Market & Portfolio Update – August 2016

- Investment markets had a relatively quiet and uneventful month, following the great performance in July. All diversified funds were fairly much unchanged in value, as most share and bond markets treaded water.

- The main exceptions were in emerging markets (e.g. China) which rose by around 3% on average, but this was negated by an equal and opposite 3% fall from Australian shares.

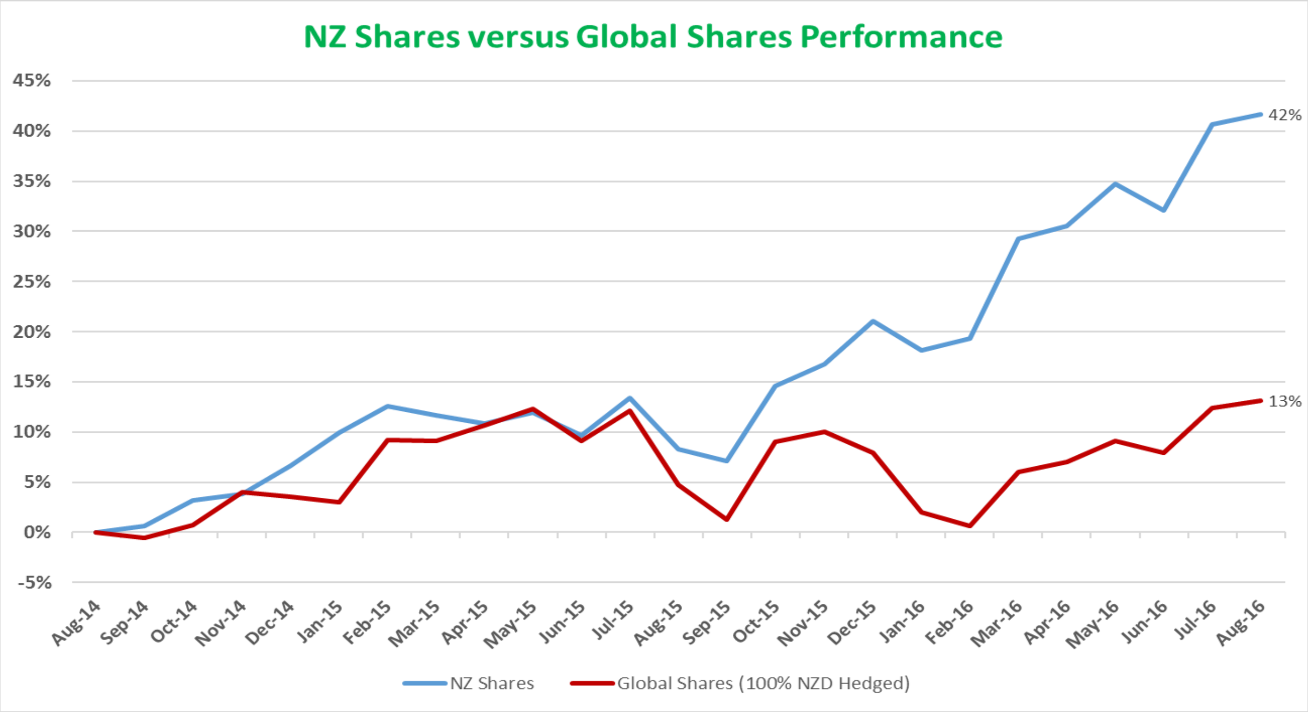
- Even the New Zealand share market, which has risen by 30% over the last year, took a breather and ended the month up less than 1% ahead of where it started. In keeping with the quiet market, the only minor change to the portfolio was the sale of Michael Hill and the purchase of Tegel.

- We took advantage of the low market volatility to rollover some insurance protection on both the US share market and US 10-year government bonds.

Chart of the Month – NZ Shares

The New Zealand share market continues to be a strong performer, returning nearly 30% more than global share markets over the past two years. Two main factors seem to have driven this:

1. Companies on the New Zealand share market pay a higher dividend than other share markets, and
2. New Zealand's economy continues to be strong compared to other economies across the world.



Last month's update touched on the government stimulus that is driving interest rates across the world lower and lower. With interest rates at these low levels, investors worldwide are no longer able to rely on traditional income-generating investments (such as term deposits) to generate the income they were once able to get. To illustrate, term deposits rates in the US are currently around 1%, while in Europe they are even lower at closer to 0%. This compares to the annual dividend return investors can get from the NZ share market of about 7%. Investors have been shifting money into the NZ share market for this additional return, although taking on the additional risk that comes with share investments. Although relative share values have been pushed up, it is difficult to see this trend changing whilst low interest rates remain.