CLIENT INFORMATION BULLETIN

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The Investment Cycle and Residential Property

Our knowledge of the Investment Cycle and the implementation of that knowledge is helping us extraordinarily with achieving excellent returns for our retiree clients, and our clients undertaking a property development. We are now 11 years into the current Investment Cycle. It is panning out almost identically to past cycles. This enables us to be able to year after year accurately predict how each sector of the market will perform over the coming year or so. Knowing that if something unexpected occurs, we have strategies such as "Stop Losses" in place to protect clients from losing heaps. (Unlike those companies who faced the Royal Commission and generally just tell their clients to ride out a share market crash such as 1987, 2001 or 2008!)

Melbourne Housing

Wow, that was quick. In the blink of an eye a "property crash" is over. What goes down, came back up again pretty quickly! Melbourne housing prices fell 10% earlier in the year. That is the biggest fall in Melbourne's median price since at least 1960. On 28/04/2017 I wrote a prediction to Garry Crole, Managing Director of InterPrac Financial Planning which included the words, "Recession around 2019/20 – House prices will stagnate and maybe fall up to 10% around then".

I could never have had the confidence to write that if I hadn't subscribed since 2008 to Phillip Anderson's investment services. So it was an easy prediction!

Come the end of 2019 and many house prices are back to where they were. The Royal Commission appears to have had its affect. It slowed lending, it slowed buying, now we are looking at a potentially severe lack of housing in 2 years time as the number of building approvals has gone through the floor. No doubt you realise what happens to prices when there is a shortage!

Our financial planning clients who subscribe to our Ongoing Service Fee receive a quarterly economic update. The update focuses a lot on what is likely to happen in the future.

Our report is not like most Fund Manager reports which tell you what happened in the past and why they so "brilliantly" took advantage of it. In most cases the Fund Manager just got lucky that the market continued to grow and they were in it. When the market falls they tell you to stay in even though it is falling, because you "might miss one of the 10 best investment days in all of recorded history". (Based on investing over 100 years, seriously who lives long enough to do that!) What Fund Managers don't explain, is that if you miss the majority of the 50% fall once every 10 years in the share market, you will be zillions better off! Why do they push their bias, because they get paid for FUM, Funds Under Management, not for performance!

Our financial planning clients were never concerned about 2019 being a bad year for shares. I advised them 2019 should be a reasonable year for shares, because Phillip Anderson has identified that nearly every year ending in a "9" has been a good year on the share market, and years ending with a "9" coming into a Presidential Year have always been extra good years for share markets. The USA share market is continuing to break into New Highs as we speak, proving yet again how the Investment Cycle is ticking along beautifully.

What is next

In late November I attended another Phillip Anderson presentation. Phillip said to me that he was amazed how accurately this Cycle was following the pattern. In other words, while we have no idea what may happen in the future, at this stage of the Investment Cycle, it is very likely that the same thing that has occurred at this stage of every past Cycle will occur again. Which is of course, a recession.

Recession?

Oops, said Bill Shorten! How did I lose that?

Will it make any difference to the economy? Almost certainly not.
The Liberal government will now be in charge during the softening economic conditions, potentially an official Recession, around 2020/21. They will move everything on heaven and earth to stay in power. They have already started to remove those nasty restrictions placed on the banks in order to get them lending again, as they know Governments in power during a recession usually lose the next election. Josh Frydenberg keeps saying they want house prices rising.

Josh Frydenberg is confirming the re-elected Government is 100% behind firing up the housing and share markets for the last phase of the Investment Cycle, taking us up to the peak around 2026. 2008 + 18 = 2026.

Investing Education

In the last couple of years many of you have referred your children to us to assist them with their tax returns. We thank you enormously for your appreciation of our services and will continue to educate your children on the Investment Cycle, so they can take advantage of that knowledge over the next 30 or so years of their working lives.

Interest Rates

Are low and staying there for a very long time! Which pretty much makes cash, and bonds the worst sectors you can invest in for the next few years.

Australian Shares

1/11/2007 All Ord's was 6851. If your adviser didn't advise you to get out of shares back then, you have spent 12 years trying to get your money back.

Knowledgeable, good advice is the most important fundamental in achieving good performance.

Overseas and Australian shares may have some additional volatility over the next 12 months. As we get closer to the US Election, Trump will do everything he can to enhance increasing values on the American share market. Whether he can complete his trade war with China and not leave too many sour grapes in their feelings, may be a factor on influencing the share market and the general confidence of the US population come November 2020.

Outstanding Property Development Result

Saving the best to last!

In 2016 clients approached us about the viability of doing a property development. At the time they had a block down towards the Mornington Peninsula worth around $500,000. We estimated a total spend on 3 units of around $850,000. End value of $1,800,000. An increase in equity of around $450,000. Expected to be positive income once completed.

They have just completed their project and the results are in. The end value is around $2,000,000. An increase in equity of closer to $650,000. Definitely positive income as they have been rented out for quite a bit higher than we estimated.

How long has it taken you to make that sort of money from your Superannuation?

Melbourne has had its fall in values as a result of the Royal Commission and the dramatic reduction in lending by the banks. The election is over. Prices have largely bounced back. We have a huge shortage of housing in Melbourne and Sydney occurring over the next 2-3 years.

The mid cycle slowdown in the economy, due around 2020/21, which may become an official Recession in the USA, is not caused by debt. The debt induced crash every 18 years occurs when the amount of money lent to buy land (housing) gets to the level where long term mortgage defaults become ridiculous (around 9% in 1990 and 2008). The mortgage default rates in the USA and in Australia are currently very low (around 1%).

Housing prices are now on their way up again. As the banks start to ease their lending standards, as the recent APRA change to the reference rate allows them to do, the amount they can lend on an average home can increase by up to a further $300,000. The government schemes to help people get into housing, such as the 1st Home Buyers Grant, only ever push the cost of houses up by the amount of the scheme. As 200,000 people continue to migrate to Australia each year, predominantly Melbourne and Sydney, more housing is necessary.

The number of building approvals is at ridiculously low levels given the housing we need over the next 5 years.

If you are thinking of doing something that can increase your wealth by maybe the same, or more than, the value of the Super you have been building up for the last 30-40 years, you don't want to wait until the last minute.

Anyone doing a development in 2024 or later, may complete their project just as the next major peak arrives around 2026, followed by a very likely major crash in housing in Australia from 2027 on. Late comers may be forced to sell at the wrong price, potentially losing a lot of money.

Those who develop in the next couple of years, have a lot of factors in their favour. They will have quite a few years growth in their capital as well as the rent, and should be able to ride through the crash without having to sell one or two of their townhouses. Leaving the full value of their project to provide for their retirement, and ultimately to be passed on to their children. (Who of course don't need any help to try and buy a house for themselves, do they? What could be easier than our children being able to afford a house in this day and age!!!)

You could be the "Bank of Mum and Dad" and lend each of your children a house deposit. That means you will be working until you're 80, because they ain't ever paying it back! Or, build your investment portfolio to look after yourselves and the kids can inherit the houses when you die.

There are always more ways than one to solve a problem. Sometimes there is an efficient way of doing it, or there is the stuck in the Rat Race method.

2020

We look forward to assisting you and your friends and family again in 2020.

Our office will be closed from Friday 20th December, reopening on Monday the 13th January.

We again extend our deepest appreciation for your custom, your loyalty and your support during 2019.

Wishing you a very
Merry Christmas & 2020 Vision

Grant, Emma,
Renate & Rizwan