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## **June 2019 Quarter in Review**

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### **Legislative changes**

During the quarter, the Social Security legislation was amended to allow for “Asset Tested Lifetime Income Streams”. These are income streams with restricted access to capital and a degree of forfeiture on death. From 1 July, income from these will be counted as to 60% in the income test and the purchase price will be included in the assets test as to 60% until the later of age 84 and five years from commencement and thereafter as to 30%. This should render annuities more attractive if the assets test applies and less attractive if the income test applies.

As the quarter ends, the income tax cuts proposed to occur from July 2024 remain unlegislated.

### **Markets and trend lines**

The following charts show, respectively, the best fit of constant compound growth in the Australian and United States of America broad market indices together with some statistically derived probability percentiles. On this statistical basis, the Australian market continues to provide quite good value and the USA is about on its trend line. On other measures, however,

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Japhener Pty Ltd trading as

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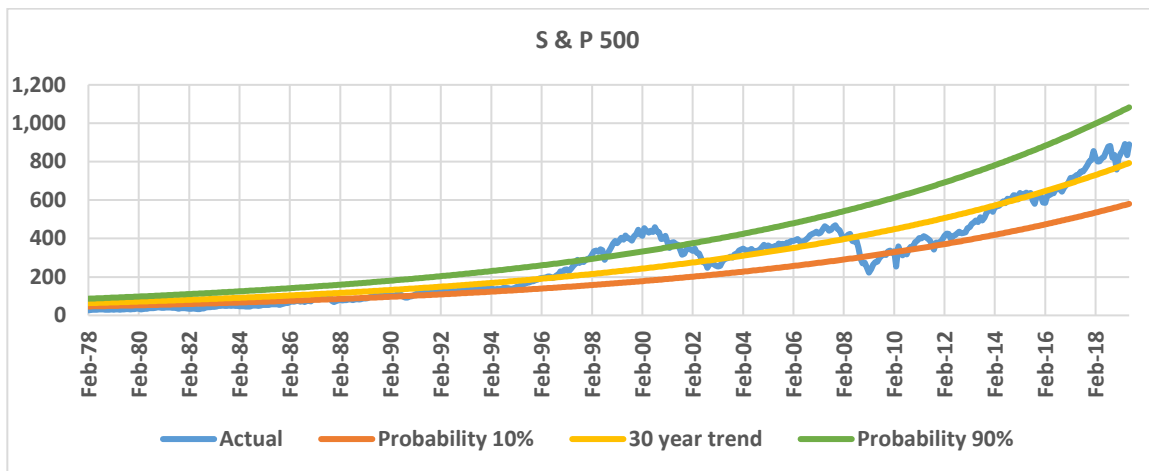
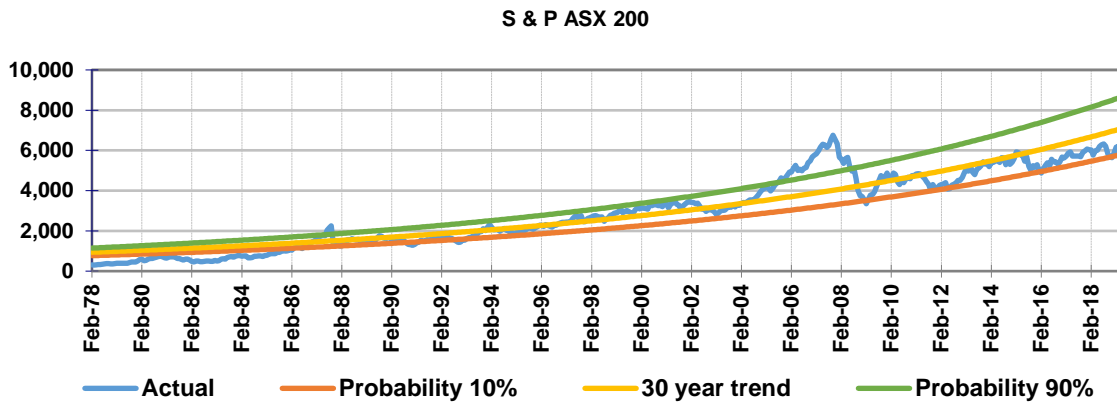


