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Snapshot

Market insights for investment professionals from Fisher Institutional — March 2017

Carmel Fisher
Managing Director

Introducing Fisher Funds' new CEO: Bruce McLachlan

I was very pleased last week to announce the appointment of Bruce McLachlan as our new Chief Executive Officer, to take over the reins as I retire from my executive role. Bruce will be joining Fisher Funds from 18 April 2017 and I really am delighted as he has a wealth of experience in the financial sector, and importantly, a passion for client service.

When we began our search for a new chief executive, we knew we wanted someone who understood and was excited about maintaining and growing the wealth of New Zealanders. We looked for someone who would continue our longstanding performance record and our commitment to exceptional client service. Bruce was an obvious choice for the role.

Bruce has been CEO of The Co-Operative Bank for the past four years. Under his leadership, the bank has consistently achieved top rankings in customer satisfaction and client service. Previously, Bruce worked for 10 years at Westpac NZ, where his roles included leading both its business banking and retail banking businesses; he was also Westpac NZ's acting CEO during 2008/9.

I know that you will warmly welcome Bruce and we hope you will take the opportunity to meet him during our roadshow in May/June (more details to come).

FundSource Awards 2016 | Fund Manager of the Year — Winner

Helping ourselves to another slice of Domino's

Terry Tolich
Senior Investment Analyst — Australian Shares

You might think that share prices for large, well-followed companies would be relatively stable over a short period of time like a year, as investors would have a good idea of what the businesses are worth. However, nothing could be further from the truth. Over the past year, we have seen a swing of up to 55% between the highest and the lowest prices of the stocks on the ASX300 index.

In most instances, the underlying values of companies will have changed by a far smaller amount. Much of the volatility in share prices is due to investors focusing on short term factors that will ultimately have little impact on the long term value of a business. This means investors, like us, who take a long term view, can take advantage of these price swings.

Earnings reporting seasons are a rich source of short term noise that can set share prices swinging. In the recent Australian reporting round, portfolio holding **Domino's Pizza** provides a stunning example. With a 14% share price drop on result day you would be excused for thinking a disaster had befallen the company rather than it reporting a 31% jump in first half earnings and raising its full year profit guidance to 32.5% growth.

In the weeks leading up to the result, concerns about the impact on Domino's franchisees of a pending new wage agreement and allegations of franchisees underpaying staff had weighed on the share price. In our view, however, Domino's largely allayed these fears with information accompanying the result. We believe a lower than expected European sales growth rate, versus their full year guidance, was the likely culprit for the share price slump.

Domino's European team had a lot on its plate during the half including conversion of the acquired Pizza Sprint and Joey's Pizza chains and the ongoing roll-out of Domino's IT systems that have been integral to its Australian and New Zealand success. Consequently, we see the latest European sales result as nothing more than a blip in what remains a great long term European growth opportunity.

Our long term view of Domino's value remains largely unchanged — we were happy to take advantage of the market's short term focus and weakened price.

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Statistics for the optimistic

An excerpt from Investopedia.com

The major stock market indices continue to set new records uninterrupted by significant pullbacks, an upward march fueled by optimism about President Donald Trump's economic plans. By February 24, for example, the S&P 500 Index had gone 93 consecutive trading sessions without a single-day decline of 1% or more, and the last multi-session fall of 10% or more on the S&P 500 ended over a year ago, on January 20, 2016.

While cautious investors see a significant correction looming, Goldman Sachs Group Inc. analysts, say that history shows the market may be poised for more big gains.

In its latest US Weekly Kickstart report, Goldman looked at the six most recent prior instances, from 1985 to 2006, when the S&P 500 went 80 or more trading days without a 1% daily decline. Their median length was 100 days, during which the S&P 500 posted a median return of 13%. Rather than significant corrections, these periods typically were followed by further gains, with median returns over the next 3 months, 6 months and 12 months of 4%, 9% and 15%, respectively.

