# NEWSLETTER

June 2018

QUAY FINANCIAL PLANNING

# Introduction

## A look at history… The Queen's birthday

**Each June, Australia celebrates the Queen's Birthday.** That is, all of Australia except Western Australia and Queensland, which celebrate the Queen's Birthday in September and October, respectively. Given that Queen Elizabeth is our head of state, in many ways it makes sense for us to highlight her birthday each year with a public holiday. The problem is, the Queen was born in April. April 21, 1926, to be precise.

So, why do we celebrate her birthday later in the year? Well, her grandpa, George V, was born on June 3. Up until his death, the monarch's birthday had always been celebrated… on the monarch's birthday. But when he died in 1936, it was decided to keep the holiday in June. Elizabeth's dad, George VI, was born on December 14. Who knows, perhaps our forebears decided that December was already chockablock full of time off, and a midyear break would do us all the world of good.

If you are a stickler for accuracy, then on June 11 (this year's public holiday everywhere except WA and Qld), you could always celebrate Henry VIII's first marriage in 1509. On September 24 (WA), you can celebrate the opening of the world's first KFC outlet in 1952. And on October 1 (Qld), you can remember the time back in 1989 when the US postal department wrongly issued a stamp labelled 'brontosaurus' when it actually pictured an Apatosaurus.

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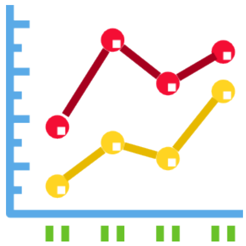
# Property Market

In recent editions of our newsletter, we have regularly commented that Australia has multiple residential property markets. In our last edition, we compared the rapid rate of growth over the last 12 months in Hobart to a small decline in residential property values in markets such as Melbourne and Sydney. Most commentators agree that what is happening in Hobart is a 'catch up,' as people who have been priced out of mainland markets move south in pursuit of a more affordable lifestyle.

One interesting side element of what is happening in Hobart is a perception that the rise of the 'AirBnB' concept is affecting residential property prices. Anecdotal evidence suggests that property owners are preferring not to provide longer term rental contracts to tenants. Instead, they are increasingly letting their properties on a short-term basis to tourists travelling to Hobart for holidays. This shrinks the amount of housing stock available to longer-term tenants, driving up rental prices and encouraging the entry of investors into the property market. As with any market, more buyers push prices higher than they otherwise would be.

If this anecdotal evidence is true, and property prices in Hobart are being pushed up as a result of AirBnB participants, there are two possible explanations. The first is a significant increase in tourism to Hobart. The second is a movement of capital away from traditional tourism accommodation (hotels and motels). This second explanation would represent substantial and structural change to the basis of the economy.

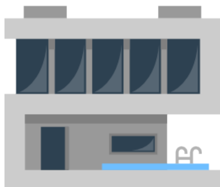
For now, we only have anecdotes regarding this situation. But it can be useful to look at the underlying economics that might be at play, as this economics can inform the way we think about residential property generally. As we say, in any market where the number of buyers increases, prices will be higher than they otherwise would be. Keep this thought in mind.



In the past month, many commentators have pointed out that within particular geographical markets, we are also seeing variation in demand. In the more expensive markets, especially Melbourne and Sydney, there is evidence that unit prices are growing faster than house prices. There is also evidence that price growth continues to occur in cheaper parts of those cities.

In most cases, units are cheaper than houses. And, of course, properties in cheaper parts of the city must be cheaper than properties in other parts of the same city. So, demand for cheaper housing may be continuing to grow.

At the same time, demand for properties that are more expensive, either because they are houses or because they are located in more popular parts of the city, is waning.



On balance, more expensive properties will have a greater impact on market averages. So, the overall observation that property prices are falling on average in markets such as Sydney and Melbourne can 'hide' some more detailed analysis within those markets. Put simply, a rise in demand for cheaper properties is more than offset by the impact of a commensurate fall in demand for more expensive properties.

Overall, it looks like all property prices are falling. But what we may actually be seeing is a 'smoothing out' within the market – people are moving away from more expensive properties and towards less expensive properties.