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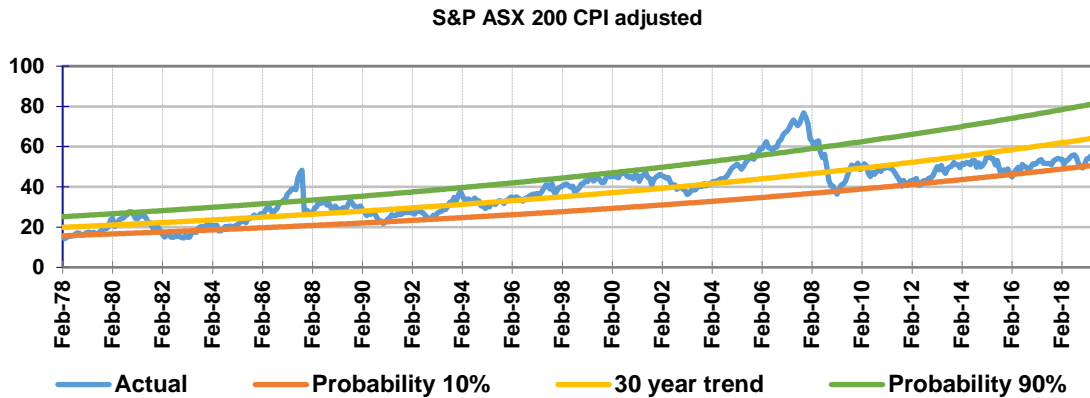


the US market remains high. For example, US share prices measured as a proportion of ten year average inflation adjusted earnings are 81% above the long term average, marginally down from 83% last quarter.

As written in previous Quarters in Review, the 30 year trends encompass a period of steadily falling interest rates, which is at or near its end. These make conclusions from the trend charts optimistic.

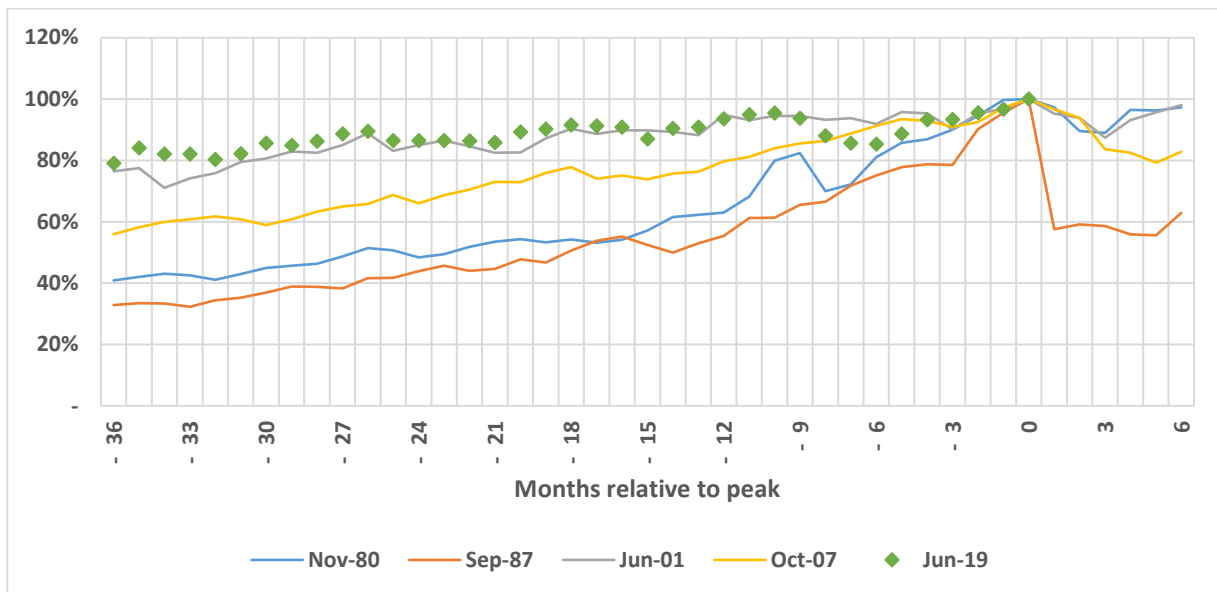


The last thirty years have also been a period of declining inflation. The following chart shows similar information for the Australian stock market adjusted for Consumer Price Index inflation.



Another graphical view of the markets is a comparison of the movement in the three years leading up to the most recent peak and the following months and the three years before and six months after significant peaks.

