NEWSLETTER

Oct 2017 Vol 11: Issue 4

Strongbox
tailored wealth management

What should you be doing?

Until last Thursday, we would have argued that very little has changed in the world at large since our last Newsletter, although in the past week or so things may have changed markedly in the small corner of it that we New Zealanders inhabit!

While Donald Trump Tweets triumphantly about the Dow surpassing 23,000 (we wonder whether he will be so quick to take responsibility if it drops 20%....) many recent discussions in academic circles have been focusing on the failures and shortcomings in the capitalist system that have led us – despite the impression given by record market highs - to our current lacklustre global economic situation.
We think it has been pretty clear since the GFC that a lot of the assumptions and expectations of the Baby Boomer generation are either becoming outdated (for technological or genuine demographic reasons) or are being seriously questioned by the younger generations who are facing some tough challenges and very uncertain futures.
In a book just published in the UK under the title "Rethinking Capitalism", various writers explore the issues and challenges facing the global economic system. The main thesis of this collection of essays is that capitalism today is in crisis and "mainstream economic thinking has given us inadequate resources to understand the multiple crises which contemporary economies now face". The crises in question range from falling capital investment; stagnating or declining living standards (many countries have seen no real growth in wages for the past decade); weak and unstable economic growth following the 2007 crash, and rising inequality, not to mention the challenges posed by climate change (irrespective of its cause) and environmental risk. (contd overleaf)

Equities comment

The top performing stock in the model portfolio year to date is Monadelphous, up 71%, but we wrote about that one last time. The second top performer was South 32 which was up 29%. But because the holding is so small (it was a spin off from BHP, not something we chose to buy) it is not very significant as far as portfolio performance is concerned. The stock in third place is the insurance company Aetna – up 28%. Aetna is one of the US's leading diversified health care benefits companies. It provides people with information and resources to help them make decisions about their health care, and about the financial side of that care. Their insurance products include medical, pharmacy, dental, behavioral health, group life and disability plans. They also offer services for health care management, workers' compensation administration and health information technology. They have around 23.1 million medical members, around 14.5 million dental members and approximately 15.2 million pharmacy benefit management services members. They have been heavily involved in Obamacare from the beginning, but have started to rationalise the states and areas to which they are exposed, as they have found much of the business has not lived up to its promise as far as cost and profitability is concerned.

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Model Portfolio

A new all time high for the model portfolio on the back of strongly surging markets. We have not sold any stocks in the last 3 months – but we are watching diligently in case any become obviously over-valued.
We have added one stock, Torchmark, an insurance company, and we will be very happy if it gives us the kind of performance we have had from our other recent other insurance company purchase, Aetna, which is up 38% in the model portfolio.

(cont'd from front page)

The writers argue that following the GFC, "economic pollicy has neither reformed the financial system nor restored stable growth." The arguments put forward to explain and deal with these issues are many and complex, but the basic assertion – and we are not by any means saying that we agree with this, but it is certainly a view that is gaining wider popular currency - is that our late 20th century neo-Liberal way of understanding markets and economies is incorrect and needs to change. The changes suggested by these academics would involve among other things more state intervention in capital allocation and investment, different models of corporate governance – one in which shareholders were reduced from being the most important players in the ownership of companies to just being one of many interested parties – as well as possible changes in the reduced role played by the state in recent decades.
Which – if any - of these opinions gain sway and where and how firmly obviously depends on many politicial decisions and election results, but given the total disillusion in many quarters with the current political and economic systems, it's always worth – in our opinion – keeping an eye on how these views may impact investors and investment options in the medium to long term. The fact that anti-capitalist populist polices are likely to lead to a worsening of the situation rather than an improvement may take some time to become obvious!
All of the above is even more applicable now that it looks as though we in New Zealand may get a ringside seat as some new – but as yet largely undisclosed - ideas are tested. We have always been of the view that New Zealand in general, and New Zealand property in particular, is too narrow an asset class to justify being the place to invest most of one's capital. Given that at least some of the new Government's policies are unlikely to be good for the local economy, our usual advice to invest geographically widely be even more appropriate for the foreseeable future.

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