

# September 2015

## Presentation

Presented By Vijay Ghelani



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# Hanmoore Financial Solutions



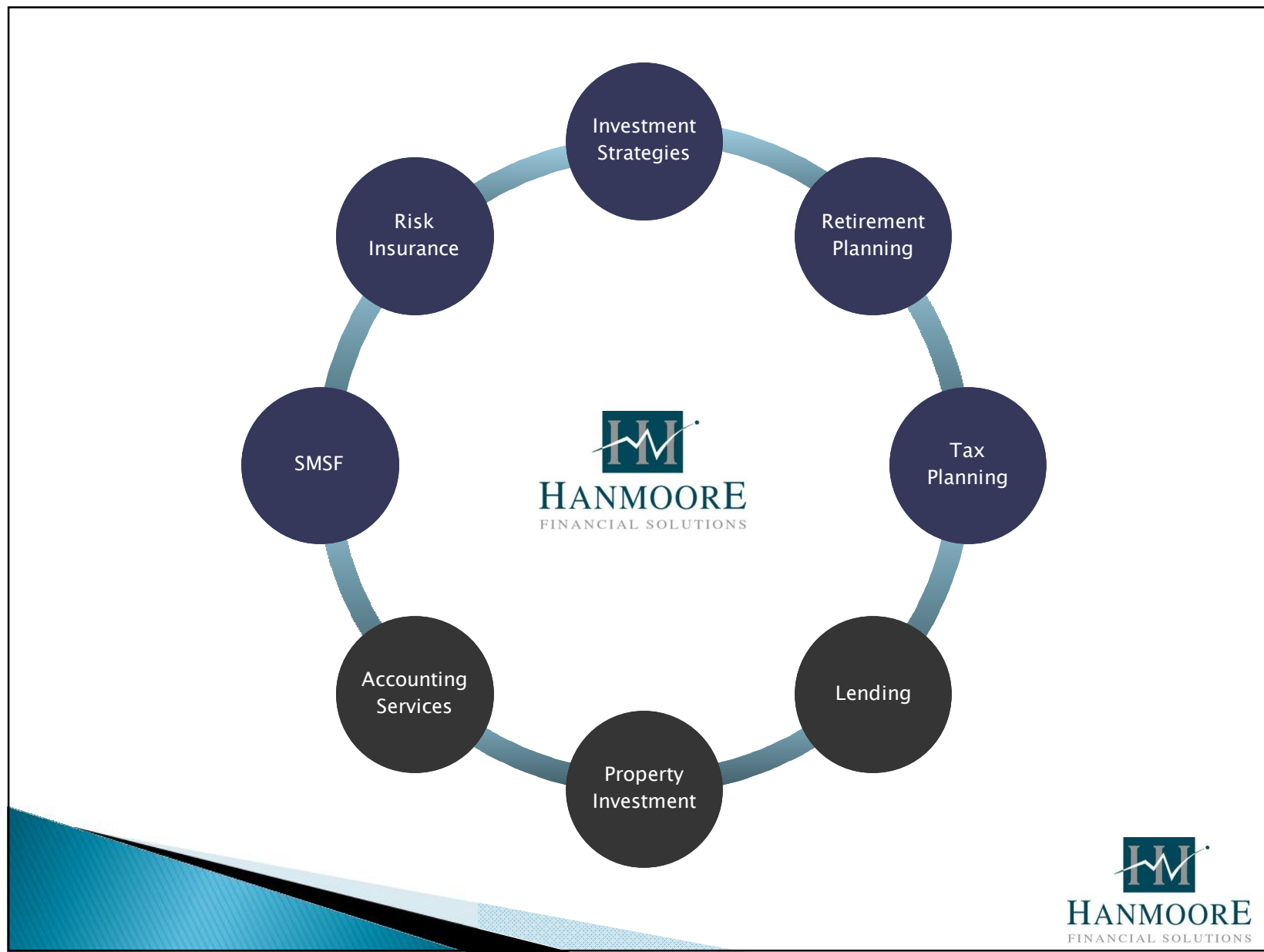
## Introduction

Vijay Ghelani – Partner & Senior Financial Adviser

- \* Practising as a Financial Adviser since 1999.
- \* Masters Degree in Applied Finance
- \* Masters Degree in Financial Planning
- \* Bachelor of Commerce Degree
- \* Diploma in Financial Planning
- \* Certified Financial Planner (CFP)

Hanmoore Financial Solutions – Financial advisory business established in 1984.  
Offices: Blackburn & Essendon





