

Yovich & Co. Market Update

September 15th 2015

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD
Previous Month	5696.45	5360.01	3965.33	6550.74	17477.40	5048.24	0.8860	0.6536
Week Close	5648.22	5096.31	3200.23	6117.76	16433.09	4822.34	0.8907	0.6314
Change	-0.85%	-4.92%	-19.29%	-6.61%	-5.98%	-4.47%	0.54%	-3.40%

Market Themes

- Over the past four weeks the New Zealand market has been relatively robust compared with the major markets around the world. This is a strong indication that despite the concerns about Chinese growth, there are good fundamentals underpinning the New Zealand economy.
- In addition to this the interest rate cut last week has given even more reason for investors to support the sharemarket.
- The Chinese market has had a very clear correction with the Shanghai Composite index looking to have found a floor around the 3,000 point level. This equates to a 45% fall from their multi-year high. But to put this in context, the market is still up 36% from a year ago.
- The other major story for global markets is the anticipation of the first rate move upwards by the US Federal Reserve in over nine years.
- The Kiwi Dollar has continued its slide against the US Dollar with the OCR being cut and the possible rates rise in the U.S. pushing the NZD further out of favour with traders.

Investment News

“Don’t Give Your Money to the Bank, Own the Bank”.

One of Mr Yovich’s favourite sayings over the last few years while interest rates have been historically low has been “Don’t give your money to the Bank, own the Bank” and the premise to that idea is stronger today than it has been for a while. Interest rates have been steadily falling in New Zealand this year with the OCR currently at 2.75%, and there are still expectations that the rate could fall as low as 2% if the global economy doesn’t perform well. The Australian banks have been busy raising capital as required by the new Basel III capital adequacy framework. Overall, the purpose of these requirements is to improve the financial strength of the banks around the world to avoid a repeat of the global financial crises. Although good for the long term strength of these businesses, this has placed downward pressure on share prices as funding for the banks are re-allocated by investors. This has presented an opportunity to buy shares in the banks at multi-year lows. Below is a summary of the research for some of the banks and financial institutions:

Stock	Dividend 2014	Forecasted Gross Yield		FNZC Rating	Share Price	12 Month FNZC Target Price	Total 12 Month Gain
		2015	2016				
ANZ	6.40%	6.60%	6.60%	Outperform	\$27.78	\$35.00	32.59%
Westpac	5.90%	6.00%	6.10%	Outperform	\$30.99	\$34.00	15.71%
National Australia Bank	6.50%	6.50%	6.60%	Neutral	\$30.54	\$37.50	29.29%
Commonwealth Bank	5.40%	5.60%	5.60%	Outperform	\$74.55	\$88.00	23.64%
Heartland New Zealand	7.40%	9.20%	10.10%	Outperform	\$1.17	\$1.38	27.15%
Suncorp	8.40%	7.10%	8.00%	Neutral	\$12.44	\$15.05	28.08%
Macquarie Bank	3.40%	4.30%	4.90%	Outperform	\$77.57	\$90.00	20.32%

ANZ and Westpac are also traded on the NZX and have some imputation credits attached to the dividends.