

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the Xmas 2017 Edition of the Martin Bros Monitor.

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Would You Believe 2017 Has Been The Quietest Year in 50 Years?

If we had told you at the start of the year that 2017 would be the least volatile year in global equity markets in the last 50 years, considering Trump was the newly elected President of the United States, you may well have had us committed.

We have written about the low volatility and “full” equity price valuations in past editions of the Martin Bros Monitor (MBM). As can often be the case, scenarios continue for longer than you thought possible. Case in point is Bitcoin. Bitcoin is effectively like buying air. There is nothing tangible about it and no one guarantees it. This has been part of the attraction – there is no government intervention, oversight or manipulation of it. Whilst this seems attractive to many people, particularly if you operate in the black side of the economy, ultimately human behavior takes over and the price will fall dramatically as people fear what they own is actually nothing and the only way they can make money is if someone else comes along and is prepared to pay more than what they did for the same piece of nothing.

Bitcoin is a fantastic way to move money from country to country without any regulation. In Australia, all transactions over \$10,000 that involve international transfers have to be reported to AUSTRAC by law. Other developed countries have similar rules in place. Bitcoin effectively bypasses these rules as there is no regulation or tracking. Perhaps governments will one day regulate Bitcoin in some way that removes its benefit to the black market. This would certainly be a catalyst for a big fall in its price. That is, if human behavior doesn't run its course first. In the 1600's Tulip Mania captured the world's attention. At least then you ended up with a flower at the end of it all. As mentioned above, many things go on longer than you think and Bitcoin may go up many times over from here before it ends up like any other bubble in history.

Back to global equity markets. US market volatility has been particularly benign this year. Who would have thought President Trump would bring a multi decade calm to equity markets! The US economy has been doing very well and is forecast to continue growing at close to 3%, which is necessary to justify current equity market valuations. Trump's proposed tax reforms will be positive for the economy and the prospect of these changes becoming law has kept the market in a positive frame of mind. Investor inflows into equity funds, particularly passive ETF's, has seen continued momentum buying in the big stocks.

Global equity market sentiment is definitely on the positive side. Almost to the point of over confidence given some of the events that have occurred this year. Some examples include:

- A painting (which may be fake) sold for \$450 million.
- Bitcoin (which may be worthless) soared nearly from \$952 to ~\$18,000.
- Global debt rose above \$225 trillion to more than 324% of global GDP.
- US corporations sold a record \$1.75 trillion in bonds.
- European high-yield (Junk) bonds traded at a yield under 2%.
- Argentina, a serial defaulter, sold 100-year bonds in an oversubscribed offer.
- Illinois, hopelessly insolvent, sold 3.75% bonds to bondholders fighting for allocations.
- Global stock market capitalization skyrocketed by \$15 trillion to over \$85 trillion and a record 113% of global GDP.
- The market cap of the FANGs (Facebook, Amazon, Netflix & Google) increased by more than \$1 trillion.
- S&P 500 volatility dropped to 50-year lows and Treasury volatility to 30-year lows.

The global economy is definitely in a sweet spot with Europe, China and the US all performing well with solid (or improving) growth and employment. This should bode well for markets again in 2018, providing we see a return to more normal volatility (i.e. we see some sell offs of circa 10%). The more prolonged this ultra low volatility continues then the bigger the shock will seem when it comes – which there always is one – throughout market cycles.

The US tax year is based on the calendar year, unlike Australia which has a 30th June financial year end. One suggestion of a contributing factor to low levels of volatility this year in the US is the impending tax cuts, coupled with the new tax year beginning on 1st January. This makes sense, because if you are an investor who is sitting on unrealised capital gains, would you have sold these investments over the last few months ahead of big tax cuts and towards the end of your financial year? Most likely you would wait until the tax cuts look likely to come in, which is 2018, and the new tax year rolls over. This way you will pay less tax once the tax cuts are passed and if you sell from 1st January onwards, you are deferring the tax bill for another 12 months compared to selling now. Early January trading in the US could be interesting.

The one genie in the bottle for 2018 is inflation. If we see signs of this emerging then gradual interest rate rises will be replaced by more aggressive central bank interest rate rises. In this event, normal, or even excessive volatility will return to markets (equity & bond markets). Ultimately this will be a good thing for well positioned, flexible, long term sensible investors (us).

In our first edition of MBM for 2018 (March) we will be talking about the next industrial revolution that is just beginning.

Merry Christmas.

Xmas Hamper Competition

It is that time of year, our traditional Christmas Hamper competition returns for 2017.

For those not familiar with this competition, you must 'qualify' to enter the draw by answering each of the questions below. Each of the 6 questions must be answered correctly before your name will be entered into the draw for the hamper.

Please email Rochelle at rochelle.gordon@morgans.com.au or call on (03) 9947 4139 with your answers.

The hamper for this year's competition has all the usual festive goodies to ensure the winner has an extra indulgent Christmas!



The competition closing date is Wednesday the 20th December at 12.00pm AEDST. The winner will be drawn that afternoon and notified by phone, with delivery of the gift basket by Friday of that week.

1. How many times has Roger Federer won the men's singles at Wimbledon?
2. What does Tenuto mean in musical terms?
3. Which Australian journalist was released from prison in Egypt earlier this year?
4. Which is older - Masterchef or My Kitchen Rules (Australian versions)?
5. What is the smallest species of dog in the world?
6. In which year was the first iPod put on sale?

Good Luck!

ASX Market Hours - Festive Season



Please note the amended ASX trading hours below over the upcoming Christmas and New Year period.

Members of the Martin Bros. Team will be available each day the market is open.

- Friday 22nd December - Normal Trading
- Monday 25th December - Market & Office closed (Christmas Day)
- Tuesday 26th December - Market & Office closed (Boxing Day)
- Wednesday 27th December - Normal Trading
- Thursday 28th December - Normal Trading
- Friday 29th December - Normal Trading
- Monday 1st January - Market & Office closed (New Years Day)
- Tuesday 2nd January - Market returns to normal trading hours

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