# Agenda

1. Investment Markets
2. China & Australia
3. Property Bubble ?
4. Changing nature of retirement
5. Questions



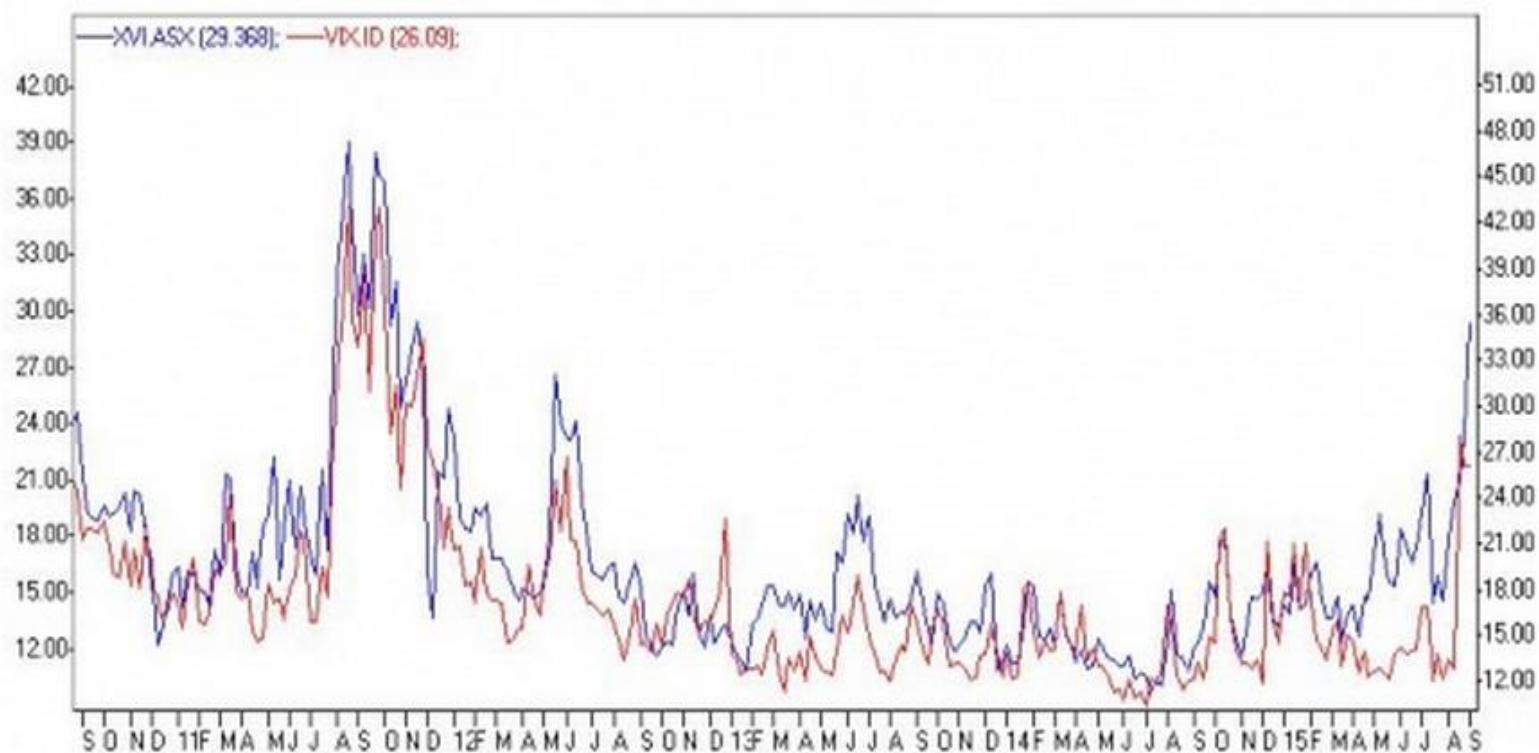
# Investment Markets



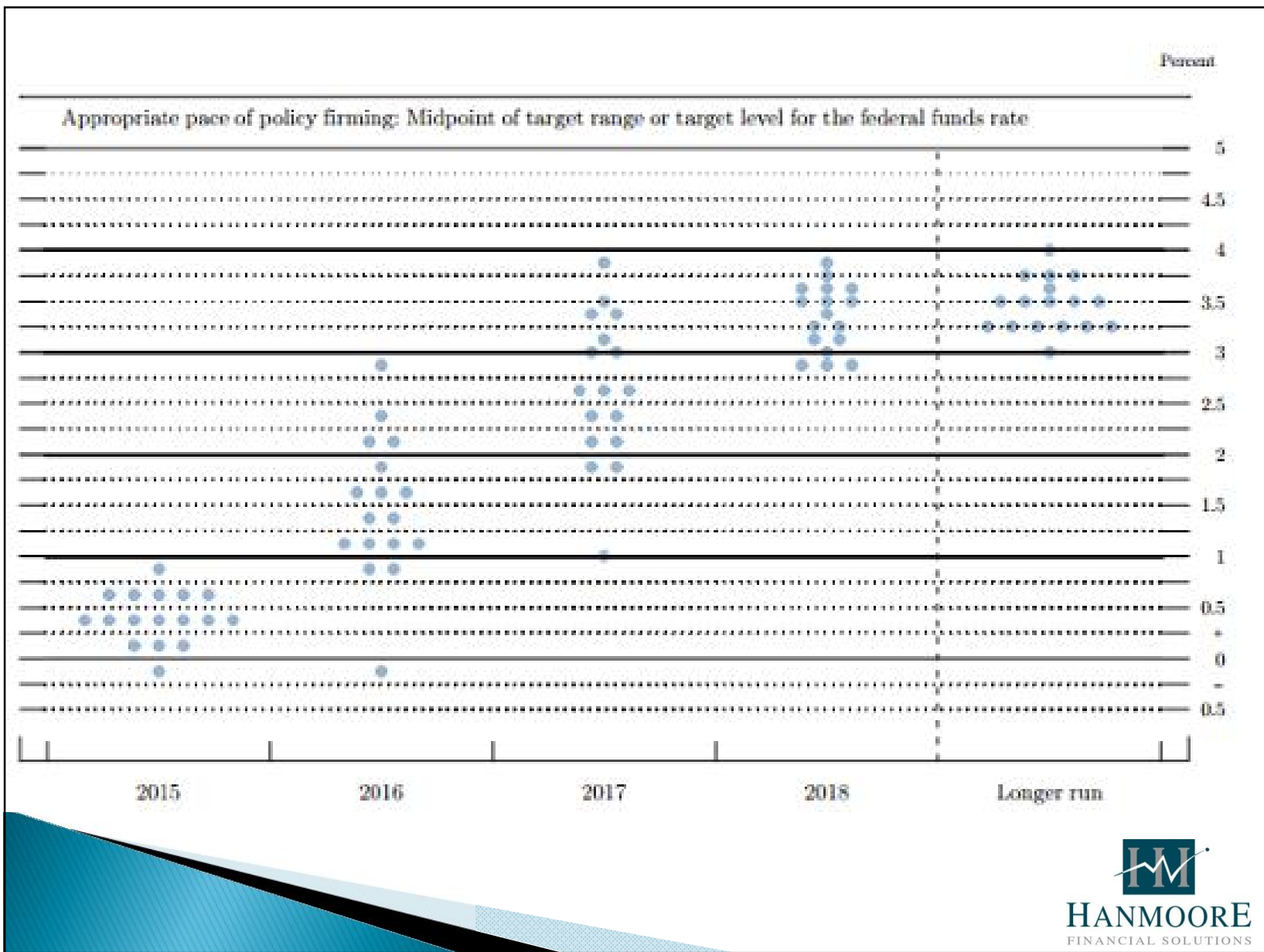
## More Volatility Here Than The US

Posted 3 days ago