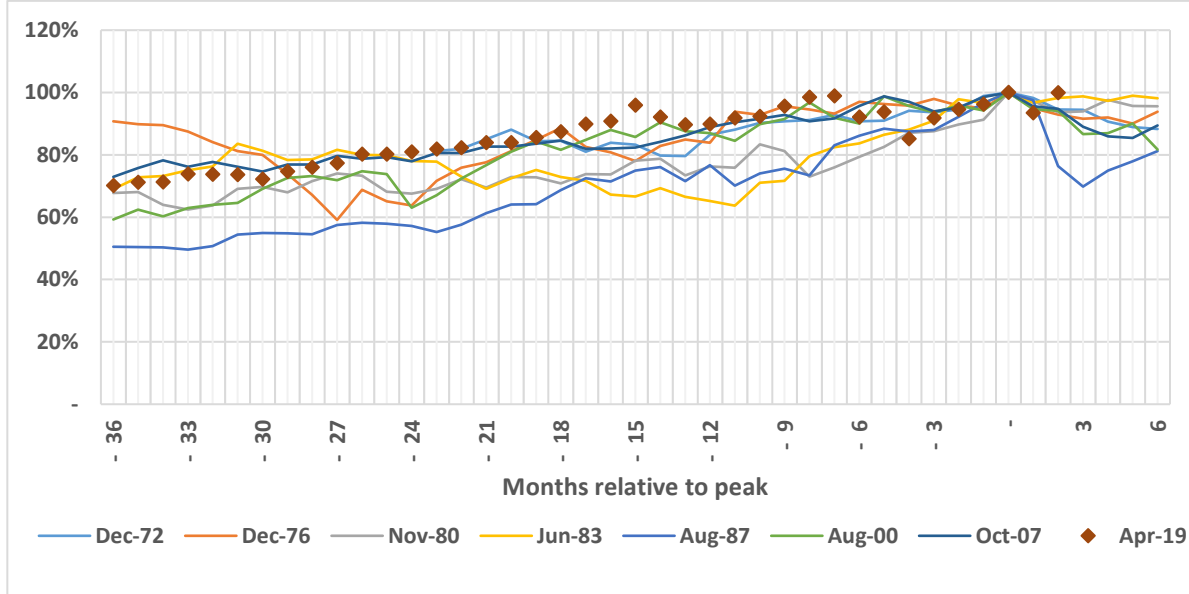
The following chart relates to Australia and the diamonds of recent progress are almost uniformly above the lines representing the lead up to all other peaks, except for the last ten months. The parallel with 2001, noted in the September 2018 to March 2019 Quarters in Review, is distorted by the new June peak, but except for the last three quarters, continues to show a historically slow rise to the peak.



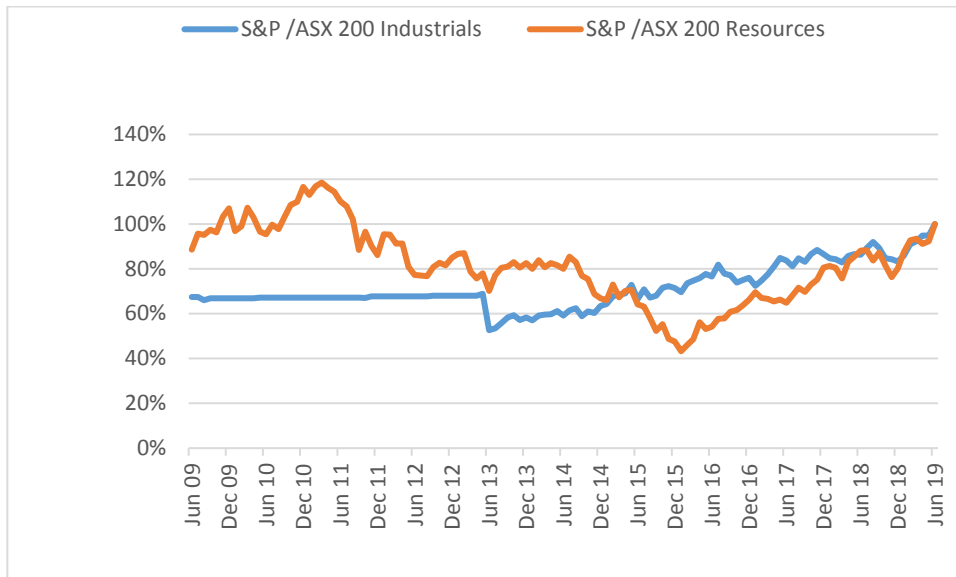
The rapid USA post September fall was followed by the strongest four monthly increase in two generations. Putting aside the fluctuations of the last nine months, the USA market's rise has



been generally slower than in the past.



The following chart reminds us that the Australian share market is a composite of resources and industrial markets. Banks, too, behave differently from other companies.





The New Zealand stock market continues its strong growth (up 15% in three years). Of the major markets, the USA continues to lead, up 9% in five years, compared with 6% for Germany, 4% for Australia and Japan and 2% for UK.

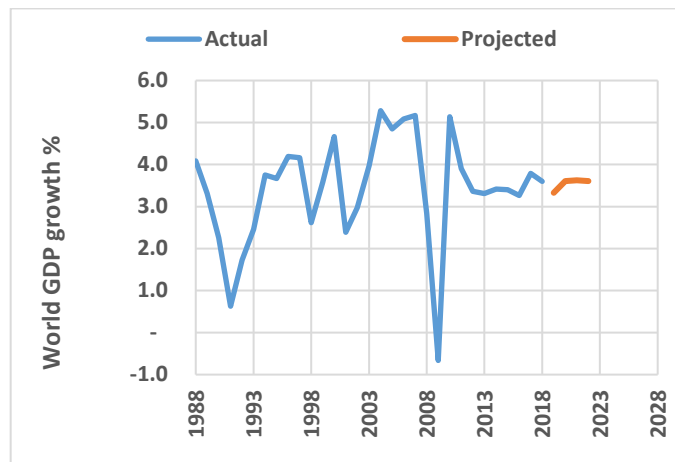
It remains the case that stock markets globally are hostage to the USA / China trade battle and the actions of central bankers in charge of the interest rate levers.

