

Martin Bros

MONITOR

Creating Long Term Financial Success For Our Clients



Welcome to the Xmas 2018 Edition of the Martin Bros Monitor.

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Cheap stocks and undemanding valuations – but patience can be required

In our Christmas edition last year of MBM we warned that the then benign market conditions needed to give way to more volatility for the sake of the medium-term health of equity markets. February's sell off was circa 6% and the current sell off has so far bottomed at circa 13%. Many quality stocks have fallen further than this, because in volatile times the marginal buyer often sits back which can create significant changes in share prices in the short term. Quality and price volatility are not always correlated.

Price falls in quality shares can at times allow you to question investment decisions. But as price increases are also not a precursor to the quality of a stock, price falls should also not be viewed as an indicator of a poor quality long term stock. Price volatility is what makes the equity market. Without it, long term returns would be lower, commensurate with lower risk – such that is seen in cash or fixed interest for example.

In a world which is becoming more and more instantaneous and the “have it now” generation grow older, some people may lose the patience for investing in growth. Because at times patience is required. Sometimes this patience is needed for months, quarters or in extreme circumstances even years. Property investors are about to experience this too over the next couple of years.

During every sell off, “it feels bad”, which is purely human emotion as in most cases nothing has changed at any one company (stock) from one week to the next. This emotion is stronger than “feeling good” when markets and portfolio's rise. This is well evidenced by notable studies in human behaviour. We also tend to view our highest portfolio value we have seen as our net worth and any variation to this can feel like a

loss. This may be despite portfolio values increasing 50% over the last 5 - 6 years as we have seen. That is human nature and we cannot help that as humans.

At present, much of the perceived market concern centres around the US economic expansion coming to an end and / or the Federal Reserve raising interest rates too aggressively of which there is no evidence of either at the moment. The market is jumping at shadows, which is normally the way in most corrections.

The US economy may eventually roll over and go into contraction mode. Our Chief Economist, Michael Knox, believes this will be in 2020 at the earliest and most likely in 2021 or 2022. Michael's model of the Australian sharemarket currently has a fair value calculation of 5,940 points versus its current 5,669 points level. He states it is over one standard deviation too cheap which means there is an 85% chance it goes up from this level.

From now until early January equity markets do tend to perform well. This is for a number of reasons including less sellers as fund managers stop activity due to very low volumes. This means any new money coming in from quarterly super contributions or dividends paid, are invested into a market that is very illiquid. This can push prices up on thin volume. Also, in the US, December is one of the biggest months for companies to buy back their own shares as there is no restrictions due to reporting periods etc.

We have no idea if the current sell off has seen its bottom or whether it will fall further. But we do know that it will recover, and good companies will continue to pay growing dividends over time. At current valuations some companies are at extremely cheap levels historically. This is not a sign that they will go back up in the near term, but the longer their share prices stay depressed, the bigger the bounce back will be when it eventually does come.

Merry Christmas.

Xmas Hamper Competition

It is that time of year, our traditional Christmas Hamper competition returns for 2018.

For those not familiar with this competition, you must 'qualify' to enter the draw by answering each of the questions below. Each of the 5 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 19th 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. The original stock exchange in Melbourne saw brokers sit behind desks partaking in the traditional call out system of transacting stocks. Where is this original building in Melbourne?
2. When was the last time the men's Indian cricket team won a Test series against Australia in Australia?
3. Which Head of State referred to the former prime minister 's wife, Lucy Turnbull as "delicious" whilst on an official visit to Australia in 2018 (Hint - not Trump, this was a genuine mistake of translation)?
4. Who was the last Australian prime minister to complete a full term of government?
5. Where was the last lighthouse in Australia to be manned (before being automated)?

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.

- Monday 24th December - Market & Office closes at 2pm (Christmas Eve)
- Tuesday 25th December - Market & Office closed (Christmas Day)
- Wednesday 26th December - Market & Office closed (Boxing Day)
- Thursday 27th December - Normal Trading
- Friday 28th December - Normal Trading
- Monday 31st December - Market & Office closes at 2pm (New Years Eve)
- Tuesday 1st January - Market & Office closed (New Years Day)
- Wednesday 2nd January - Market returns to normal trading hours

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