Australian Vix and US Vix indexes

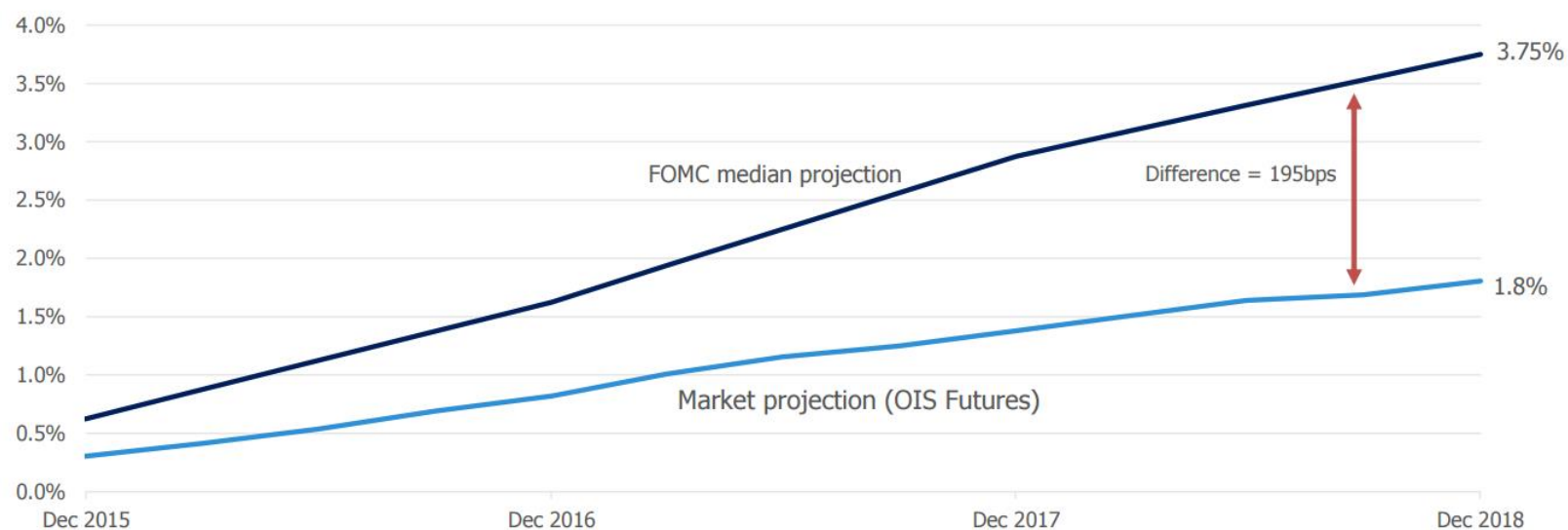


Source: Iress



# Market rate expectations are well below the Fed

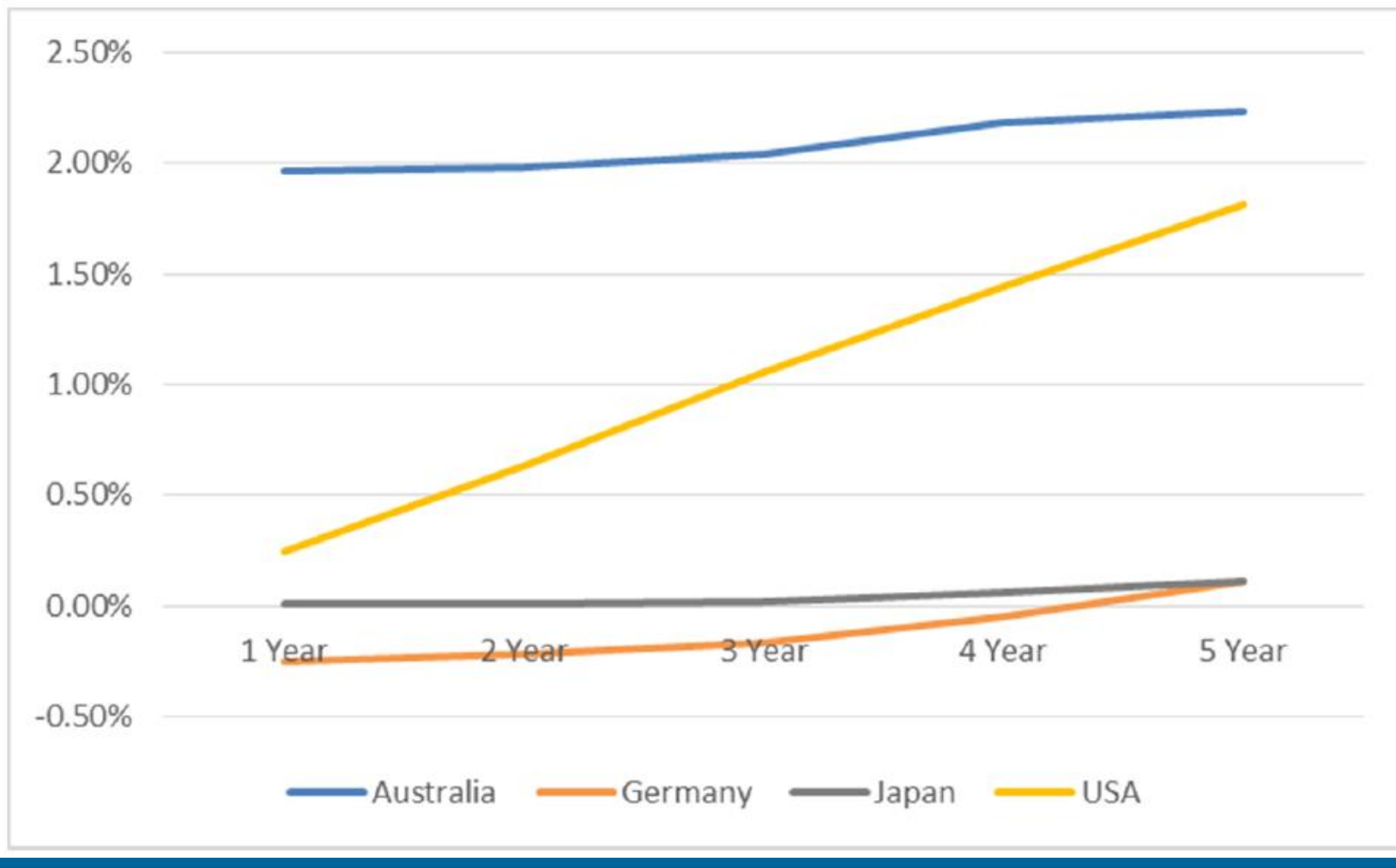
Market v FOMC median projections for the Fed Funds rate