The Australian housing boom continued unwinding in an orderly way and the risk of a disorder seems to have passed. Market attention is turning to weak consumption and wages growth in Australia. This attention is against the backdrop of the threat to trade of a Chinese slowdown, either organic or trade war related. Australia has benefited from Brazil's misfortune as that country's iron ore disruption increased prices of the commodity.

**Economic milestones**

On 30 May, the Fair Work Commission increased the minimum wage and the minimum under all "modern awards" by 3% effective the first pay period in July.

The International Monetary Fund, on 4 April, released an updated 2019 world growth forecast of 3.3% per annum about the same as 2013 and 2016 slower than any other year since 2009



On 23 April, the US S&P 500 stock market index reached an all time high. The next day, the corresponding Australian index, the S&P ASX 200, passed through a level not seen since December 2007 and the ABS announced that the Consumer Price Index was unchanged from December to March. This was, by no means unique, being the 52<sup>nd</sup> time since 1948 that the index has not increased.

On 20 June, the S&P ASX 200 index closed at just over 2% below its November 2007 peak.

On 3 May, the US Bureau of Labor Statistics announced an unemployment rate of 3.6% (the lowest since December 1969). For Australia, on 16 May the ABS announced the second consecutive 0.1% increase in the unemployment rate despite the creation of almost double the number of new jobs expected by economists.



Absent an agreement in negotiations, the USA raised tariffs on \$200 billion of Chinese imports from 10 to 25% with effect from 10 May. On 13 May China retaliated with an announcement of tariffs between 5 and 25% on about 4,500 items with an annual trade of USD60 billion. The quarter ended with trade wars a topic at the G20 conference.

On the same page of the AFR of 15 May were a story about a fund to bulk buy apartments from distressed developers and a story about a fund seeking to lend to apartment developers unable to get bank financing.

### **The environment**

On 27 June, respected e-zine [Renew Economy reported](#) the installation of Australia's first unsubsidised big battery at the South Australian Lincoln Gap wind farm.

On 14 June, the 10 story wood laminate building at 25 King Street, Brisbane was announced as the winner of the commercial section of the Queensland Architectural Awards. Wooden buildings were first mentioned in the June 2017 Quarter in Review.

On 4 June the CSIRO re announced its hydrogen storage technology. The innovation is to store hydrogen as ammonia and then use a membrane to separate the hydrogen and nitrogen from the ammonia. This renders hydrogen cheap and safe to transport. Renewable energy can be used to electrically separate hydrogen and oxygen from water (ideally waste water). The hydrogen is then combined in the Haber process with nitrogen from the air to create ammonia. This provides an opportunity to export Australia's abundant wind and solar energy.

The AFR of 15 April reported that Woolworth's green bond - loan raised by Woolworths to fund environmental expenditure in its business had closed five times oversubscribed. To the extent that this money will fund projects that otherwise would not have been considered, it represents an environmental advancement. If it doesn't, since dollars are fungible, all that it has done is reduce the costs of the company's borrowing by appealing to institutional needs to invest greenly.

The AFR of 30 April reported British billionaire and Whyalla steelworks owner, Sanjeev Gupta, as "*close to finalising plans to*" become a manufacturer of 10 to 20,000 electric vehicles in Australia.

On 23 May, the AFR reported on a BHP strategic briefing indicating BHP is moving to reduce its reliance on production of fossil fuels and to increase its activity in the extraction of resources needed for a less fossil fuel intensive economy.

RenewEconomy [reported](#) that for six hours on the last day of April and for some half hour periods on the next day, South Australian renewable energy output exceeded demand and



wholesale electricity prices went negative with the State’s batteries being paid to take surplus electricity.