Moreover, in only two instances were there declines over the succeeding three or six months, and these were 2% or less. In all six cases, there were gains over the next twelve months, ranging from 2% to 34%.

Of course we all know that past performance is no guarantee of future performance, and Goldman Sachs is not expecting a repeat of previous cycles. Indeed they forecast that the S&P 500 will be essentially flat for the rest of 2017.

The optimists might have a different view altogether.

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Market Movements

As at 28 February 2017

Stock Markets*	Closing Values	Changes over: 1 Mth %	3 Mths %	6 Mths %	12 Mths %
S&P Developed LargeMidCap — (Local Curr)	648	3.1	7.4	9.9	22.7
S&P Developed LargeMidCap ($NZ)	N/A	3.1	3.8	8.8	10.3
S&P Global LargeMidCap ($NZ)	N/A	4.3	5.9	8.1	11.9
USA — S & P 500	4533	4.0	8.0	10.0	25.0
USA — Nasdaq	6637	3.9	9.7	12.4	29.4
Japan — Topix	2190	0.9	4.7	16.7	20.9
UK — FTSE100	5970	3.1	8.0	8.9	24.1
Germany — DAX	11834	2.6	11.2	11.7	24.6
France — CAC40	12001	2.3	6.4	10.1	15.8
HK — Hang Seng	61900	2.0	4.6	4.5	29.5
Australia — S & P 300	54099	2.2	5.8	6.9	22.0
NZ-S&P/NZX 50 Gross Index (inc imp credits)	8445	1.7	4.1	-2.5	16.4
NZ-S&P/NZX 50 Gross Index (excl imp credits)	7167	1.7	3.9	-3.1	15.0
Market Volatility — VIX	12.9	7.8	-3.1	-3.7	-37.1

New Zealand Property		%	%	%	%
S&P/NZX All Real Estate	1157.9	-0.3	1.2	-5.5	5.9

Ten Year Bonds	%	Yield Changes			
USA	2.36	-0.07	0.22	0.80	0.58
Japan	0.05	-0.04	0.03	0.12	0.12
United Kingdom	1.07	-0.34	-0.20	0.54	-0.26
Australia	2.73	0.02	0.00	0.90	0.33
New Zealand	3.24	-0.12	0.23	1.12	0.27

90 Day Interest Rates	%	Yield Changes			
USA	0.53	0.01	0.08	0.23	0.22
Japan	0.06	0.00	0.00	0.00	-0.04
United Kingdom	0.36	0.00	-0.03	-0.03	-0.23
Australia	1.78	0.01	0.02	0.05	-0.50
New Zealand	2.00	0.01	-0.04	-0.28	-0.56

Bond Indices		%	%	%	%
S&P/NZX Bank Bills 90-Day	691.95	0.16	0.51	1.08	2.36
S&P/NZX NZ Government Bond Index	1598	0.78	0.23	-2.65	1.29
Barclays Capital Global Aggregate Index (Hedged NZD)	N/A	0.95	1.12	-1.19	3.59

Hedge Funds & Commodities		%	%	%	%
HFRX Global Hedge Fund Index (USD)	1223	1.1	2.5	3.4	7.5
DJ-UBS Commodity Index Total Return	178	0.2	2.2	6.2	16.0
Gold (US$/ounce)	1252.60	3.6	7.0	-4.2	1.5
Oil (US$/barrel)	56.49	2.2	17.8	17.8	57.3

Currencies		%	%	%	%
NZD / USD	0.7233	-1.4	2.0	-0.3	9.7
NZD / EUR	0.6806	0.3	1.9	4.5	12.2
NZD / GBP	0.5812	-0.3	2.4	4.9	22.8
NZD / AUD	0.9407	-2.6	-1.9	-2.6	1.9
NZD / YEN	80.92	-2.0	0.2	7.8	8.7
Trade Weighted Index	78.32	-0.3	0.5	2.0	8.3

**Total Return Indices. Indices are net of offshore tax.*
Source: Thomson Reuters Datastream