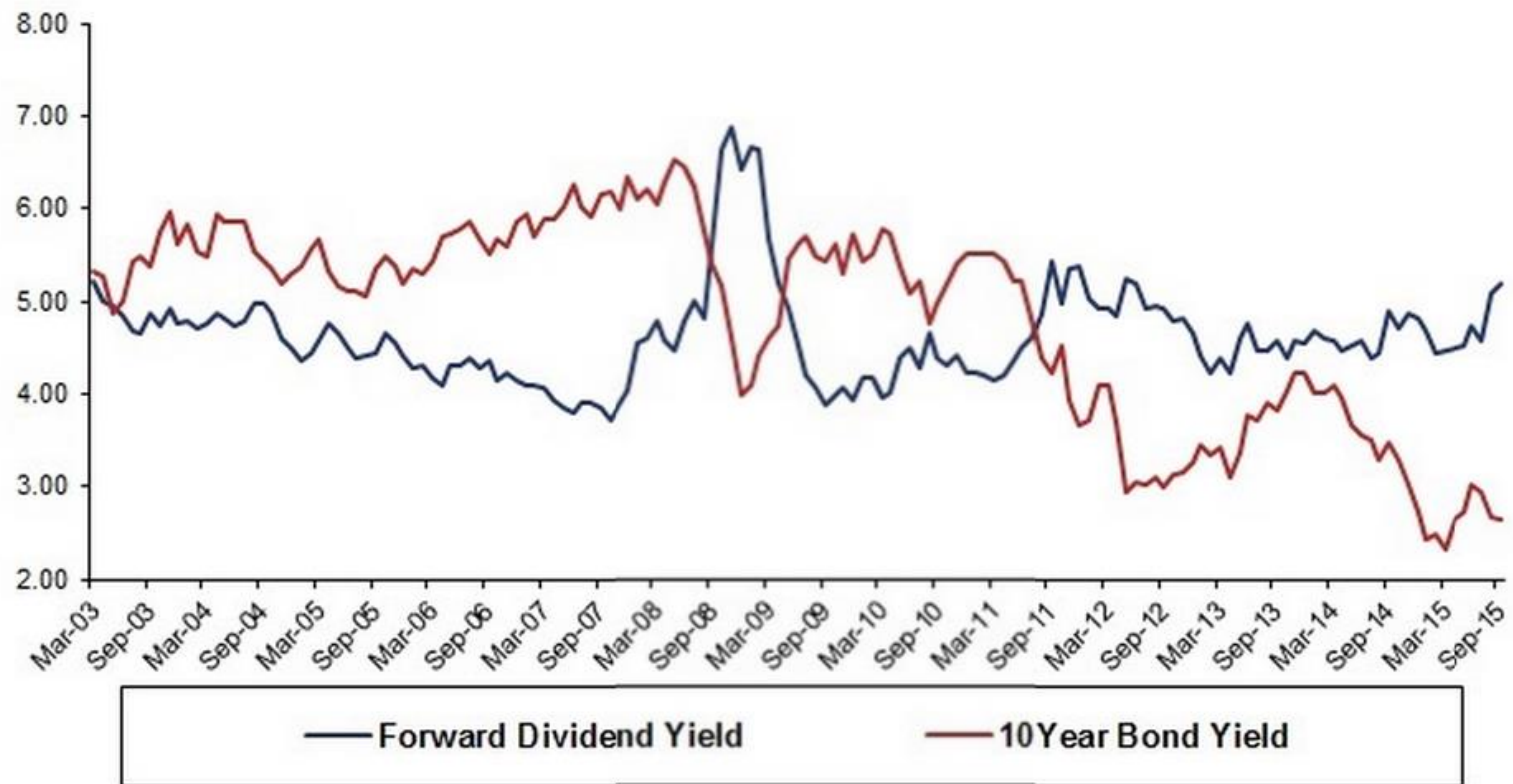




## Not much hope for interest rate rises outside the US

### Interest rate forecasts based on market yield curves





**Exhibit 5:** Major Banks One-Year Dividend Yield vs. 10-yr Bond Yield



Source: ThomsonOne, Morgan Stanley Research

