NEWSLETTER

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Strongbox
tailored wealth management

What should you be doing?

There really hasn't been much change in the overall global outlook since our last Newsletter.

Debate continues to rage about the extent to which major asset classes are overvalued – or not; whether the world is overly-indebted which will lead to disaster – or not; whether banks are still structured in a way that will allow there to be another GFC in our lifetime - or not….

For every hypothesis there is an equally strongly held opposite view so we're are not even going to try and guess what may happen.

But apart from our usual advice about investing in good quality stocks for the long term, what the current situation also underlines is the importance of not putting all of one's eggs in one basket. At Strongbox, we (largely) invest in one asset class – global equities - for our clients because that is where our experience and expertise leads us, but we would never advise anybody to invest exclusively in that, or any other, single asset class.

Yes, it is a good idea to own shares in high quality companies for the long term. But it's also important to have some cash, some lower risk assets and some assets that produce a steady reliable income.

The percentage that should be in each asset class will be different for every investor, depending on their wealth level, lifestyle objectives, risk tolerance and age. But reading the many and varied intelligent and well-argued opinions being held at the moment, the key take-away is that investors should be prepared to weather as many different negative scenarios as possible.

You'll never know which one will come to pass or when, but knowing that your assets are structured in a way that allows you to carry on with your life with as little disturbance as possible no matter what happens should help you sleep much better!

Equities comment

The top performing stock in the model portfolio, year to date, was Monadelphous. Monadelphous is an engineering group that provides construction, maintenance, and industrial services to the resources, energy, and infrastructure sectors in Australia. It operates through Engineering Construction,Maintenance and Industrial Services divisions. The company offers large-scale multi-disciplinary project management and construction services as well as improvement solutions such as structural, mechanical, piping, electrical and instrumentation, and civil maintenance services, as well as minor capital works, shutdowns, and operations and facilities management services. In some ways, Monadelphous is insulated from the commodity cycles because mines & pipelines etc need maintenance whether they are working or not. The company seems to have an uncanny ability to ferret out work and win contracts no matter what is happening. We have been a long term holder of this stock and a long term admirer of the ability of the management to handle whatever the industry throws at it. While at around $14 it is still way off its all-time high of A$27.60, the 52% recovery in the price has made it the top performer in the model portfolio. It also pays a good dividend which can be taken as either cash or reinvested in the shares.

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Model Portfolio
With the fading of the Trump rally, and value being hard to find at these prices, the market is infused with uncertainty and aimlessness. Volatility is at an all time low, despite indices being at record ighs. Central Banks continue to print money propping up what some see as asset bubbles. We are more inclined to be on the cautious side at the moment as we wait and see. Where stocks look over-valued based on fundamentals, we will not be slow to take profits. This has been the case with a long time favourite that has served us well in terms of dividend and capital gain: Admiral Group – the UK based car insurance company. Many clients have made 50% to 60% return on this stock, but we have now sold out completely.
The model portfolio is currently a little off its all-time high.

Model Portfolio
Initial value $1m **Current Value** $2.034m
Cash 39% **Shares** 61%

Performance		**Bottom Performer Shares (ytd)**		**Top Performer Shares (ytd)**	
6 months	-1%	Vixy	-62%	Monodelphous	+52%
12 months	+8.2%	Noble	-39%	Coach	+32%
since start	+103%	Euro	-15%	Oracle	+30%

Financial planning basics – 12

Last time we wrote here about the increasing need for financial literacy among the younger generation given the increased amount of responsibility they will need to take for their own financial independence.
Just recently we have come across some quite worrying facts about the prospects for the Millenial generation (those born in or after the early 1980's) and their finances.
Studies in the UK have shown that Millenials are earning 20% less than people fifteen years older than them were earning at the same age, and they are fifty percent less likely to own their own home than the previous generation were at the same age. These exact numbers may be UK specific, but the same trends are almost certainly at work in many developed economies, including New Zealand. So for the first time in well over a century, we are now seeing a whole generation who will most likely be considerably less prosperous and secure than their parents were.
This is worrying not only because of the problems it will cause the Millenials themselves (and their concerned parents) but because it could have far-reaching and unforeseen consequences for society as a whole. Numerous recent surveys among millenials in the UK, Europe, the US and Australia have found that alarmingly high precentages of them do not think that it is important to live in a democratically run society. Using data from successive World Values Surveys from 1995 to 2014, Roberto Foa and Yascha Mounk found that successive generations in most developed democracies were less supportive of democracy as a principle; more willing to accept rule by the military or by a "strong man" individual, and thought that appointed "experts" might make better decisions than elected governments.
So when the current system fails to deliver them what they need – which it seems fated to do - Millenials are far more likely than their parents were to tolerate, if not actively support less democratic and more totalitarian alternatives – it seems Donald Trump and Jeremy Corbyn may only be the tip of the iceberg!