

# Wealth Management Adviser

December 2008

‘This may take a while...  
people now have to save  
to pay for the things they  
already own’

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Trafalgar Copley's view on the current economic cycle

## Market outlook

We are certainly not brave enough to pick the absolute bottom of the market, and believe that the risks to the economy in the near term are weighted to the downside, however taking a medium term view we firmly believe that equity investors will be handsomely rewarded from current and short term future levels.

Interest rates look likely to fall to 4% domestically (and much lower overseas). At this level the post tax return from cash is likely to fall below the rate of inflation .

Six months ago investors were rewarded by avoiding volatile equities and investing in term deposits at over 8%.

Investors requiring a fixed level of income from a fixed amount of capital may have to begin looking at quality stocks that offer attractive dividend yields.

The credit crisis is far from over. But when it is all said and done we will remember the financial panic of 2008 as having created some outstanding opportunities for investors with vision.

Deep corrections turn out to be great buying opportunities - particularly when the credit markets eventually relax.

History shows us that this usually happens anywhere from 6-11 months prior to recognised recoveries.



**Roger Sutherland**  
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# 2008, the year that was!

Consumption is driven by consumer demand and the availability of credit. For small and large consumers alike 50% of the World's credit has just disappeared, which has led to a synchronised slowdown of consumer activity around the world. Central Bankers are responding by aggressively cutting rates in an effort to re-stimulate consumer activity. The hope is that the plan succeeds.

Throw in a lack of regulation for sectors of the market such as the non bank finance sector (NZ Finance Companies), synthetic and complex layered financial instruments (CDO's and CLO's), excessive leverage (Borrowing / Hedge Funds, which in bad times only serves to multiply losses many times over), generally very poor lending standards worldwide, and finally the discovery of a number of prominent fraudulent Managers, the latest being Mr Madoff in the US who has managed to rack up losses in the Billions, and that pretty well sums up the year that was.

For the many people who have been living beyond their means David Copley of Trafalgar Copley put it so well ... "This may take a while.....people now have to save up to pay for the things that they already own"

We can't complain too much though. After all we have had a number of exceptionally strong investment years up until the middle of 2007. We all knew of the excesses that were

building up and that some sort of correction was inevitable. What we didn't know of course was that something that started out as simply a localized issue in the US housing market, where Bankers decided to lend money to people with no jobs, no assets, and no income, to buy houses at over valued prices, would spread so quickly and deeply to all corners of the globe, effecting just about every major asset class, long standing financial institution and even entire countries along the way. Cash and very safe fixed interest investments have really been the only place to hide in the last 12 months.

So what lessons can investors learn from the events of the past 12 months or so? Fear and greed drive markets. When assets prices are soaring investors are reluctant to stop and bank the profits along the way. They become over optimistic and believe that prices will continue upwards indefinitely, which of course they don't. So regular reviews and rebalancing of portfolios is vital.

Similarly when fear strikes a market, rational behaviour somehow gets lost. Investors get caught up in the fear that if everyone else is selling then they should too. Smart investors can make a lot of money from irrational investors. As the often over quoted Warren Buffet says "be fearful when others are greedy and be greedy when others are fearful".

Get good advice. The markets are

complex, particularly so in these challenging times. A good adviser can add a lot of value, provide well researched guidance and act as a sounding board on any investment ideas you have and decisions that need to be made.

Be diversified. Diversification reduces portfolio risk, asset class risk, currency risk etc etc.

Stick to the plan. If you don't need the money today then stay with the plan, making sure of course that you have one in the first place. Always make sure that your investments suit your risk profile, and time frame.

Review, review, review. A comprehensive plan should be reviewed at least 3 times a year. Too much can change too quickly and 2008 has been a good example of that.

Finally, use all of your advisers together, not in isolation of each other. Together they form your advisory team. You need to ensure that issues such as the recent significant tax changes on investments are considered by both your Accountant and your investment adviser and that you have your investment assets held in the most appropriate structure for your circumstances.

## Christmas wishes

Many of us will be only too glad to see the end of 2008, the year of Global Credit crunch and unprecedented stock market turmoil.

From the team at Grant Thornton Wealth Management our very best wishes to you all for a happy and safe Christmas and a brighter new year.



# Is the China growth story over?

Keith Fitzgerald has worked and been involved with the Chinese economy for over 20 years. In a recent article he highlights some interesting facts that point to the continued emergence of the that economy.