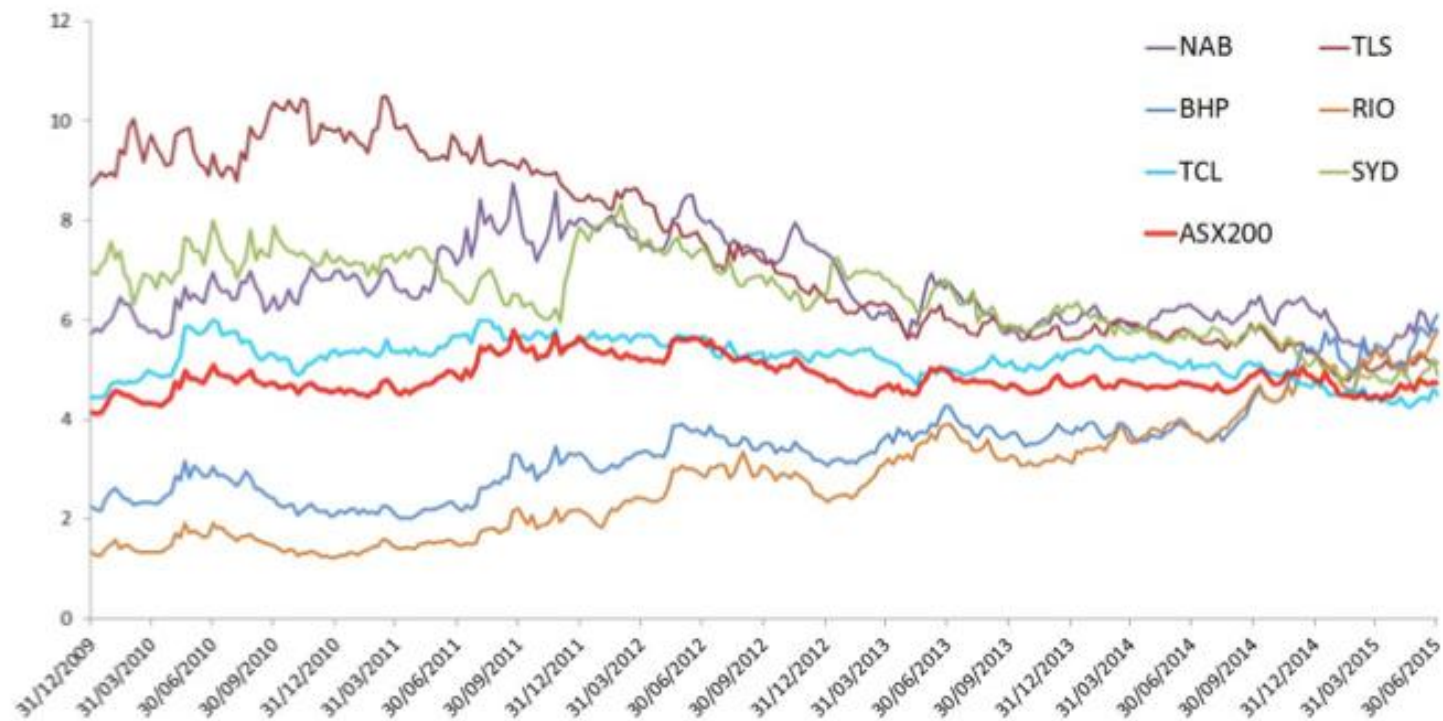


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# Australian Share Market

## Convergence of yield

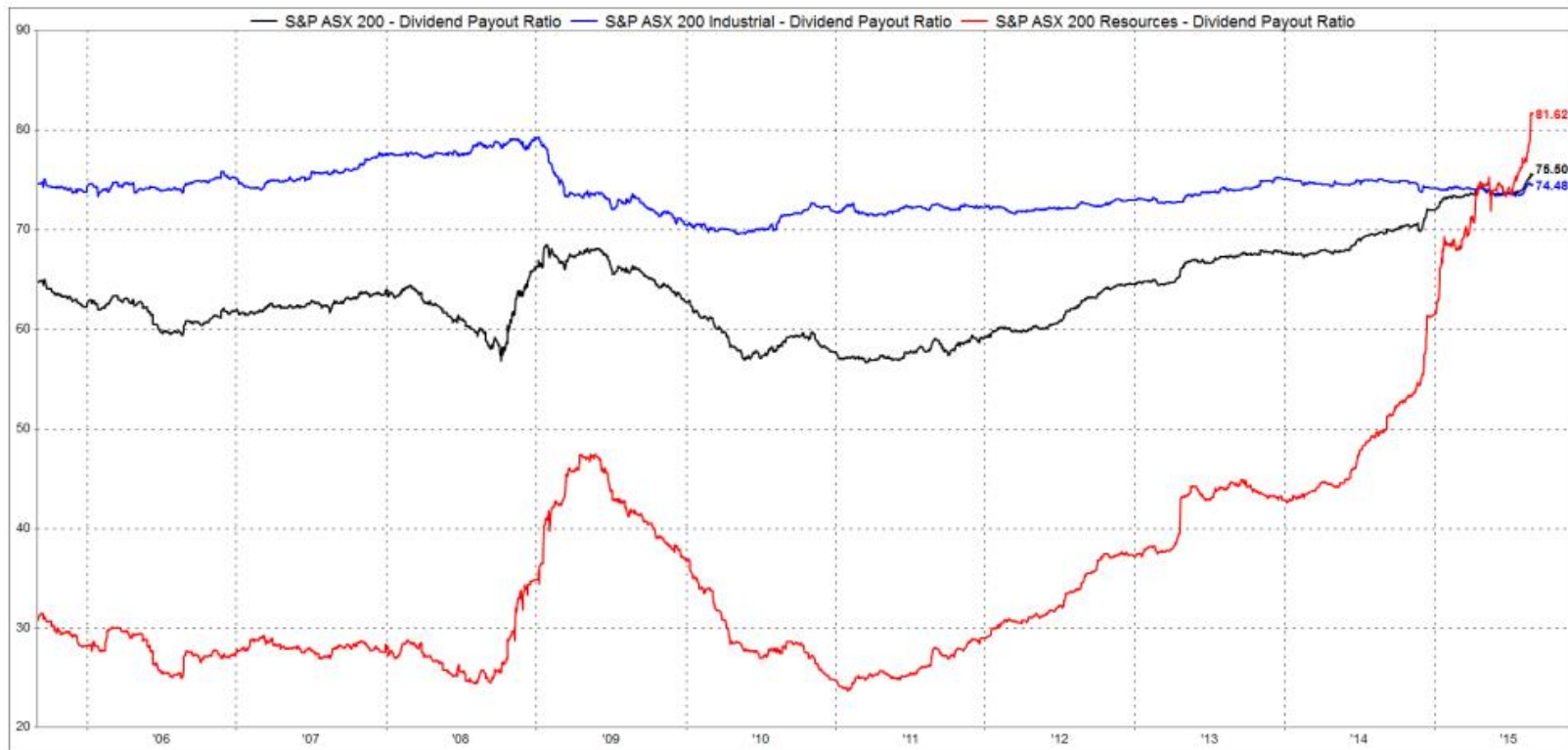
12m forward dividend yield (%)