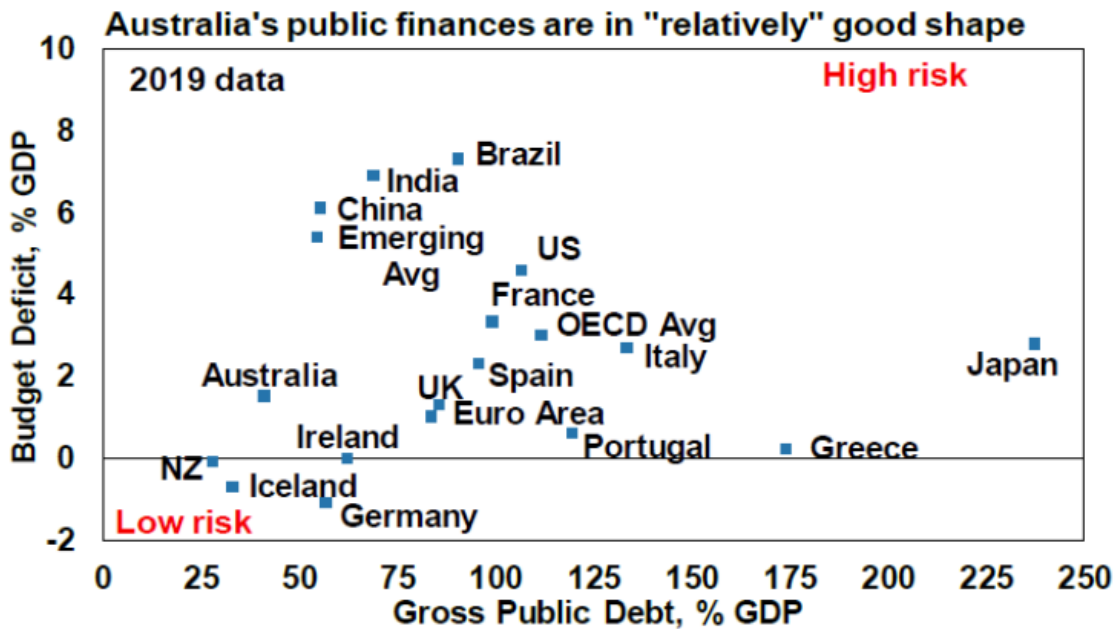
**Economic and market statistics**

The following table shows key economic and market statistics.

	Latest date	Now	1 year ago	3 years ago	7 years ago
<b>S&amp;P /ASX 200- Australia</b>	Jun 19	6,619	6,195	5,233	4,095
<b>Annual change to latest date</b>			6.8%	8.1%	7.1%
<b>S&amp;P /ASX 200 dividend yield</b>	May 19	402.00%	4.18%	4.54%	4.82%
<b>S&amp;P /ASX 200 P/E ratio</b>	May 19	16.3	16.04	16.98	12.57
<b>Topix- Japan</b>	Jun 19	89.5	99.80	71.90	44.40
<b>Annual change to latest date</b>			-10.3%	7.6%	10.5%
<b>S&amp;P 500- US</b>	Jun 19	890.8	823.2	635.6	412.5
<b>Annual change to latest date</b>			8.2%	11.9%	11.6%
<b>GDAXI- Germany</b>	Jun 19	12,527	12,806	10,338	6,772
<b>Annual change to latest date</b>			-2.2%	6.6%	9.2%
<b>Average weekly earnings \$</b>	Dec 18	1,605.50	1,570	1,501	1,330
<b>Annual change to latest date</b>			2.3%	2.3%	2.7%
<b>Consumer price index</b>	Jun 19	114.10	113.00	108.60	100.00
<b>Annual change to latest date</b>			1.0%	1.7%	1.9%
<b>Unemployment</b>	May 19	5.2%	5.40%	5.70%	5.20%
<b>Gross domestic product \$ m per quarter</b>	Mar 19	463,907	455,775	416,715	377,372
<b>Annual change to latest date</b>			1.8%	3.6%	3.0%
<b>RBA cash rate</b>	Jun 19	1.3%	1.50%	1.75%	3.50%
<b>3 year Commonwealth bond</b>	Jun 19	99.0%	2.13%	1.58%	2.33%
<b>10 year Commonwealth bond</b>	Jun 19	1.4%	2.70%	2.12%	3.00%
<b>USD/AUD</b>	Jun 19	0.7013	0.7391	0.7426	1.0191
<b>Annual change to latest date</b>			-5.1%	-1.9%	-5.2%

