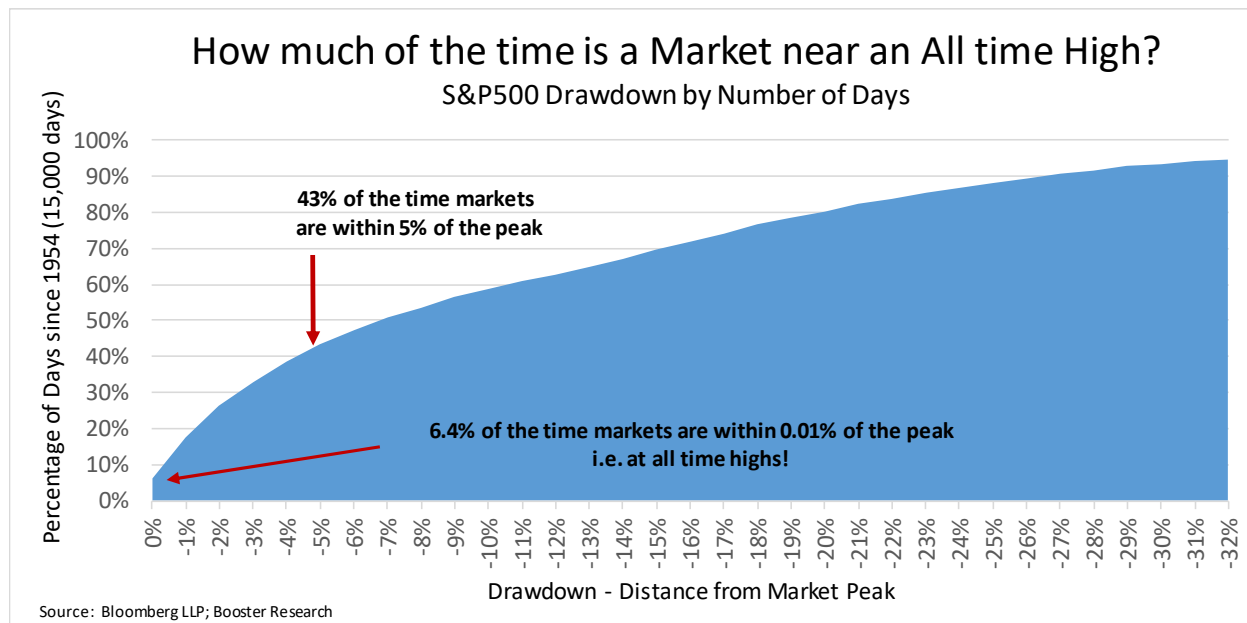


Share markets are at record levels! Shouldn't I sell??

The first eight months of 2017 have seen global markets continue to go up at a surprisingly consistent rate. However, most investors, particularly those in growth or high growth investments, will be aware that equity markets rarely experience such blissful performance without some form of volatility. This has led many commentators to opine that markets are at record levels and therefore they are primed for a significant sell off. While in growing markets, corrections happen from time to time, they are healthy part of market cycles, and history suggests that record highs are not as uncommon as many investors think.

The below chart counts every trading day since the 1950's for the United States S&P 500 share market index, which is over 15,000 trading days, measuring how far shares are from the latest market peak. What the chart shows is that over 40% of the time markets are within 5% of the market peak. As markets rise over time, on average more than one in twenty days is a new record high!



While this year so far has had a higher percentage of record highs (over 20% of days have been a record), the market is moving strongly higher on global economic growth and expanding corporate earnings. In this type of economic and market environment, record highs are a confirmation of the underlying fundamental drivers of the market. This positive setting for markets will end at some point, and global markets will in time experience another recession, however the downturn won't be driven by record highs. So, should you sell because markets are at record highs? For a long-term investor, probably not.

Market & Portfolio Update – August

- ❖ August was a relatively quiet month for share markets, but with currency movements boosting fund returns. The New Zealand dollar fell 5% against the major currencies and this helped the performance of New Zealand investors with investments off shore, reinforcing the importance of global diversification.
- ❖ Emerging markets (e.g. China, Brazil, Russia) were the standout share markets during August. The fortunes of these markets are typically tied to the performance of commodities as they are some of the largest producers and consumers of a number of different commodities.
- ❖ We made some changes to funds' global share investments, to improve their overall return prospects relative to risks. We sold shares in oil rig owner National Oilwell Varco, switching to the more diversified, larger oil services firm Schlumberger. We also sold shares in American Express, whose shares are up strongly over the past year, reinvesting in Visa. These changes are covered in more detail over the page.

Summary of Key Portfolio Changes

Global Direct Shares

- During August we added oilfield services leader Schlumberger, offset by the removal of National Oilwell Varco (NOV). Schlumberger have the number one market share across most of the company's product lines, and earnings that are more than four times of NOV. While NOV has close to a monopoly position in its offshore rig business, Schlumberger can claim a top three market position in 20 out of 32 oilfield service sub-markets.
- National Oilwell Varco's focus on offshore oil will remain a significant part of the global production base, however it now faces more competition than in the past, as the source of incremental oil supply, and hence demand for oil rigs, is unlikely to grow at the same rate it has historically. This means that overall Schlumberger carries much less risk than NOV, and has a much more diversified exposure to the different segments and regions, within a low and stable oil price environment.
- We also added payments behemoth Visa to the portfolio, offset by the removal of American Express, which had outperformed the wider market by over 20% over the past year. Visa is the dominant player in the global electronic payments market, with about a 60% market share. The tailwinds for the payment providers are huge with global payments market growing from \$16 to \$40 trillion since 2000 and non-cash share growing from 32% to 64% of total payments. While a lot of noise has been made of payment substitutes, Paypal as the leading potential disruptor has taken 15 years to capture \$250b in value, which is only 20-30% of the online payments space (1% of the total); while Visa is still number one in this segment with over \$600b in online payments.