Source: Factset

## Dividends: payout ratio still rising

Mainly driven by progressive dividend policy of large resource company



## Falls in Australian shares greater than 10% since 1989

Share mkt fall	Mths	% fall top to bottom	Recession Yes/No	1 yr gain from low, %
<b>Aug 89-Jan 91</b>	<b>16</b>	<b>-32</b>	<b>Yes</b>	<b>+39</b>
May 92-Nov 92	6	-19	No	+50
<b>Feb 94-Feb 95</b>	<b>12</b>	<b>-22</b>	<b>No</b>	<b>+25</b>
Apr 96-Jul 96	3	-10	No	+27
Sep 97-Oct 97	1	-17	No	+14
Apr 98-Sep 98	4	-15	No	+14
Apr 99-Oct 99	6	-12	No	+13
Mar 00-Apr 00	1	-11	No	+10
Jun 01-Sep 01	3	-16	No	+4
<b>Mar 02-Mar 03</b>	<b>12</b>	<b>-22</b>	<b>No</b>	<b>+27</b>
May 06-Jun 06	1	-12	No	+29
Jul 07-Aug 07	1	-12	No	-11
<b>Nov 07-Mar 09</b>	<b>16</b>	<b>-55</b>	<b>No</b>	<b>+53</b>
Apr 10-Jul 10	3	-15	No	+10
<b>Apr 11-Sep 11</b>	<b>5</b>	<b>-22</b>	<b>No</b>	<b>+12</b>
<b>Average</b>	<b>6</b>	<b>-19</b>	<b>NA</b>	<b>+21</b>
Apr 15-?	5?	-16?	NA	NA



# Clear warning prior to the GFC



## Tipping Points

Australian Equities			International Equities			Listed property		
All Ords Index	F'cast return	Status	S&P 500	F'cast return	Status	ASX LPT Index	F'cast return	Status
8500	2.5%	Overpriced	1850	4.7%	Overpriced	3100	1.9%	Overpriced
8250	2.9%	Overpriced	1800	5.1%	Overpriced	3000	2.3%	Overpriced
8000	3.4%	Overpriced	1750	5.4%	Overpriced	2900	2.8%	Overpriced
7750	3.8%	Overpriced	1700	5.7%	Overpriced	2800	3.3%	Overpriced
7500	4.3%	Overpriced	1650	6.1%	Fully priced	2700	3.8%	Overpriced
7250	4.7%	Overpriced	1600	6.5%	Fully priced	2600	4.4%	Overpriced
7000	5.2%	Overpriced	1550	6.8%	Fully priced	2500	5.0%	Overpriced
6750	5.8%	Overpriced	1500	7.2%	Fully priced	2400	5.6%	Overpriced
6500	6.3%	Fully priced	1450	7.6%	Fully priced	2300	6.3%	Fully priced
6250	6.9%	Fully priced	1400	8.1%	Fully priced	2200	7.0%	Fully priced
6000	7.5%	Fully priced	1350	8.5%	Fair value	2100	7.7%	Fully priced
5750	8.2%	Fully priced	1300	9.0%	Fair value	2000	8.5%	Fair value
5500	8.9%	Fair value	1250	9.5%	Fair value	1900	9.4%	Fair value
5250	9.6%	Fair value	1200	10.0%	Fair value	1800	10.3%	Fair value
5000	10.4%	Fair value	1150	10.6%	Fair value	1700	11.3%	Cheap
4750	11.3%	Cheap	1100	11.2%	Cheap	1600	12.4%	Cheap
4500	12.2%	Cheap	1050	11.8%	Cheap	1500	13.6%	Cheap

Data as at Dec-07

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Australian Equities		Developed Market Equities		Emerging Market Equities		A-REITs	
All Ords 5,172.60	10 year F'cast return	S&P500 1979.9	10 year F'cast return	FTSE EM 518.7	10 year F'cast return	ASX REIT 1230.2	10 year F'cast return
9500	2.3%	2900	3.4%	1000	3.1%	1700	3.1%
9000	3.0%	2800	3.8%	950	3.6%	1650	3.5%
8500	3.8%	2700	4.2%	900	4.3%	1600	4.0%
8000	4.6%	2600	4.7%	850	4.9%	1550	4.4%
7500	5.5%	2500	5.1%	800	5.6%	1500	4.8%
7000	6.5%	2400	5.6%	775	6.0%	1450	5.3%
6750	7.0%	2300	6.1%	750	6.4%	1400	5.8%
6500	7.5%	2250	6.4%	725	6.8%	1375	6.1%
6250	8.1%	2200	6.6%	700	7.2%	1350	6.3%
6000	8.7%	2150	6.9%	675	7.7%	1325	6.6%
5750	9.4%	2100	7.2%	650	8.1%	1300	6.9%
5500	10.1%	2050	7.5%	625	8.6%	1275	7.2%
5250	10.9%	2000	7.8%	600	9.2%	1250	7.4%
5000	11.7%	1950	8.1%	575	9.7%	1225	7.7%
4750	12.5%	1900	8.4%	550	10.3%	1200	8.1%
4500	13.4%	1850	8.8%	525	10.9%	1175	8.4%
4250	14.5%	1800	9.1%	500	11.6%	1150	8.7%

**Cheap**  
Forecast 5%pa or more above TDs

**Fair Value**  
Forecast 2.5% to 5.0%pa above TDs

**Fully Priced**  
Forecast 0% to 2.5%pa above TDs

**Overpriced**  
Forecast return lower than TDs





# China & Australia

# Australia's Record Long Economic Expansions

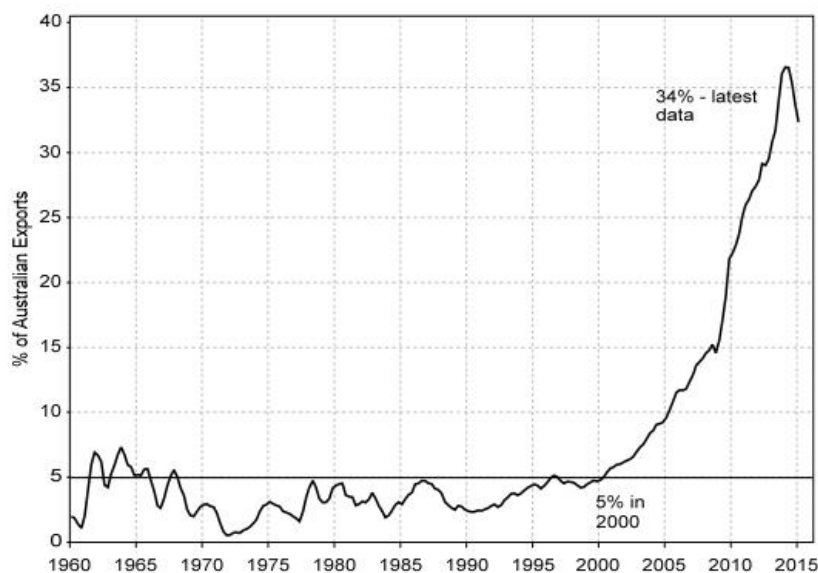
**Table 1: G10 (+ Australia) – Longest stretches of economic growth without a recession (since 1970)**

