Learning from the past, looking to the future

I hope that you all had a great Xmas break and that 2014 treats us all well.

For the first investment update of 2014 I thought it would be interesting to summarise what we expected from the markets in 2013 (in bold), what actually happened and a quick look at what 2014 may deliver.

“While we would not expect sharemarkets to deliver the same returns of 2012 many analysts have started 2013 cautiously optimistic about the outlook for the global economy. The reason is not because there is any expectation of an easy resolution to the developed world’s debt woes, political problems, unemployment or slow economic growth; there is universal agreement that it will take years to work through these”.

Most sharemarkets around the world produced very good gains over 2013 with some markets producing better returns then the previous 12 months, the Japanese market being a particular standout performer. While we should see shares perform positively over 2014 I do not believe it is realistic to expect that shares will replicate the same returns as the last 12 months. A lot of the risks that were highlighted in early 2013 still remain with us today and are likely to do so over the next 12 months.

“Central Banks will hold interest rates artificially low, so bonds will remain relatively “expensive” and shares will be relatively “cheap”, especially those companies that hold strong industry positions, retain strong balance sheets and have the capacity to grow, even modestly, their earnings and dividends”.

Over 2013 this theme continued although we expect that in 2014 Central Banks will ease off providing stimulus and we should see interest rates increasing over the next 12 months. Shares are certainly not as “cheap” now as they were 12 months ago and the market will be looking for companies to produce results that justify future earnings growth expectations.

“In the US the housing market appears to be bottoming out and is likely to be a positive factor for growth in 2013”.

The housing market in the US was largely positive in 2013 and we would expect this to continue in 2014 (at a slower pace) as the employment situation improves.

*“***Growth in the middle class of emerging markets economies will continue to provide opportunities for investors and for companies selling into those markets. New Zealand is also well positioned to benefit from growth in these markets”.**

This will continue to be one of the major investment themes for a long period of time.

“The Christchurch rebuild gains momentum resulting in increased economic activity”.

Overall growth in the New Zealand economy was solid in 2013 with the expectations that 2014 will be an even better year for economic growth. Given the recent strong performance of the New Zealand sharemarket we should expect returns to be more muted although still positive over the next 12 months. The Reserve Bank will start to increase shorter term interest rates in the first half of 2014 as economic activity continues to increase. Expect to see some volatility in the markets as we get closer to this year’s election particularly if the opinion polls point to a close result.

What this means for your investment portfolio in 2014 and beyond

Given the strong returns from shares over the last 12 months I think it is important to look at what future long term returns might look like for the various types of investments that normally make up a diversified investment portfolio. I believe that this information is important so that we all continue to have realistic expectations for future returns for your investment portfolios.

Investment type	Expected long term return
New Zealand Cash	5.00% pa
New Zealand Fixed Interest	5.50% pa
International Fixed Interest (Hedged)	5.50% pa
New Zealand Listed Property	8.00% pa
International Listed Property	8.00% pa
International Infrastructure	8.00% pa
New Zealand Shares	9.00% pa
International Shares	9.00% pa

Source: Morningstar Investment Research

Continue to maintain the right level of risk within your investment portfolio

My starting point is to build an investment portfolio which is consistent with the objectives of each client. My goal is to take the right level of risk for each client, enough that we can be fairly confident that over time you'll achieve your objectives, without taking more risk than is necessary. It is also important that portfolios are flexible enough to reflect any significant change in your personal circumstances.

Diversifying portfolios is still as important as ever

Holding a range of assets such as shares, fixed interest, property and cash in a portfolio which is consistent with your objectives remains vitally important. The old saying "don't have all your eggs in one basket" is still relevant today.

Focus on good quality investment solutions

While we cannot control what happens in the investment markets we can make sure that your investment portfolio is built using researched high quality investment solutions that have track records of delivering results across the various investment cycles. 2014 will see this strong focus on quality investment solutions continue as we strive to deliver the best possible outcomes for our clients.

Should you have questions about anything in this note or about any other issue, please feel free to give me a call and I thank you for the opportunity to serve as your investment advisor.