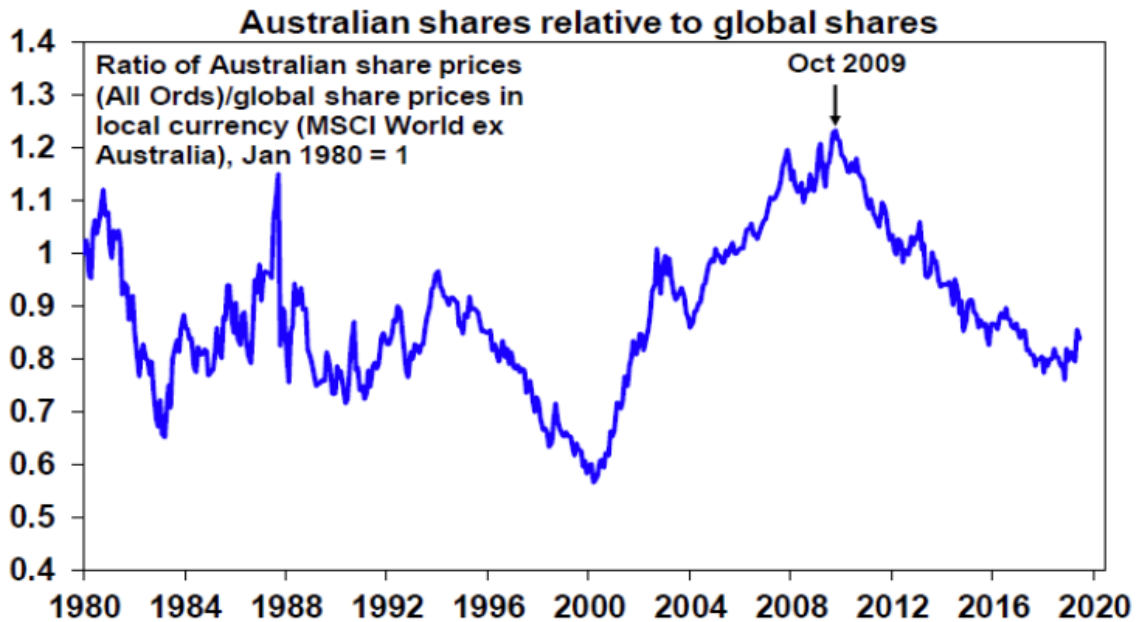
**Other peoples’ views**

Respected AMP Chief Economist, Shane Oliver in an article, [\*“Nine reasons why a recession is unlikely in Australia”\*](#), produced the following chart showing Australian public finances are in relatively good order.



Source: IMF, AMP Capital

Dr Oliver also produced a chart showing how the Australian share market lags the world market.

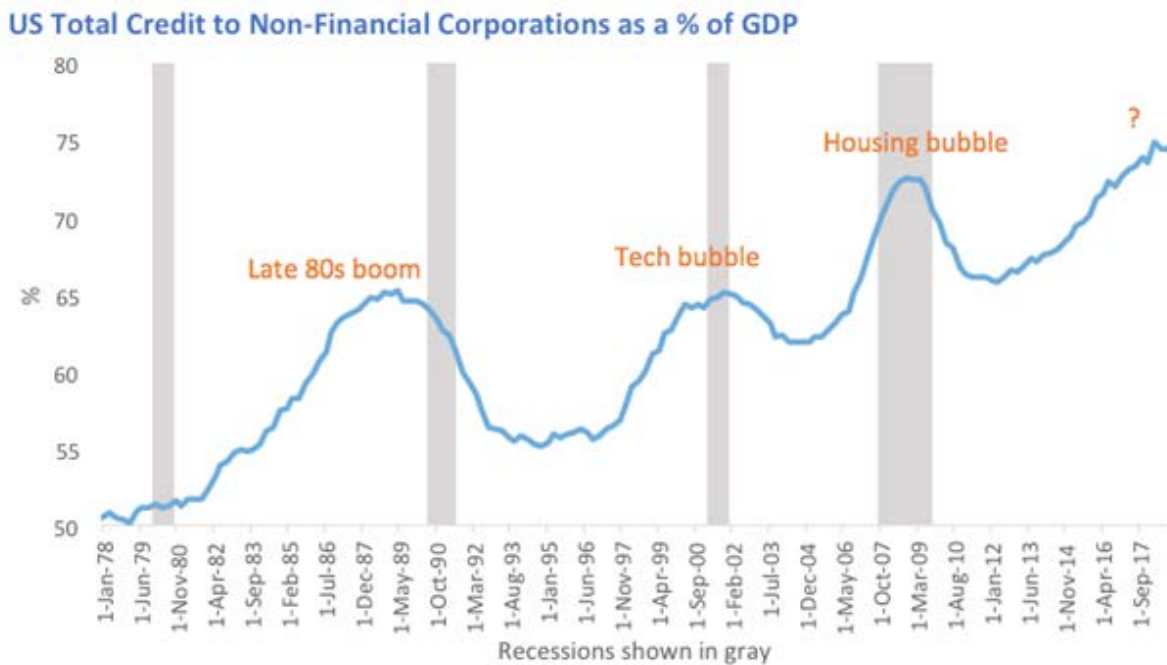


Source: Thomson Reuters, AMP Capital





In an email to advisers, ETF provider [Van Eck](#) noted that the ratio of US corporate non finance debt to GDP has increased to a historically high level and provided a graph showing that similar surges had ended in tears for the economy and stock market.



Writing in the respected e-zine “[The Source](#)”, and a note to its subscribers, journalist, Lauren Broomham noted that, after almost two years since the ABC Four Corners program on retirement villages aired, the price of Aveo shares is still only 57% of that prevailing before the program. By the end of the quarter, the price was marginally above half of the 2016 peak.

