Yovich & Co. Market Update

December 21st 2015

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD
Year Open	5568.28	5415.03	3234.68	6547.80	17832.99	4726.81	0.9517	0.7704
Week Close	6107.84	5156.50	3578.96	6052.42	17128.45	4923.08	0.9383	0.6727
Change	9.69%	-4.77%	10.64%	-7.57%	-3.95%	4.15%	-1.41%	-12.69%

Merry Christmas from all of us at Yovich & Co. We hope that you all enjoy some downtime during the festive season and that the New Year brings wealth, health and happiness. I would also like to take this opportunity to welcome Kris Pivac to the team who has brought with her over 12 years of experience in investment administration.
Below is my take on the last 12 months of activity in the local and global markets.

Year in Review - Market Themes

- The New Zealand share market was once again a shining light in the developed equity markets. The gross index is up almost 10% which has extended the run of positive years to four in a row and a gain of 86% over that period.
- The Australian economy is still working through the downturn in the resource sector and falling commodity prices. Despite the All Ords back tracking by approximately 5% last year, the economy continues to avoid recording a quarter of negative growth and in the previous year the economy has grown by 2.2%.
- The share market bubble in China was a big event a few months ago. The formation of the bubble, the subsequent bursting of the bubble and the recent fight back was at the time a topic of great interest and hyperbole from the media. Now that the dust has settled, there hasn't been any large impact on the global economy from the clean out. Over this year the Shanghai Composite Index rallied in the first half by 59%, then subsequently crashed to record a fall of 45% and has now recovered to mark a relatively impressive 10.64% gain since the 1st of January.
- The topic out of the U.S. that has been followed the closest is the decision and timing of when Janet Yellen would start to raise interest rates. The market dissected each Fed Reserve speech in great detail to try and predict when a move would occur. While the Fed watched the markets to assess how the investors would react to an increasing possibility of the first rate rise in over nine years. Finally, in the last announcement of the year, Janet Yellen took the leap to end an extraordinary period of low interest rates by raising the Federal Funds Rate on the 16th of December. The initial reaction by the market has been positive which would have been a relief to the Federal Reserve.
- Looking forward to next year, there appears to be growing concern around the energy sector as the Oil price remains depressed and what larger fall out there might be if energy prices remain as low as they are. There is a political game being played out here that might lead to increased tensions amongst the U.S. and the Middle East. Overall, low energy prices are stimulatory so I believe that the current situation will be a net positive for the global economy but a consequence might be volatility in sectors related to resources and energy.

Year in Review – New Zealand Markets

- It was a much quieter year in the local market than we have experienced over the past five years. The number of new offerings was lower and much smaller than last year with the Government finishing their asset selling program in 2014.
- The best performing stocks this year have been:
  - The a2 Milk Company Limited (ATM.nz) - Yearly rise of 196%.
  - Nuplex Industries Limited (NPX.nz) - Yearly rise of 64%.
  - The New Zealand Refining Company Limited (NZR.nz) - Yearly rise of 63%.
  - Z Energy Limited (ZEL.nz) - Yearly rise of 45%.
  - Summerset Group Holdings Limited (SUM.nz) - Yearly rise of 41%.
- As predicted, interest rates slowly fell during the second half of the year as the local economy ran out of steam. Throughout the year, interest rates fell from 3.5% to end the year at 2.5% after four cuts between June and December.
- Our strategy of focusing on high-yielding stocks this year has been consistent and investors have been rewarded with much better income than they would have with money in the bank.
- I expect that this strategy will remain a focus for us next year.