stonehouse

Newsletter
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Our offices will be closed for the Christmas/ New Year period from December 21 until January 4, 2016.

Economic Update

Ben Hancock & Mark Stewart, Stonehouse Investment Committee Co-Chairs

Are we headed for a global recession? Probably not.

Investors might recall the hype about the "super cycle" that justified record commodity prices. The term to describe "higher-for-longer" commodity prices was largely based on ever-climbing demand from the Chinese as the country industrialised. Amid the excitement, commodity prices soared more than six-fold from 2004 to 2011. That index has since collapsed by 63% over the past four years as Chinese demand has fallen and supply increased after an investment frenzy to build more projects, and the revolution in shale oil.

The collapse of the commodities bubble is buffeting Australia and emerging countries (such as Brazil, Chile, Colombia, Russia and Venezuela) that rely on material exports. As for the emerging economies, plunging commodities is only one of their problems. The prospect of higher interest rates in the US is sucking capital from emerging countries by boosting repayments on the US$4.5 trillion (A$6.3 billion) of US-dollar-denominated debt that these countries owe.

The trials of China and other emerging countries plus the unresolved eurozone debt crisis, Japan's difficulty in reviving itself and the Federal Reserve's likely imminent rate increase are fanning talk the world economy is headed for recession. The underlying concern is that policymakers can't combat a slump as high government debt hampers fiscal stimulus and interest rates are already at record lows. While we cannot rule out a global recession, the world economy seems to have enough going for it to avoid such an outcome. Its key advantages are that the US is prospering while China is only slowing, not shrinking.

As investors though, you can be reassured that the collapse of the commodities bubble is different from the ending of the bubbles in, say, technology, which blew up stock markets and wealth, and US housing, which nearly crashed the global financial system. While the end of these bubbles wrecked havoc, falling commodity prices come with advantages for the world. Lower materials prices are great for commodity importers, including emerging countries such as India and those in eastern Europe. They help trade balances, mend government finances, boost consumer spending power, reduce business costs and lower inflation. The global economy, overall, is better off. Commodities too are still double what they were a decade ago so commodities exporters are not facing a catastrophic decline.

Another comfort is that much of the increase in the US dollar is because the Fed is poised to increase interest rates. The Fed will only do this though if it thinks the US upturn is strong enough to cope as has been recently demonstrated.

Investors with sufficient exposure to international assets can take comfort that enough of the world's economies will grow in the coming year to ensure the global economy expands, even if that's at a sluggish pace by past standards. By way of comparison, in good years the world economy can expand between 5% and 5.5% but annual average economic growth for the world over the past 35 years is 3.5%.

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Economic Update cont'd...

Admittedly, parts of the advanced world are struggling. The eurozone, which covers 17% of the world's economy, is yet to regain its pre-crisis size. But the euro area is eking out growth (0.4% expansion in the second quarter) as low interest rates, falling commodity prices, an improving labour market and higher wages are aiding consumer demand. The Greek saga is a threat, for sure but what Athens' recent near-default and near-exit from the euro showed is that the country's troubles appear to do little immediate economic damage to neighbours.

Luckily for the world, the rest of the advanced world is thriving, especially the US, which grew at a vibrant 3.7% annualised pace in the June quarter. Retail sales are buoyant, consumer confidence is touching eight-year highs and the jobless rate is at a seven-year low of 5.1%. Housing is recovering. Business investment is climbing and the government is injecting stimulus.

Exports play a relatively minor role in driving US growth (at just 13% of GDP compared with 50% for Germany) so the country is insulated from weakness abroad. While wages are stagnant, productivity sluggish and there is some hidden unemployment, consumer spending is expected to help the US maintain its 3% annual pace of growth into 2016 and beyond. Advanced economies aside from the US, the eurozone and Japan amount to 23% of the global economy and the IMF predicts 2.2% growth this year for advanced economies overall. That appears a reasonable outlook for countries including Switzerland and the UK, for most of them will benefit from lower commodity prices – even if they are not so good for Australia (1.9% of world GDP) and Canada.

All up, economists might be prudent to trim their global growth forecasts for the next 12 months but they shouldn't go too much below the 3.3% the IMF in July forecast for 2015 or the 3.8% it predicted for 2016. The body was well aware when it made those projections that the commodities bubble had exploded.

So bringing an economic viewpoint back to one of investment markets, the current turmoil is creating opportunities that we have sought to take advantage of. We have been adding opportunistically to our positions and will continue to do so as opportunities arise. In the mean time, we continue to monitor developments closely with a view to finding value for our clients.

Five Minutes with ...

Mellany Mollenhauser, Practice Manager, Stonehouse Group

What does your job entail?
I am primarily responsible for leading and supporting a great team of client service managers and paraplanners here at Stonehouse, to provide the best service we can to our clients and professional support to our advisers. When we do this well, everything else falls into place.

When you're not in the office you can be found?
Arranging dinners with the whole family, enjoying Saturday morning walks around Brisbane followed by a big brekky and attending church on Sunday with family and friends.

What's your favourite element of your job?
I enjoy needing to know a little bit about a lot of different things, but particularly enjoy the people management within the role.

Favourite book?
Should I admit to enjoying the Twilight Series?

Best kept secret?
As a child, I always wanted to work in a bank, and would regularly count the cash in my dad's wallet (I recall a lot of coin and very few notes). At fifteen I commenced working in a bank. I guess I followed my dream which has brought me to where I am today.