Demand for less affordable (that is, more expensive) housing is falling. This is an inevitable consequence of low affordability and it is how pure market economists predict that property markets correct themselves. People who give up on the less affordable markets then move towards more affordable markets, either by looking for smaller dwellings (units and apartments) or cheaper suburbs within a city, or by moving cities altogether as appears to be the case in Hobart.

Only time can tell us whether market economics will continue to work such that general housing affordability improves. But the evidence seems to show that people are responding to the price of housing in Australia by moving between markets.

For a developed economy, Australian cities are located unusually far apart, and the geographical size of our cities (measured from east to west and from north to south) is greater than you will find in other parts of the world. It will be very interesting to see whether these distances will make it difficult for large numbers of people to move between markets. We live in interesting times.

# The Share Market

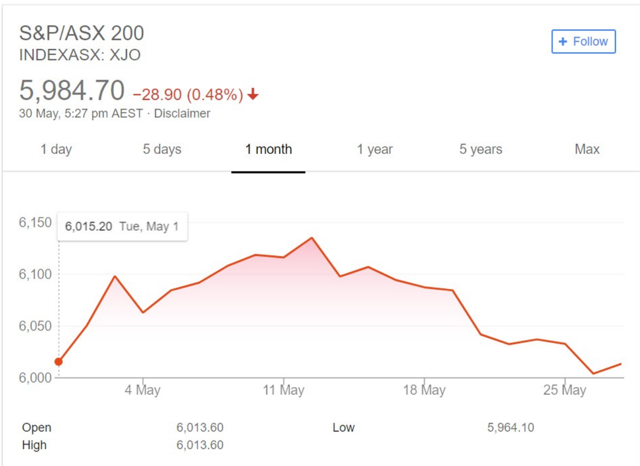
Have we crested that hill?

In our last newsletter, we commented on how unusual it was to see share prices rise almost constantly across a calendar month. What's more, the rise was quite gradual, meaning that if you are hiking the hill represented by a graph of the ASX 200, the walk would not have been terribly difficult.

In a sense, share prices in May continued that gradual style. However, while our walk in April was uphill, from about the middle of May we have started to wander down the other side.

Having completely murdered the metaphor of the sharemarket as a walk in the hills, let's discuss this in plain English. During May, prices on the ASX 200 rose from a starting point of 5982 points to a peak on May 14 of 6135 points. This was a rise of 2.5%. From that peak, prices gradually fell again, eventually closing at 6013 points as we went to press (actually on the second last day of May). For the whole month, prices only changed by 1.9%.

Here is how Google makes it look:




As a long-term proposition, this period of relative market calm does not mean much.

Volatile markets such as the Australian sharemarket are not at all predictable in the short term. No one would have told you at the end of March that little would happen on the Australian markets in April and May. What we can continue to say is that all the economic indicators suggest a very strong underlying Australian economy, which should make for a positive long-term experience for shareholders in companies who participate in that economy.

Shareholders, either directly or through managed investments such as their superannuation funds, basically own a very small piece of the Australian economy. Where that investment is held in a diversified portfolio, such as an index fund, then the concept of the investor owning a chunk of the economy is even more accurate. This is because the diversified portfolio is much more likely to perform in concert with the underlying economy than is an individual company.

History has shown that individual companies can go bust even while the economy booms. Of course, on the flipside, individual companies can do well even when an economy performs poorly. Either way, however, an investor in an individual company has taken on a lot more risk than someone who invests a similar amount across a diversified portfolio. Put simply, investing against the economy (often known as 'contrarian investing') is simply too risky for most investors. Even analysts who watch markets full-time struggle to succeed with a contrarian investment approach.

The well-known American investor Peter Lynch summed up the risk of contrarian investing when he said:

> *"More money has been lost trying to anticipate and protect from corrections than actually in them."*

That is, people who try to benefit from a market downturn tend to lose more money than people who simply *experienced* the market downturn and held on for the next period.

Timing the market is very, very hard.

# The Legal Stuff

## General Advice and Tax Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances.All strategies and information provided on this website are general advice only.

We recommend you seek personal financial and/or taxation advice prior to acting on anything you see on this website.

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