a decent pension. That's just not the case for most people anymore. And the middle class itself is much smaller than it was in those days.



The middle class (defined as having a household income between $55,000 and $109,000 in 2018 dollars) made up 50% of the population in 1981, with 18 % of the population being defined as upper-middle class or Rich.

By 2018, those defined as middle class had fallen to 36% of the population. The good news is that the upper-middle and Rich categories had grown to 35% of the population, with those categorised as poor or lower middle class remaining static.

The US has done a wonderful job as a nation in pulling people out of the middle class and moving them up in the world but not a great job in pulling people up from the lower income levels.

The relative growth rates in earnings also shows how uneven the changes have been over time. Income growth at the top of the distribution has been almost twice as fast as it's been in the middle. So people earning the most are also seeing their incomes rise at faster levels than everyone else. Many people mourn the fact that the middle class is shrinking in this country. But the reality is this shrinkage has been a good thing for many people — they've moved into the upper middle class.

The pandemic is going to make inequality worse on many levels and likely supercharge the differences between the top and bottom of the income classes. The next step in our evolution as a country should be to figure out a way to better serve the poor and lower middle class.

By Ben Carlson— Ritholtz Wealth Management

Next step

••• See us about the best investment options for you.

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