In the 1980's the US accounted for one third of the global economy. By 2030 that will be cut in half. This trend, as reflected by market capitalisation, is already well underway.

In 2004 the US accounted for nearly 45% of the world's market capitalisation. Now that number has sunk to just under 30%. While the US feels as though it is getting poorer as a nation what's really happening is that the rest of the world is getting richer – fast.

Most investors typically suffer from home market bias. Increasing portfolio weightings to offshore markets which have high cash reserves as a percentage of GDP may now be more appropriate for growth oriented investors, Fitzgerald says. Why? Because history shows that the nations that rise highest and fastest from any downturn are those that can afford to pay for a recovery.

Topping this short list is China which maintains 32.6% of GDP in reserves, the highest on the planet, followed closely by South Korea, Russia and Japan.

Fitzgerald quotes China as in the middle of the largest single wealth creation the world has ever seen. The country is on track for an unprecedented 700% expansion in GDP in a mere 20 years. And few Westerners know this because it's not

commonly reported by Western media but exports account for less than 10% of China's GDP.

Chinese consumer spending grew \$333 billion more in 2008 than 2007. Assuming everything remains on track this is blistering pace that actually exceeds combined consumer spending growth in the US, the Eurozone and Japan, Fitzgerald says.

There are many other reasons why China is likely to continue this rapid rate of growth, such as the projected \$20 trillion infrastructure spend in the region together with other Asian rim countries. From 2007 to 2010 alone China will account for \$725 billion of that spend despite what is happening to Western capital markets.

Seemingly under the radar, China's Shanghai Composite Index has risen 17.7% since Nov. 1. Specifically - and not coincidentally - the index began its rise Nov. 10, the day after Beijing announced an ambitious economic stimulus plan that will pour \$585 billion into housing, water-and-energy projects, airports, disaster relief and railroad construction over the next two years.

It is this focus on developing jobs and infrastructure, or new “material product” absent in any similarly focused US stimulus so far – that will keep China's economy on the fast track economically, whilst also assisting their ailing stock market.

Other emerging markets such as the Middle East, Brazil, Russia, India and Turkey are growing too and at rates historically 4-5 times faster than the US, economy which will be lucky to see 0.5% growth next year.

Estimated infrastructure spending for next three years

Region	New Estimate	Previous Estimate
China	\$725 billion	\$400 billion
Middle East	\$400 billion	\$225 billion
Brazil	\$225 billion	\$100 billion
Russia	\$325 billion	\$195 billion
India	\$240 billion	\$110 billion
Turkey	\$65 billion	\$50 billion

Sources: Merrill Lynch, Money Morning Research

### Time to get out those insurance policies and review your covers

Recent ACC research indicates that 1,880 businesses per calendar year are forced to wind up because of injury to a Key Person. Add on business wind ups due to serious illness or death and this figure goes even higher.

Protecting business cashflow is critical to business survival. Business Insurance can cover loan repayments, recurring overheads, hire a replacement, or meet other financial obligations. Imagine the problems a business might face should it lose the revenue and expertise of a key person.

From an ownership point of view imagine the difficulties a business might face trying to pay out an estates share of the business in the event of the death of a shareholder, at a time when obtaining credit has got a whole lot harder.

Further there is a lot of evidence to suggest that there is a lot of under insurance among business owners. It's disturbing to see that 40.6% of CEO's, 77.6% of business partners and 84.5% of key employees don't have any life insurance.

### With insurance premiums about to rise you need to make sure that you are getting the best level of cover for your premium dollar.

An annual health check for your business cover is easy to arrange. Simply call us and we will put you in touch with our specialist risk adviser.

### Director changes

James Sclater will be leaving the company at the end of December.

We would like to thank James for his strong support, guidance, wisdom and enthusiasm since the formation of the Company in 2001, and wish him the very best in his new pursuits.

Pam Newlove will be taking over the position held by James and it is our pleasure to welcome Pam to the Board.

### Recession proof stocks

*courtesy Magellan Global*

**Nestle** - china represents 30% of Nestle groups revenue

**Walmart** - in 10 years Walmart sales in China will be greater than the entire USA

**Proctor and Gamble** - worldwide leaders in 12-15 healthcare products

**Google** - transitioning to a world TV network



**A disclosure statement is available on request, free of charge.**

If you require further information on any of these topics please contact:

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### Market snippets

There are over 12,000 KFC outlets in China, providing a 100% return on capital for owner Pepsico

30% of the worlds KFC is consumed in China