REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

2013 Year-End Function – Key Take Home Points

Please find below a summary of the key take-home points from our recent presentation.

- Steve jumped up onto his 'Soap Box' and gave us all a very clear picture of his view on the Aussie banks, their large profits and the new LVR lending restrictions brought in by the Reserve Bank. The first of a series of articles, where Steve gives his opinion on various matters, appears in this newsletter.

- Michael took us through the Rede Advisers revamped website – www.rede.co.nz. This website has a wealth of information, including historical copies of newsletters and the monthly market updates.

- From the website, Michael also showed the first of a series of short videos that Grosvenor has produced on various investment matters – featuring comedian Raybon Kan and David Beattie (aka 'Gandalf'). These are well worth a watch and are only 3-4 minutes long. Check them out at www.rede.co.nz under the 'Grosvenor' page.

David Beattie – Chief Investment Officer, Grosvenor Financial Services Group

- Performance – market returns for the last two years have been strong with equity investments dominating returns from cash and fixed interest. NZ shares returned 21.4%, Australian shares 10.3% and Global shares 20.7% (although due to the currency this reduces to 16.7% in NZD). Cash return of 2.5% reflects low OCR and NZ Fixed Interest returns were weaker at 4.6%.

- Portfolio Returns – net returns, after fees and 28% tax from core portfolios over 2 years have been strong:

Conservative Portfolio	7.2% p.a.	Corporate Bond Portfolio	3.5% p.a.
Balanced Portfolio	9.4% p.a.	Income Focus 18 Portfolio	5.3% p.a.
High Growth Portfolio	16.8% p.a.	Income Focus 28 Portfolio	6.5% p.a.

- Recovery Roadmap – global share markets have followed previous post-recession recoveries, with the recovery over the last couple of years stronger than expected. The recovery in markets is now complete and we are in uncharted territory with the manipulation of markets by central banks printing money (Quantitaive Easing, or QE).

- Growth Outlook – while global growth is below long term averages, it is heading in the right direction, trending upwards. It is being lead by developed nations, including US, UK and Europe. With central bank support (i.e. printing money / low interest rates), equity markets continue to be supported for some time.

- "**Don't Fight The Fed**" **(the key message)** – central banks, including the US Federal Reserve, will do whatever it takes to keep the recovery on track. They are also being very open and clear with their statements, leaving no room for analysts to interpret something else. For example, the Fed has said that US interest rates will not rise until inflation is above 2.5% (currently 2.0%) and unemployment is below 6.5% (currently 7.5%). This is not expected until 2016.

- Income Yields: Shares v Bonds – the gap between income from US shares (dividend yield) and US bonds (bond yield) has converged following a rise in long-term interest rates. Bond yields have remained strong with company earnings growing in line with rising share prices.

- Roadmap: The Next Few Years – based on Grosvenor's analysis, they have devised a roadmap for the next few years to use when managing and protecting client portfolios:
  - Now to March 2014 – QE will continue to support asset prices and the NZ dollar.
  - Rest of 2014 – small market correction possible as tapering starts (i.e. reducing money printing)
  - 2014 to 2015 – equity recovery and then some volatility as market digests the change post-QE
  - 2016 – bond and equity markets could be negatively impacted as interest rates and inflation rise.
  - 2017 to 2018 – equities march higher