	Length (no of qtrs)	Date		Length (no of qtrs)	Date
Australia	94 (so far)	q2 '91 to present			
Netherlands <sup>(4)</sup>	103	q4 '82 to q3 '08	Belgium	49	q1 '80q1 to q2 '92
Canada <sup>(1)</sup>	77	q1 '61 to q2 '80	USA <sup>(5)</sup>	40	q1 '91 to q1 '01
France <sup>(2)</sup>	68	q2 '75 to q2 '92	Germany <sup>(3)</sup>	35	q3 '82 to q2 '91
UK	66	q3 '91 to q2 '08	Switzerland	31	q4 '82 to q3 '90
Sweden	60	q1 '93 to q1 '08	Italy	27	q1 '84 to q4 '90

Source: Various, Ecowin, Longview Economics

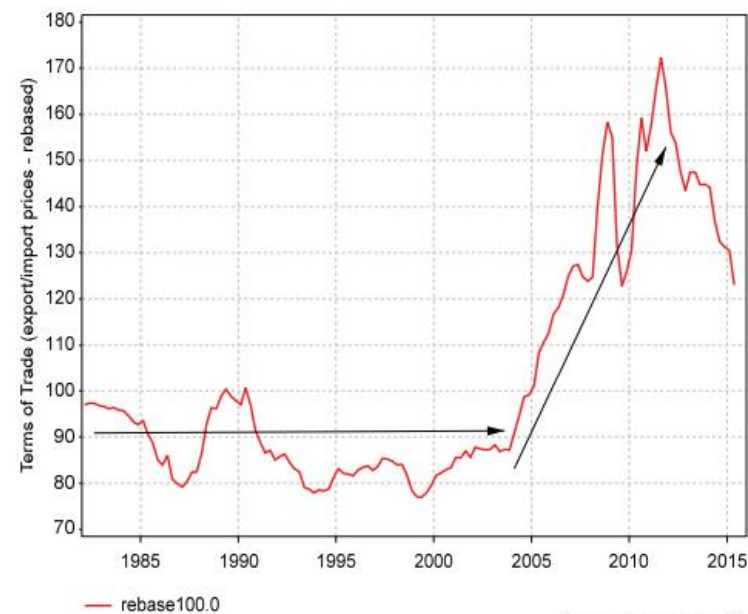
# Australian Special Factors?

The China Effect – share of Aussie exports going to China (% of total)



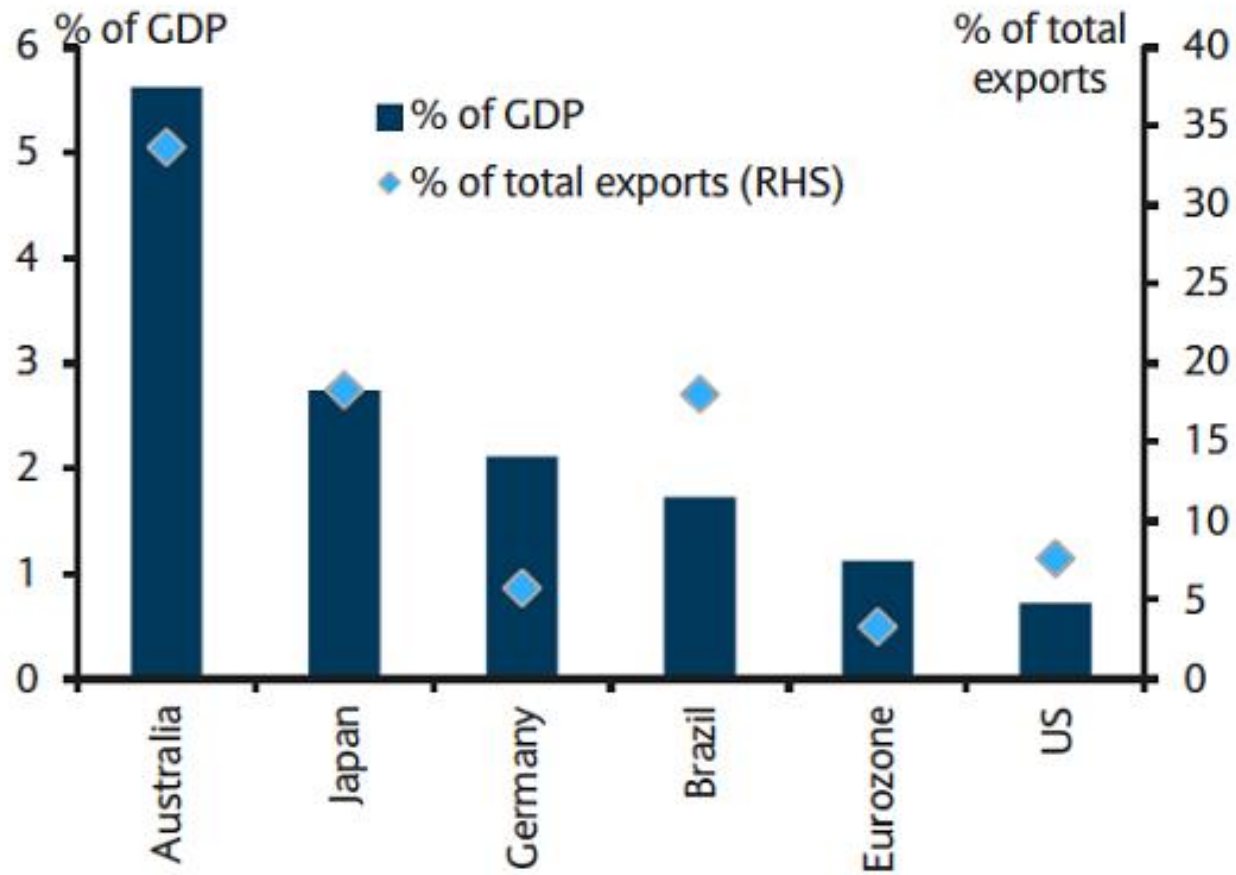
Source: Reuters EcoWin

The Terms of Trade Effect – Export prices relative to import prices (ratio)