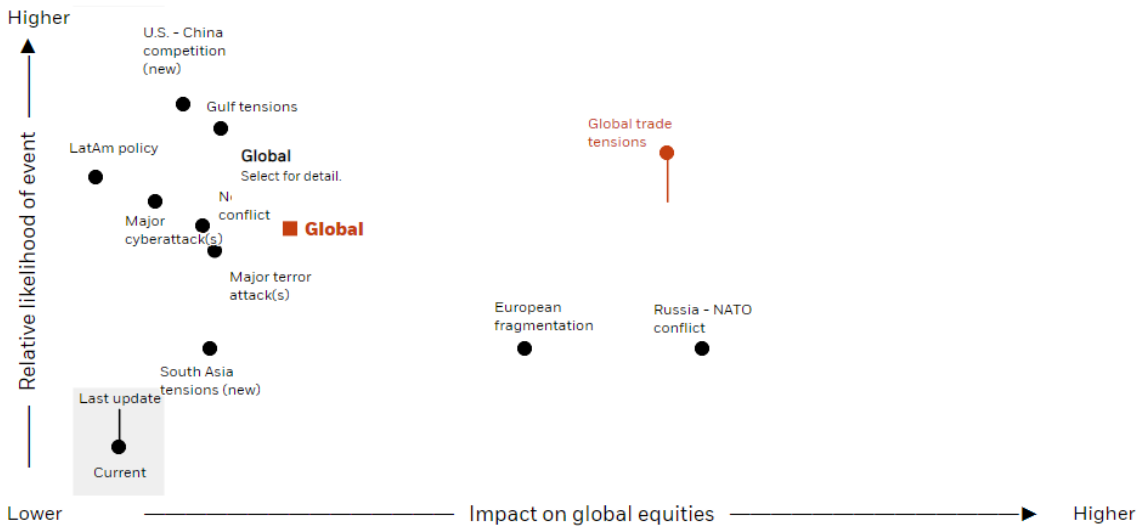
The article noted that as a consequence of the program, mandatory buybacks are being introduced. These drain the capital of village operators and jeopardise ongoing maintenance. Extrapolating a little from the article, one can sense that overregulation is seeding a vicious spiral of declining sales feeding into declining quality feeding into declining sales.

On 3 May, Michael O’Dea of Perpetual Investment Management said the unsayable: “*End of cycle risks are increasing, most notably in Australia.*” Investment house [BlackRock](#) quarterly quantifies geopolitical risk and its likely effect on world share markets. The following charts show the March 2019 situation and the history of the index.

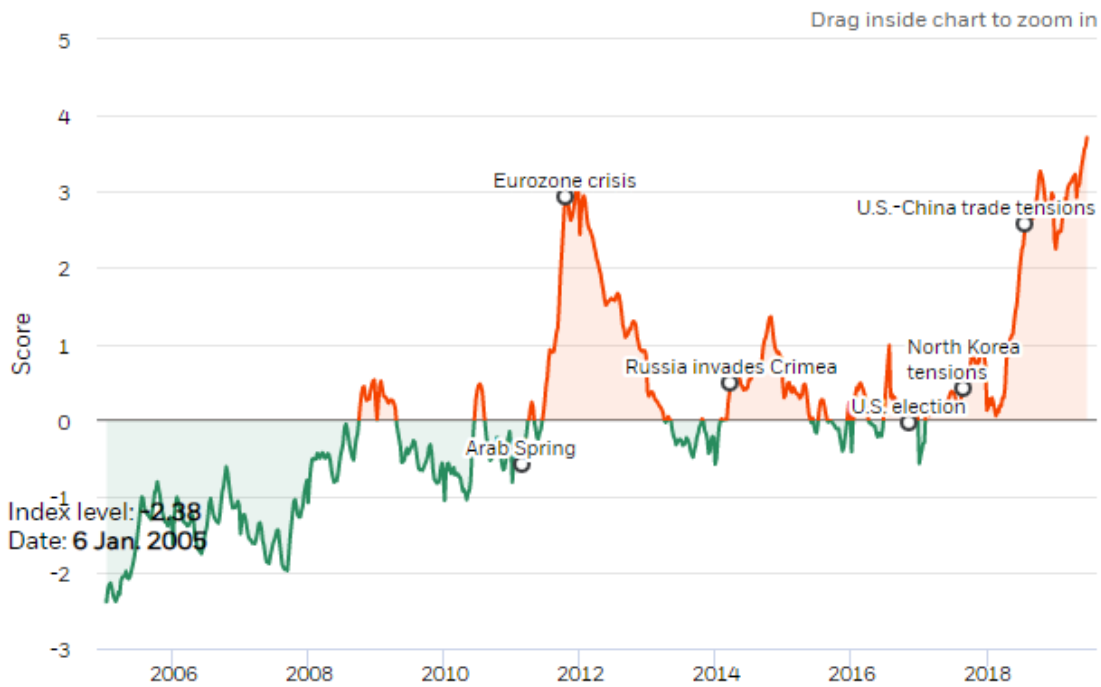


Relative likelihood and market impact of risks

Original estimate BGRI-adjusted



Global index



Source: BlackRock Investment Institute. See Andep's June 2018 Quarter in Review for an explanation of this chart.