Volatility

Louis Strange, Financial Adviser

I like the term 'herd mentality' - it depicts lemmings jumping off a cliff for no other reason than following the crowd. This same mentality follows through into financial markets, creating the volatility which has been felt over the past few months. The question is: is this occurring due to short-term reposes to uncertainty or a deeper fundamental issue within the economy?

First of all, volatility is simply a measure of the difference in the up and down movements of a price of an asset. The more an asset moves the more volatile or risky the asset is considered. In financial markets the level of volatility comes down to one thing: Demand versus Supply of an asset. In the share market, the supply is simply the number of shares which are available to be traded. The demand of a share is measured by the markets desire to purchase the share. The price of the share will be at the point where the demand meets the supply, which changes minute by minute due to responses in the expectation on a company, industry or country's performance. With the market dropping over the past few months, this means there has been a negative demand for shares, as the majority are selling, either due to negative news being released or out of anticipation that markets will continue falling.

All the bad news of late, from commodity prices decreasing, the slowing Chinese economy along with the devaluation of their currency and the US talking about raising interest rates have helped fuel this negative demand. With the media now reporting financial news 24/7, the amount of 'noise' in the market has increased to a level never seen before. The more uncertain the market is due to media coverage about the US increasing interest rates (from almost 0%!), or China's growth slowing (to 7% per annum!), the more volatility will be seen purely due to expectations.

While market downturns are unpleasant to experience as nobody likes to see their wealth drop, these corrections come off the top of the market bubble, which will never disappear from any financial market. However once the market has dropped selling is the worst thing to do as you are incurring real losses and also reduce your chance of making your money back. Throughout history there have been numerous examples of share market downturns which prompt investors to make hasty decisions based on emotions and myopic risk aversion. However, markets have a way of correcting themselves, as history has proven over and over.

So how can you take advantage of this? Value based/contrarian-style investments, such as the Stonehouse Core Value Portfolio, help to minimise the volatility of a portfolio through sticking to core principles rather than falling to the hype of the market. This method of investing capitalises on bubbles and crashes through trying to avoid overcorrections on the up or down. Think of it as protecting yourself on the downside, to capitalise on the upside!

For investors with medium to long term investment horizons, volatility presents investment opportunities as the overcorrection in the price of an asset essentially means that you are getting a discount on the asset. Instead of walking in to Woolworths and getting a 25% off special off your favourite food you can instead purchase Woolworths itself for a similar discount. When emotions and timing of the market occurs, opportunities can be missed. If you walk into the supermarket and see the goods for a 25% discount, would you wait and see if it drops further? Not likely! But yet why do we wait to see if Woolworths share price will decrease?

So if everyone is selling an asset, but the fair value has remained the same, then it can become a great time to buy. Investing should be an emotionless game, so don't be the lemming falling off the cliff! The important lesson from volatility is to ignore it in the short term and remember; with no volatility there would be no long term growth.

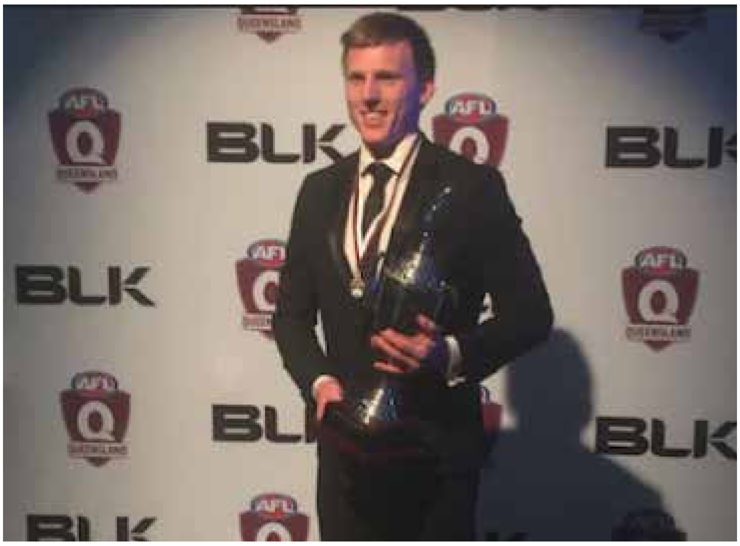
SMSF Notice Board

- If you have not forwarded us the information for your Fund's 2015 Financials, please do so as soon as possible;
- A number of the BGL Bank Data Services forms have not been returned. Can you please sign these forms and return them to our office?

Scholarship
Griffith University

A big congratulations to Chelsea Riewoldt who was the proud winner of the inaugural Stonehouse Financial Planning Scholarship for 2015 in partnership with Griffith University.

Chelsea has since commenced a part time internship with our firm where we look forward to assisting further develop her career.



Stonehouse
Sponsorship Win

Stonehouse sponsored Callum Carseldine has taken out the QAFL highest individual honour, winning the Grogan Medal. Callum is the Captain of the Western Magpies and won the prestigious best and fairest QAFL player award for the 2015 season.

Stonehouse has a strong connection to the Grogan Medal with Andy Stewart (Snr) winning the award in 1958.

Congratulations Callum on your outstanding achievement.

Alumni Achievers

Senior Partner Ben Hancock was recently recognised by the University of the Sunshine Coast with a banner hanging prominently in the campus centre.

"We selected Ben to be a representative of the achievements of our university's graduates due to his positive impact on the financial planning profession in Australia following his graduation with a Master of Financial Planning in 2005 and his ongoing commitment to the university and the profession broadly since this time" said Anita Edmonds, Alumni Relations Officer.

The banner will remain in place for twelve months as part of the university's 'Alumni Achievers' program.

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