Source: Reuters EcoWin

## Direct exposure to China runs a wide range



Source: Haver Analytics, Bloomberg, Barclays Research

**Figure 13: China Stock Market and GDP**



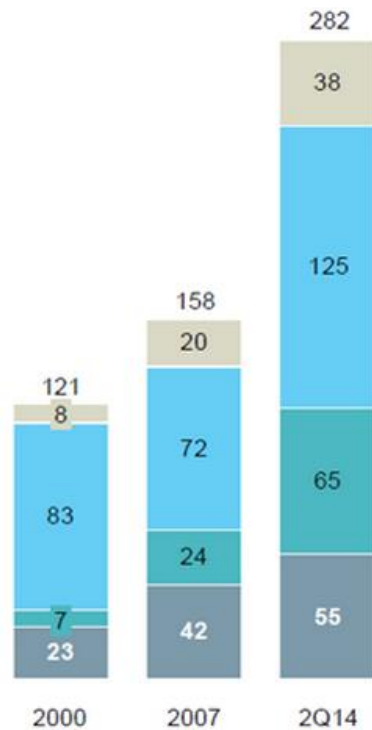
*Source: UBS*

# China's debt reached 282 percent of GDP in 2014, higher than debt levels in some advanced economies

Debt-to-GDP ratio  
%

Government Non-financial corporate  
Financial institutions Households

## China

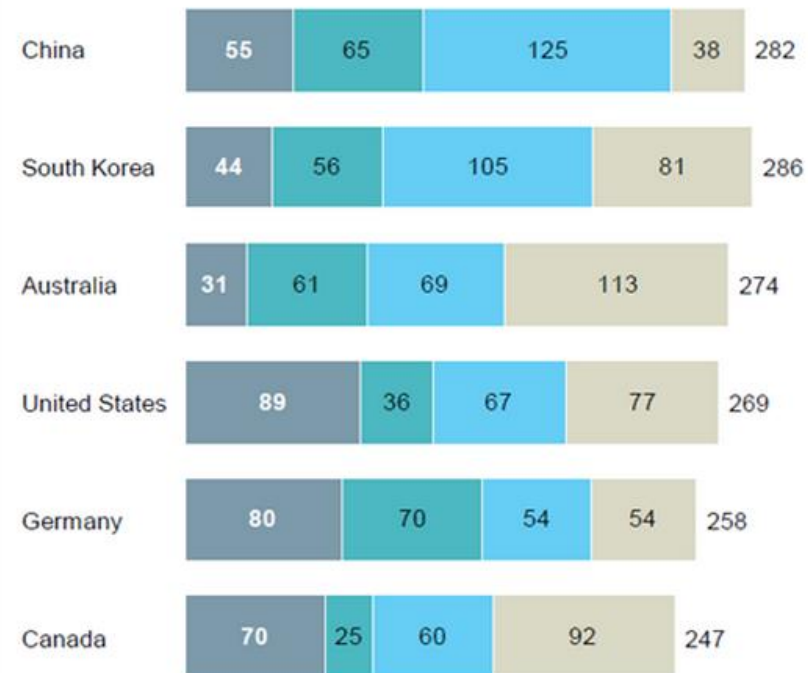


**Total debt** 2.1 7.4 28.2  
\$ trillion

NOTE: Numbers may not sum due to rounding.

SOURCE: MGI Country Debt database; McKinsey Global Institute analysis

## By country, 2Q14



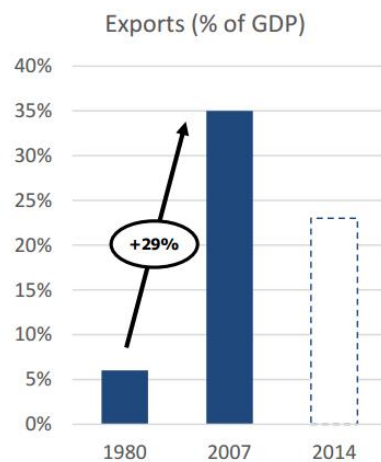


## Housing excesses take years to normalise

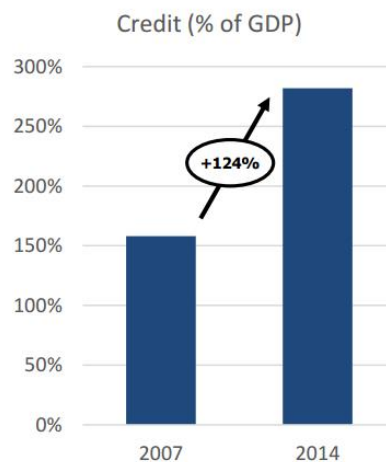
	Excess supply	% fall	Years to normalise
U.S.	4 years	75%	8
Spain	3 years	98%	7 - ?
Ireland	5.5 years	90%	7 - ?
China	3-4 years	?	?

## Three stages of China's development

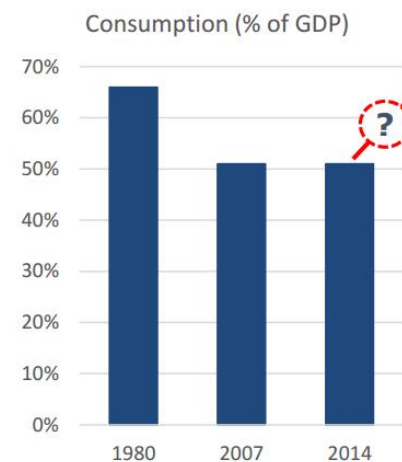
### Export led phase



### Credit-fuelled investment phase



### Consumption/reform phase?



Source: World Bank; McKinsey; National Bureau of Statistics

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