

Yovich & Co. Market Update

August 21st 2017

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	7639.51	5755.24	3253.24	7368.37	21830.31	6374.68	0.9413	0.7518	1.75%
Week Close	7873.55	5798.51	3268.72	7323.98	21674.51	6216.53	0.9222	0.7312	1.75%
Change	3.06%	0.75%	0.48%	-0.60%	-0.71%	-2.48%	-2.02%	-2.75%	0.00%

Market Themes

- A robust reporting season so far has propelled the NZ market to another all time high. The gross index is now up 218% since the low reached during the last bear market in March 2009, and up 82% since the peak in the last bull market, which ended in October 2007.
- The best performing stock on the market over the past month has been Opus International Consultants (OIC.nz), after a bid for the company was announced by Canadian listed consultancy company WSP Global. The offer is likely to be at a price of \$1.78 which is a 78% increase on the \$1.00 market price which it had been trading at before the offer. They company will also pay a dividend of 7 cents.
- We are now four weeks from the New Zealand General Election and it has been an eventful campaign so far. Odds are that it will still be a National led Government with New Zealand First as coalition partners. But as we have seen over the previous month, a lot can change in four weeks.
- Further improvement in metals prices has seen the Mining Stocks help the All Ords in Australia to make a slight gain for the period.
- President Trump's stance on the Charlottesville attack has seen unrest domestically. While internationally, his statements on Twitter regarding North Korea have also increased tensions.
- The NZ Dollar fell against both the Aussie and Greenback as the RBNZ indicated that Monetary Policy would remain accommodative and interest rates stay at record lows.

Investment News

Investing Internationally using Exchange Traded Funds

When I am managing portfolios, reducing volatility and uncertainty is an important expectation from clients. It is in times of uncertainty that diversification into unrelated markets will ensure that portfolio valuations remain as steady as possible. There are two main benefits that I outline when I recommend International Equities to portfolios; they are:

- Reducing the risk that a shock to the NZ economy and NZ based companies will have a negative affect on a portfolio, and
- At times of global economic slow down, the corresponding fall in the New Zealand Dollar can offset equity valuation falls. It is for this reason that I do not believe the Currency should be hedged when investing off shore.

My preferred way of gaining international exposure is through the use of index tracking Exchange Traded Funds (ETFs). Unlike traditional funds, ETFs have a much lower cost structure as the funds' constituents are defined by the index and there is very little decision making required by the Fund Manager. This reduces overhead costs such as fund manager salaries, due diligence research and transaction costs. Other benefits for ETFs include ease of accessibility, as they are bought and sold easily on the share market, transparency, and real-time pricing data. Another important aspect for me is that performance is more predictable. If the share market performs well, the ETF will perform almost exactly inline. In a more traditional fund, the fund manager is trying not to replicate the market, so by design, the performance will be unlike that of the market.

Below is a list of our preferred Exchange Traded Funds for gaining International Equity exposure:

Code	Name	Objective	5 Year Performance	Fee
IVV.axw	iShares Core S&P 500 ETF	Exposure to Large Cap US Equities.	21.24% p.a.	0.04%
IAA.axw	iShares Asia 50 ETF	Exposure to 50 of the largest Asian Equities.	15.62% p.a.	0.50%
IEU.axw	iShares Europe ETF	Exposure to the S&P Europe 350 index.	15.20% p.a.	0.60%
QUS.axw	BetaShares FTSE RAFI U.S. 1000 ETF	Exposure to the top 1000 US listed companies as measured by fundamental size.	9.12% p.a. *	0.40%
NDQ.axw	BetaShares NASDAQ 100 ETF	Exposure to the top 100 companies in the Tech focused NASDAQ Index.	12.34% p.a. *	0.48%
IXJ.axw	iShares Global Healthcare ETF	Exposure to healthcare equities in the S&P Global 1200 Healthcare Sector Index.	20.89% p.a.	0.47%
IXP.axw	iShares Global Telecom ETF	Exposure to Telecom equities in the S&P Global 1200 Telecom Sector Index.	12.03% p.a.	0.47%
VGE.axw	Vanguard FTSE Emerging Markets ETF	Exposure to Emerging Markets	7.21% p.a. *	0.48%

Source: Fund Fact Sheets. Performance is based on AUD Returns.

*Performance in since inception as the fund has not been listed for 5 years.

Disclaimer: This publication has been prepared for your general information. While all care has been taken in the preparation of this publication, no warranty is given as to the accuracy of the information and no responsibility is taken for any errors or omissions. This publication does not constitute financial or insurance product advice. It may not be relevant to individual circumstances. Nothing in this publication is, or should be taken as, an offer, invitation, or recommendation to buy, sell, or retain any investment in or make any deposit with any person. You should seek professional advice before taking any action in relation to the matters dealt within this publication. No part of this publication may be reproduced without prior written permission from our company. Disclosure statements relating to the financial advisers associated with this newsletter are available on request and free of charge.