### Products

InvestSmart has announced an actively managed Exchange Traded Fund (ETF), the Ethical Share Fund. The fund will screen out stocks with environmental, social and governance risks but otherwise select stocks, not track an index. This strengthens the need to not assume that an ETF simply tracks an index.

The march of listed investment funds continued with the launch of the Regal Investment Fund. The fund aims to invest in strategies that produce returns regardless of the direction of markets, small listed and yet to list companies and to execute “long short trades” on the Australian stock market (buying shares it expects to rise and selling stock it doesn’t own but expects to fall).

Exchange Traded Fund manager ETF Securities has launched an index fund, [AXS code NDIA](#), tracking the largest 50 companies in India. Like all ETF Securities’ foreign funds, it is “unhedged”- that is the currency risk is with the investor. One hopes it is better administered than the Commonwealth agency sharing its acronym. A few days after this launch, came a hint of further (or continuing) unrest at the Reserve Bank of India with the 25 June AFR reporting the resignation of a Deputy Governor.

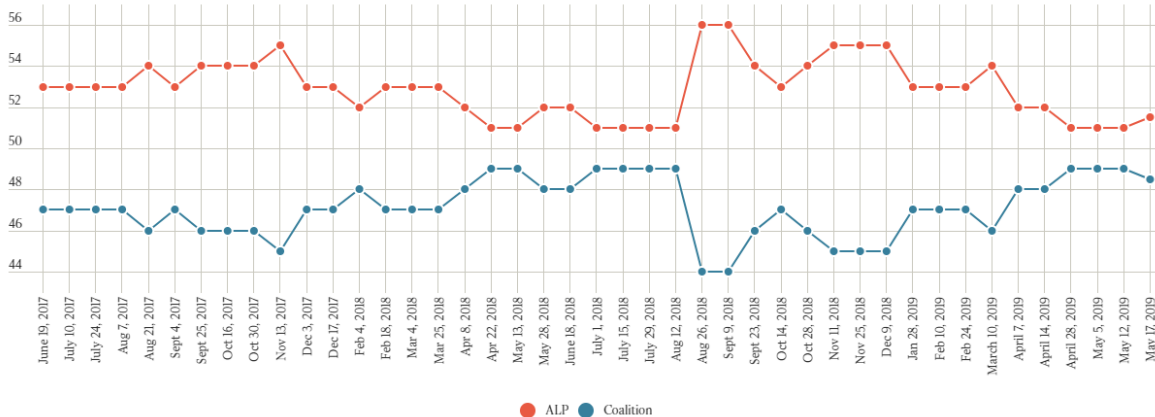
### Politics

Elections held in the quarter included the following.

<b>Jurisdiction</b>	<b>Result</b>
<b>Australia</b>	Liberal National coalition unexpectedly returned to office with a slightly increased majority
<b>South Africa</b>	Left wing Economic Freedom Fighters Party took seats from both the ANC (which retained a comfortable majority) and the Democratic Alliance. Caretaker ANC president Cyril Ramaphosa was elected in his own right
<b>Indonesia</b>	A strong voter turnout (82%) re elected President Widodo and increased his party’s plurality from 109 to 128 of the 575 seats
<b>Istanbul</b>	A re run of the is mayoral election saw the defeat of President Erdogan's candidate, leading some commentators to suggest peak Erdogan is behind us
<b>European Parliament</b>	Centre left and centre right parties lost seats to parties of the left and right. 35% of the UK vote went to “hard Brexit” parties while “Remainers” secured 41%, leaving the Conservative party 9%
<b>India</b>	BJP Prime Minister Modi augmented his party’s majority



The following chart shows two party preferred voting indications published by the Australian newspaper. There has been no poll since the election.



The election highlighted the inability of polls to predict swings to the right as has been seen in other jurisdictions. Some commentators suggest polling is becoming more difficult as people dump land lines for mobile phones. Others argue that those holding views contrary to those of their “betters” in the “commentariat” are reluctant to admit those views to pollsters. For now, Andep will continue to publish the above chart in the Quarters in Review

### Courts

As Royal Commission inspired prosecutions wend their way through the courts, solicitors for Dover Financial Advisers mounted a novel defence to the charge that some of its “small print” disclosure was misleading. Counsel argued that no one had read the material, so no one was misled, the AFR reported on 13 June.

On 26 June, the AFR reported the sentencing of a hacker who obtained drafts of a stock tipping services report and used this stolen inside information to buy shares before recommendations were published and sell after. He was also charged with unauthorised data access.

### Disclaimer

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