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

In this edition of the Martin Bros Monitor:

Burning a Hole in My Pocket

2016 was the year of the unexpected. Think Brexit and Trump. 2017 is shaping up to be the "Bizarre" year. Largely due to the antics of the US President and what this means for the global economy. If you caught a glimpse of some of President Trump's behaviour at the recent G7 conference, it could only be described as bizarre. I suspect we have only scratched the surface of this behaviour and no one truly knows how it (the Presidency) will end.

From an economic stand point, the initial euphoria of a Trump win and his fiscal plans for the country that led to a run on global sharemarkets is on the cusp of fading - at least for now. Why? Because his first 100 days in office have passed and there is no clear sign that his intended tax cuts and spending program will be passed by Congress anytime soon. This delay coincides with the historically weak May to October period on equity markets. With the US markets at all time highs, this waning enthusiasm puts the balance in favour of a pullback for US equities. North Korea is a serious issue and the line has been drawn in the sand by the US. This will get sorted out in the next 12-24 months, and will at some stage rattle global markets. But these events historically never have had a lasting impact on markets. Think September 11th attacks, Second Gulf War etc.

In Australia, our market has already well off it's highs due to a combination of a sell off in small to mid cap stocks, retailers being hit hard on the back of Amazon arriving in Australia and the worst banking sector performance in May **for** 44 years (down circa 13% for the month). The Australian economy is at an interesting juncture and one which is very hard to read. We have growth at just over 2%, benign inflation, virtually no wages growth and a quite acceptable unemployment rate. We seem to have come down from the mining boom relatively unscathed, thanks in large part to the east coast construction boom. However, this appears to now be rolling over from it's peak. How far this construction cycle softens in the next year or two will be a major factor in our economic prosperity, or lack of.

How property prices in Australia fare over the next year or two is definitely something to watch. Australian's wealth and how they feel about their economic prosperity is closely aligned to increases in the value of their home and any investment properties they own. Apartment prices (broadly) have gone nowhere and even declined for the last couple of years. This will not get better any time soon as the supply continues to rise. Established homes (i.e. land values) have had a spectacular rise since the GFC as interest rates have dropped to historic lows, immigration has increased and special visa programs were introduced. This has lead to demand for Melbourne and Sydney's scarce inner city land. This demand has a ripple effect as prospective buyers are pushed further out to get what they want with their scare resources (what they can afford). If you think immigration and special visas have not influenced your neighbourhood property values, they have. Just like a wave keeps rolling until it reaches shore. We have no historic play book for what we have experienced in the last ten years. But anyone under 45 probably thinks that property prices never go down. Time will tell. Hopefully, any landing is a soft landing. Providing interest rates do not rise too much (at a guess, anything more than a 2% increase across the board would be very bad) and unemployment does not increase too much (over 7% will be awkward), then we may avoid a painful and drawn out scenario.

So with global equity markets at multi-year highs and price to earnings ratios at historically elevated levels, Australian construction and property prices seemingly peaking, China debt issues not resolved and mounting Geo-political risks (i.e. North Korea, Trump's behaviour, Brexit etc), a degree of caution with asset allocation within portfolios is warranted. Cash (or cash alternatives like short dated income securities or term deposits) is an option to buy something at a lower price later. As many asset prices (although several Australian shares have started to correct) look high at present, holding some excess cash is a good idea. The well coined phrase "burning a hole in my pocket", points to the common occurrence of this psychological phenomenon which holds true in investing. One of the hardest things to do is wait - for fear of missing out (FOMO) - for an opportunity. Unfortunately this feeling is only compounded by the measly returns available on cash at present. But that doesn't mean you should overpay for an asset just to make a little bit more money in the short term. When things don't add up, you have to accept that they don't - try not to re-invent the equation to fit the answer that you want.

We don't want to sound too bearish or pessimistic about the long term future. We're not. We are patiently waiting out our time to go more aggressive. That time will come, eventually, and no one will want to act when it does - but we will. As we wrote about in our last MBM, markets have not been this benign in well over a decade. This will change and it will present opportunities like it always has.

Concessional Contributions to Super Before June 30

A reminder of the concessional contribution limits for the 2016/17 financial year are listed below. Concessional contributions include any Superannuation Guarantee (SG) paid by an employer on your behalf as well as salary sacrificed amounts.

Concessional Contributions (deductible) for the 2016/17 Financial Year

- Up to age 75 - If over 65, must meet work test
- If employed (i.e. not self-employed), contribution must be made via employer.
- Limits are as follows:
    - Up to age 50 (born after 30/06/1967) $30,000 per annum per person
    - Age 50* and over (born before 01/07/1967) $35,000 per annum per person

* Individuals aged 49 as at 30 June 2016 are eligible for higher limit

The concessional contribution cap will reduce to $25,000 regardless of age from next financial year (2017/18) and the need for employees to salary sacrifice will be removed, with personal deductible contributions allowed for employees from 1/7/2017.

Please contact us should you wish to discuss concessional contributions or anything else contained within this edition of the Martin Bros Monitor.

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